Leading With Competitive Technology

2007

ANNUAL REPORT

年報

GWT

長城科技股份有限公司

Great Wall Technology Company Limited

Stock Code 股份代號：0074

CONTENTS

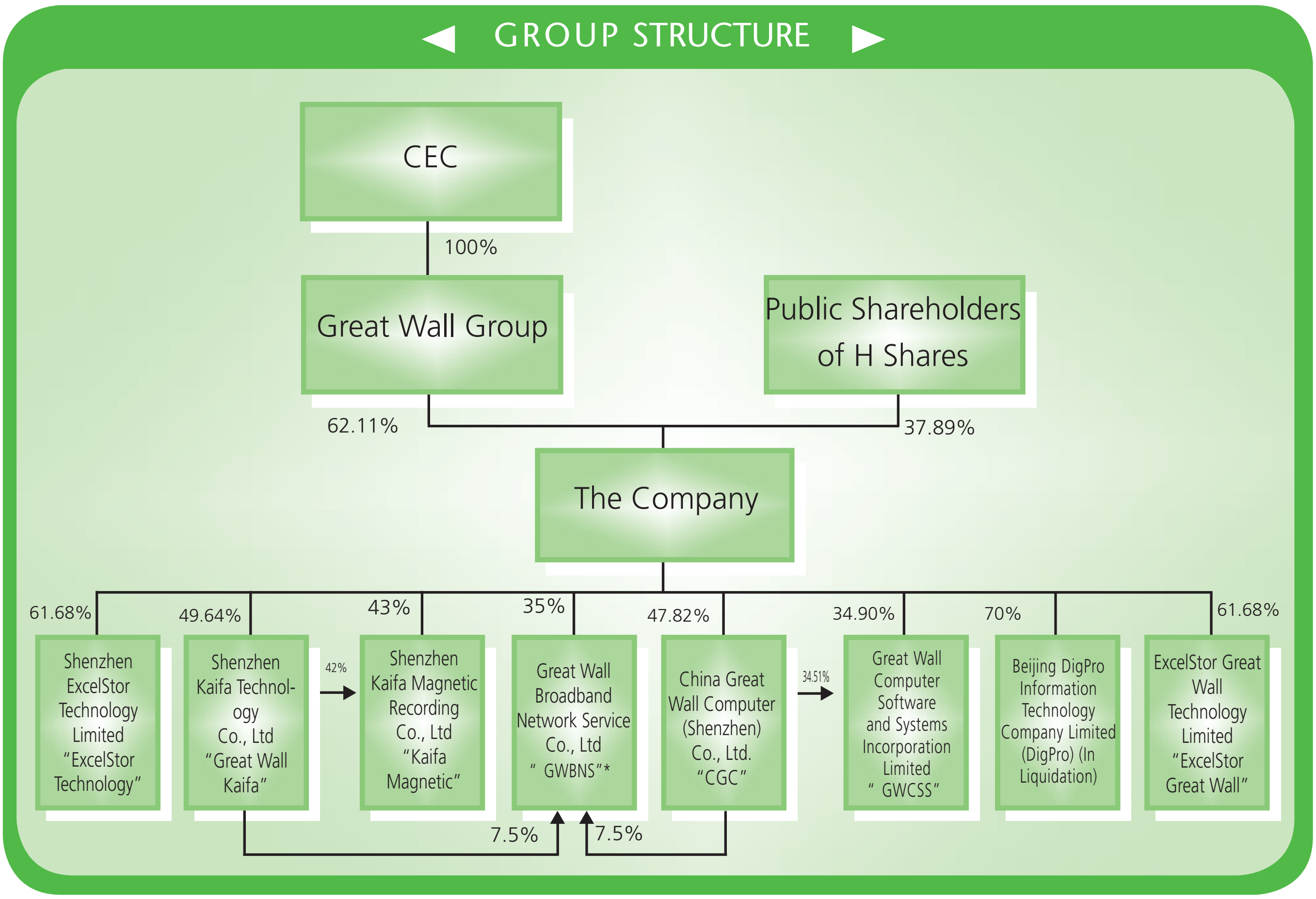
Corporate Information

Company Name in Chinese	:	長城科技股份有限公司
Company Name in English	:	Great Wall Technology Company Limited
Place of Registration	:	No. 2 Keyuan Road, Technology & Industry Park, Nanshan District, Shenzhen, China
Tel	:	86-755-2672 8686
Fax	:	86-755-2650 4493
Postal Code	:	518057
Executive Directors	:	Lu Ming (Chairman) Tam Man Chi Wang Jincheng Yang Jun Su Duan
Independent Non-executive Directors	:	Li Sanli Wang Qinfang Kennedy Ying Ho Wong
Supervisors	:	Lang Jia Kong Xueping Song Jianhua
Company Legal Representative	:	Lu Ming
Company Secretary	:	Siu Yuchun
Authorized Representatives	:	Lu Ming Siu Yuchun
International Auditors	:	Ernst & Young Certified Public Accountants Hong Kong
Domestic Auditors	:	Ernst & Young Hua Ming
Legal Advisor (as to Hong Kong law)	:	Jones Day
Place of Listing H Shares	:	The Stock Exchange of Hong Kong Limited
Stock Short Name	:	Great Wall Tech
Stock Code	:	00074
H Shares Registrar and Transfer Office	:	Hong Kong Registrars Limited Rooms 1712–1716, 17th Floor, Hopewell Center, 183 Queen's Road East, Hong Kong

China Great Wall Computer Group Company (abbreviated as "Great Wall Group") was the sole promoter of Great Wall Technology Company Limited (abbreviated as the "Company"). The Company was formally established in Shenzhen, China on 20 March 1998 with a registered capital of RMB743,870,000 and was listed on The Stock Exchange of Hong Kong Limited (abbreviated as the "Hong Kong Stock Exchange") on 5 August 1999. Currently, the registered capital of the Company is RMB1,197,742,000. The Company was classified as "Information Technology Stock" in May 2000 by the Hong Kong Hang Seng Index Services Limited.

On 2 August 2005, the State-owned Assets Supervision and Administration Commission of the State Council (abbreviated as the "SASAC") has announced the Notifications on the Restructuring of 6 Enterprises including China Electronics Corporation (《關於中國電子信息產業集團公司等6戶企業重組的通報》), pursuant to which Great Wall Group would be consolidated into China Electronics Corporation (abbreviated as "CEC") for restructuring. The Company was notified by the Great Wall Group on 15 September 2006 that the Restructuring has been approved by the State Administration For Industry and Commerce ("SAIC") on 18 August 2006. As a result of the Restructuring, Great Wall Group has become a wholly-owned subsidiary of CEC. CEC has become the ultimate controlling shareholder of the Company through its control of 62.11% of the Company. CEC is an enterprise directly administered by SASAC. It is principally engaged in the design and manufacturing of integrated circuits, software and integrated system services and research, development and manufacturing of other communication products.

The business of the Company and its subsidiaries (hereinafter collective referred to as the "Group") covers computer components, computer manufacturing, GSM/CDMA mobile phone production, software and system integration and broadband network services.



* GWBNS is an associate of the Company

Dear Shareholders,

The year 2007 was an extraordinary year for the Company. Thanks to the care, guidance and support of PRC government at various levels, domestic and foreign shareholders, all quarters of society, and our customers in general, we conducted a legal and regulatory compliant operation, submitted to supervision consciously and fulfilled development in a prudent and coordinated manner.

We faced tough times during the reporting period owing to tight electricity supply, rising raw material prices, fluctuating exchange rates, appreciation of Renminbi, a weakening of our human resource cost advantages and falling commodity prices. Nevertheless, we achieved further success in production and operation this year by strengthening our independent innovation on a corporate basis. With a proactive approach to meet the challenges, we stepped up cost control, prudent operation and risk control on the basis of an advanced management system; optimized our industry structure and streamlined our corporate hierarchy, optimized our products, practised high-end strategies, developed high-end products, expanded our high-end user base, and focused on key industries; and improved our internal strengths to open new business areas and to identify new growth points on a continuing basis. We made new strides in four major business areas, namely computer core components, computer manufacturing, software and system integration and broadband and value-added services. We maintained a fast and continuous growth in business, and achieved satisfactory and rapid development.

During the Reporting Period, the Group recorded a 18.89% increase in sales revenue.

We shall continue our unrelenting efforts to build our innovative conglomerate characterized by "core technology, high-end manufacturing, and renowned brands" in the coming year, so as to generate stable and continuing investment return for shareholders, and to make great strides in development.

On behalf of the Board, I would like to take this opportunity to offer sincere thanks to management members and the Group's staff for their efforts and sacrifice during the past year. Lastly, I would like to thank the financial institutions, shareholders and investors for their trust and support.

By order of the Board
Lu Ming
Chairman

Shenzhen, China
18 April 2008

Year ended 31 December

A summary of the published results and the assets and liabilities of the Group is as follows:

Results

	Year ended 31 December				
	2007	2006	2005	2004	2003
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
REVENUE	**23,682,455**	19,919,261	14,924,774	11,419,186	11,109,837
Cost of sales	**(22,357,157)**	(18,540,402)	(13,928,766)	(10,627,991)	(10,353,556)
Gross profit	**1,325,298**	1,378,859	996,008	791,195	756,281
Other income and gains	**297,107**	226,907	178,754	208,969	178,985
Gain on disposal of available-for-sale investments	**572,806**	–	–	–	–
Selling and distribution costs	**(290,243)**	(309,942)	(220,447)	(143,300)	(219,139)
Administrative expenses	**(505,738)**	(444,656)	(379,235)	(416,814)	(444,783)
Other expenses	**(271,155)**	(205,837)	(208,653)	(297,565)	–
Finance costs	**(54,451)**	(23,283)	(27,921)	(50,188)	(68,227)
Gain on disposal of associates	**–**	–	338,194	8,240	–
Loss on share reforms of subsidiaries	**–**	(426,636)	–	–	–
Share of profits and losses of associates	**(11,584)**	(35,943)	51,545	311,370	247,393
PROFIT BEFORE TAX	**1,062,040**	159,469	728,245	411,907	450,510
Tax	**(221,437)**	7,820	(103,254)	(35,893)	(129,070)
PROFIT FOR THE YEAR	**840,603**	167,289	624,991	376,014	321,440
Attributable to:					
Equity holders of the parent	**308,768**	(122,196)	321,936	202,036	177,657
Minority interests	**531,835**	289,485	303,055	173,978	143,783
	840,603	167,289	624,991	376,014	321,440
DIVIDENDS					
Proposed final	**–**	–	23,955	50,305	–
EARNINGS PER SHAE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT					
Basic					
– For (loss)/profit for the year	**RMB25.78 cents**	RMB(10.2) cents	RMB26.9 cents	RMB16.9 cents	RMB 14.8 cents

Assets, Liabilities and Minority Interests

	2007	2006	2005	2004	2003
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Total Assets	**11,806,882**	10,216,515	9,430,229	8,979,263	8,851,210
Total Liabilities	**5,011,439**	3,700,789	3,645,078	3,727,047	3,964,365
Minority Interests	**3,088,630**	2,955,910	2,220,399	1,953,312	1,789,977

REVIEW OF 2007

1. Steady growth in sales income and total profit

In 2007, the Group realized sales revenue of RMB23,682,455,000, representing an increase of 18.89% from the same period last year. The audited profit after taxation attributable to shareholders was RMB308,768,000. The loss of the corresponding period of last year amounted RMB122,196,000.

2. Rationalizing product mix and highlighting the advantages of leading products

In 2007, the Company proactively optimized its industry structure and product mix, and carried out its business activities under the principle of "expanding and strengthening the core components of computers, reinforcing our advantages and strengths, and making our principal business stand out." Some self-owned brands made rapid growth this year: our 2.5" mobile hard disk business broke through the zero and fulfilled batch production. Tax controlling products developed with good momentum. A series of leading products and key products were developed with outstanding advantages, and the income mix of principal business became even more rationalized.

At present, our scientific researches on, and technology for production of, magnetic heads, substrates, and hard disks are aligned with international standards. Among the product chains of our international peers, with our unique technology, a complementary balancing between market and production resources, high quality products, forefront production technology and a logistics management system of international standards, we have formed an operation mode with competitive advantages and a product value chain, playing an increasingly important role in the international arena for the manufacturing of hard disks and their components.

In the area of magnetic head production technology, the Company used "world-class services" as a breakthrough point. With our worldwide leading technology for magnetic heads (HSA) manufacture entering the international hard disk industry chain successfully, we maintained strategic cooperative relationships with the international big names in hard disk manufacture.

Regarding the production of substrates, on the basis of RN3 products, we developed the RN3e series of products and increased the precision of polishing substrates. We improved our automatic cleaning line and thereby increased our passing rate to 5%, increased our efforts on technology innovation, carried out market-oriented optimization of production technology, researched on and developed technological raw materials, hence ensuring the good economic benefits of our substrates and our leading position in the field of international magnetic recording technology.

Regarding the production of hard disks, our self-developed brands saw a rapid growth in their businesses. The technology for the 160G GSTOR series of security hard disks became increasingly mature with enhanced economic benefits.

Regarding computer manufacturing and related products, the "high-end strategy" of the Company was significantly effective and 70 types of new computer products were developed, hence good economic benefits achieved. Regarding monitors, the Company took the lead to develop large-screen LCD-TV of 82", 70", 65", 55", and 47", hence capturing the first opportunity with prominent comparative and competitive advantages. Great Wall Power saw a significant growth in its export.

Regarding software and system integration, GWCSS has become an important participant in the development of informatization in China and provided large-scale application software and system integration services in respect of electronic administrative affairs.

In the area of broadband network and value-added services, the Group's associated company, GWBNS, has brought its self-owned resources into full use for network optimization, and further enhanced the network quality. Meanwhile, the construction of service platform was enhanced; efforts on independent research and development were stepped up; a business system with self-owned intellectual property right was actively developed, and an operating service system was formed through integration.

3. Proactive implementation of internationalization strategy and further growth in import and export businesses

The enterprises of the Group proactively pursued a "management foundation" development, enhanced technology innovation, rapidly developed products based on our scientific achievements, and expanded export business strenuously. Since the beginning of this year, the export business of the Company has been growing satisfactorily. First, the total import and export amount is rising continuously. Second, the number of trading countries is increasing, and the exported products are of increasingly higher grades. The products are sold over 50 countries and areas. Third, our exported products are increasing in varieties. There was a big year-on-year increase in the export of liquid crystal displayers, power supply switches, infineon, circuit boards and electronic accessories, and optical magnetic products. Fourth, the increasing export of self-owned brands means a breakthrough from zero. On the basis of our self-owned brands' product export, such as Great Wall Desktop Computers(長城台式電腦) and Great Wall Notebook Computers(筆記本), currently we fulfilled the successful export of Great Wall Servers(長城服務器)and 2.5" ExcelStor Mobile Hard Disk(2.5英寸易拓移動硬盤).

4. Adjustments to corporate structure is being carried out actively

Adjustments to corporate structure is being implemented proactively to expand our industry scale and to integrate our advantageous resources.

China Great Wall Computer (Shenzhen) Co. Ltd. ("CGC"), a subsidiary of the Group, has laid a good industry foundation over long period of development and become the largest monitor producer in China. Nevertheless, it is a mid-stream player in the whole monitor market of China, and its market share and scale are relatively small when compared with those of the industry leaders. CGC acquired sale shares representing approximately 10.27% of total issued share capital of TPV Technology held by BOE Technology Group Company Limited(京東方科技集團股份有限公司)and the transaction was completed on 24 December 2007. By fully utilizing an opportunity to reshuffle in the whole industry, CGC could have timely equity participation in the world's largest monitor manufacturer ---- TPV Technology Limited. It will be in no doubt to enhance the international operation ability of CGC, to realize the act of mixing two big names while attaining synergy on business and in turn consolidate a sound foundation for further international development in the future of the Company.

Another subsidiary of the Company, Great Wall Kaifa, proposed to acquire 43% of the equity interests of Shenzhen Kaifa Magnetic Recording Joint-stock Co., Ltd. ("Kaifar Magnetic") held by the Company by issuing additional shares to the Company. Upon completion of such acquisition, Great Wall Kaifa will enhance the production scale of current magnetic recording products, expand its production lines, improve the industry chain and further penetrate for in-depth development and expansion of Great Wall Kaifa hard disk industry through stepping up investment, so as to form a more centralized and specialized production scale, to speed up industry development, to have economies of scale, and to cope with intense global competitions effectively. The main business line of the Company will be more outstanding and hence a significant growth in profitability is expected. Such acquisition proposal is still under negotiation as of the date of this annual report.

Setting up China Electronics Corporation Beihai Industry Park(中國電子北海產業園)is an important issue of the implementation of a strategic cooperation between China Electronics and Guangxi. We actively involve in cooperation with Pan-Beibu Wan area and support the considerable strategic measures in developing China's western region. The Company had swiftly started the construction of Beihai base. We insist on market orientation and content-based development in order to link up technological reforms with an adjustment of area structure and construction of "export base". As such, a " bridgehead facing South Asia and the East alliance" will be established.

5. Stepping up infrastructure projects, supporting enterprise to be strong and large

In order to meet urgent demands in the market, each subsidiary under the Company stepped up investment in technological improvement and hence lifted the overall competitiveness of the Company, of which Great Wall Kaifa reformed adaptability of projects named "expansion of lines in electronic factories" and "Seagate magnetic heads"; CGC carried out a technological reform on computer manufacturing, monitors and production line of power source; Magnetic Recording conducted a project of "Phase 2 of production expansion of substrates"; ExcelStor Technology performed an upgrade reform on "Hitachi 3.5" hard disk production line".

6. Perfecting internal management, strengthening efficiency monitoring

Each member of the Group has formed a comprehensive corporate governance structure. In addition, acting in accordance with the management requirements of such systems as ISO9000, ISO14000, OHSAS18000, 6SIGMA, we had reinforced the internal corporate management by means of continuing to look into details in different sections and areas with prominent results.

7. Conserve energy and reduce emission, protect the environment and combat pollution, switch to new domains of scientific development

First, to reinforce education through publicity in order to promote the awareness of the public.

Second, let the truth speak up for itself. Some units, such as Great Wall Kaifa, specialized in improving the technologies of "Energy-efficient Variable Frequency" and "Energy-efficient Illumination" (by converting the T8 fluorescent lamp into T5 energy-saving lamp) which resulted in approximately a 30% drop in electricity consumption that we managed to meet the target of energy conservation. According to our initial estimation, both the "Comprehensive Energy Consumption Per 10,000 Yuan GDP" and "Comprehensive Energy Consumption Per 10,000 Yuan Value-Added GDP" of our Company in the first half of 2007 dropped by 3% respectively, compared with those of the end of last year. Both Great Wall Kaifa and ExcelStor Technology were honored with the titles of "Clean production-typed enterprise" and "Green enterprise" respectively by Guangdong Province and Shenzhen Municipal in the first half of this year.

Third, to innovate environmental protection technologies and to promote the development of a recycling economy. Great Wall Kaifa Magnetic Recording Co., Ltd. (長城開發磁記錄有限公司) invested in the new construction of the sewage treatment and water recycle system. Due to the application of biological and multi-coating reuse technologies, reclaimed water reached good standard and thus achieved zero emission of "hazardous heavy metal".

Fourth, regarding energy efficiency as an opportunity through setting up "energy conservation industry" and launching energy-saving products. The Power Supply Business Section of CGC pioneered to launch the "Energy-efficient power supply" products aiming at enhancing the efficiency and power factor in which an intelligent power-saving dormant function is installed. Approximately, 0.644 unit of electricity can be saved every day for each terminal of power source and 235 units in a year. This will contribute to build an energy-saving society with tremendous benefits.

LOOKING FORWARD TO 2008

The year 2008 is a crucial year for the development of the Company. We have to take a firm hold of new business opportunities brought about by the "globalization of world economy, upward movement of user levels, integration of industry chains as well as group-forming of enterprises". Also, we have to keep equipping ourselves with superb manufacturing capacity and high standard of management cadre to take up the international high-end industry transfer. Moreover, we have to strategically secure a vantage point in our industry by stepping up our capital operations and getting ready for industry batch transfer. We must strive to strengthen our Group by means of building a comprehensive industry chain and strengthening internal strengths to pave the way for our "stepping out". Specific mind maps are as follows:

1. Fully utilize the financing facilities of capital market to enlarge the reserve for our Group's future development;

2. Thoroughly streamline the hierarchy of the Group, create an environment for pragmatic policy-making within a core industry with a view to build up more strengths for further development;

3. Realize the goals of transformation to high-end production while perfecting the industry chain;

4. Make the best use of the constructions and facilities in Beihai base and "transfer of industries";

5. Be customer-oriented and serve high-end clients. Apart from providing excellent services, we propose to keep close contact with our clients by "building factories nearby" approach;

6. Hold the three major lines tight, namely management, technology and sales. Through continuous optimizing the product structures, promoting and perfecting the strategies for computer component industry, striving for enlarging the market share of products such as hard disks, magnetic heads and monitors. Meanwhile, proactively enhance the businesses of related products such as security hard disks and high-end monitors. Furthermore, we should reinforce our production management, introduce advanced technologies and lower the production cost. Above all, it is necessary to upgrade the related technologies in manufacturing computer components and enhance its productivity so as to gain better economies of scale and to realize the Company's goal of sustainable development.

FINANCIAL REVIEW

During the Reporting Period, the Group realized a turnover of RMB23,682,455,000, representing an increase of RMB3,763,194,000 as compared to the corresponding period of last year, and profit after tax attributable to the shareholders of the Company amounted to RMB308,768,000.

LIQUIDITY AND FINANCIAL RESOURCES

The Group was financed by a combination of its equity capital base, cash flow generated from operation and bank borrowings. As usual, bank and other liabilities were being met upon their maturities in the normal course of business.

As at 31 December 2007, the Group's total cash and bank balances were RMB2,719,237,000 and the Group's total borrowings were RMB865,000,000. The structure of such borrowings was as follows:

(1) 100% was denominated in Renminbi;

(2) 25% was made on fixed interest rates.

None of the above borrowings was due and repayable within 2 to 5 years.

As at 31 December 2006, the Group's total cash and bank balances were RMB2,980,882,000 and the Group's total borrowings were RMB449,247,000. The structure of such borrowings was as follows:

(1) 48.94% was denominated in Renminbi;

(2) 75% were made on fixed interest rates.

None of the above borrowings was due and repayable within 2 to 5 years.

SEGMENT INFORMATION

Detailed segment information in respect of the Group's turnover and contribution to profit from operations for the year ended 31 December 2007 as well as other information by business segment and geographical segment is shown in note 4 to the financial statements.

GEARING RATIO

As at 31 December 2007, the Group's total borrowings and shareholder's equity were RMB865,000,000 and RMB3,706,813,000 respectively, as compared to RMB449,247,000 and RMB3,559,816,000 respectively as at 31 December 2006.

As at 31 December 2007, the gearing ratio was 23.34%, and the gearing ratio as at 31 December 2006 was 12.62%. The gearing ratio was defined as the ratio between total borrowings and shareholder's equity.

CURRENT RATIO AND WORKING CAPITAL

As at 31 December 2007, the Group's current assets and current liabilities amounted to RMB6,937,025,000 and RMB4,915,210,000 respectively, and the Group's working capital was RMB2,021,815,000 while the current ratio was 1.41.

As at 31 December 2006, the Group's current assets and current liabilities amounted to RMB6,248,992,000 and RMB3,562,371,000 respectively, and the Group's working capital was RMB2,686,621,000 while the current ratio was 1.75.

CHARGE OF GROUP ASSETS

As at 31 December 2007, the Group had pledged to banks its bank savings of approximately RMB8,933,000 to secure general banking facilities for the Group. As at 31 December 2007, no borrowings were guaranteed by CEC, the ultimate holding company of the Group.

As at 31 December 2006, the Group had pledged bank savings approximately of RMB9,581,000 to secure general banking facilities for the Group. As at 31 December 2006, no borrowings were guaranteed by the CEC, the ultimate holding company of the Group.

CONTINGENT LIABILITIES

The Group's contingent liabilities are set out in detail in note 35 to the financial statements.

EXCHANGE RATE FLUCTUATIONS

During the Reporting Period, approximately over 79% of the Group's turnover was revenue in US dollars. If US dollars had fallen against RMB, it would have had a negative impact upon the Group.

BUSINESS RISKS AND RISK MANAGEMENT POLICIES

The Company's associate, GWBNS, was established in 2000. Up to the date of this annual report, GWBNS is owned as to 50% by 中信網絡有限公司, and the Company also holds a 35% direct interest in GWBNS and each of Great Wall Kaifa and CGC, both being subsidiaries of the Company, holds a 7.5% interest in GWBNS.

Due to the fierce competition in the industry and substantial capital requirement, as at the end of 2007, GWBNS has recorded an accumulated loss of RMB1,081 million. As at 31 December 2007, the Company has provided a guarantee in respect of the loan granted to GWBNS, which amounted to RMB450 million and provided a loan of approximately RMB457 million to GWBNS, of which approximately RMB35 million was accumulated loan interest. There are certain risks inherent to the above guarantee and repayment of the loan due to increasing competition in the PRC broadband service industry and the State's macro-economic policies.

In order to maintain control over its risk exposure, the operation team of GWBNS has implemented a series of reforms under the leadership of the board of GWBNS. The 2007 results of GWBNS have improved such that the annual loss for the financial year 2007 was RMB4.94 million less than that of last year.

EMPLOYEES

As at 31 December 2007, the number of employees of the Group was approximately 17,000. The salaries of the employees were determined according to the rank in and contribution to the respective company of any individual employee with reference to the remuneration and incentive system of the respective company.

As at 31 December 2006, the number of employees of the Group was approximately 14,000. The salaries of the employees were determined according to the rank in and contribution to the respective company of any individual employee with reference to the remuneration and incentive system of the respective company.

RETIREMENT BENEFIT SCHEME FOR EMPLOYEES

Details of the retirement benefit schemes for employees of the Group are set out in note 2.4 to the financial statements.

PRINCIPAL ACTIVITIES

The Group's business covers various areas, including computer components and parts, computer manufacturing, GSM/CDMA mobile phone product, software and system integration, broadband networks and value-added services. The Group's computer parts and components products include magnetic heads, disk substrates, hard disk drives (abbreviated as "HDDs"), monitors, switching power supplies and cards etc.. Computer supply products include personal computers (abbreviated as "PCs"), notebook computers, servers, ATMs, tax controlling cashing machines, projectors, digital TV sets, and network smart electric meters. In the field of software and system integration, our products include large information systems oriented to applications for the public security, taxation, industry and commerce, and financial sectors. Regarding broadband network and value-added services, we have set up a broadband network covering 30 large cities in China. The Group is one of the leading providers of diversified information products in the Mainland. Such businesses were mainly attributable to subsidiaries and associates of the Company.

RESULTS AND APPROPRIATIONS

The results and appropriations of the Group and the Company for the year ended 31 December 2007 are set out in the consolidated income statement on page 43 of this annual report.

DIVIDEND

The Board does not recommend the payment of a final dividend for the year ended 31 December 2007 (2006: Nil).

DISTRIBUTABLE RESERVES

As at 31 December 2007, in accordance with the PRC Company Law, an amount of approximately RMB997 million standing to the credit of the Company's capital reserve account, were available for distribution by way of future capitalization issue. In addition, the lesser amount of the retained profits of the Company as determined in accordance with the PRC GAAP and Hong Kong Financial Reporting Standards is available for distribution as dividend.

RESERVES

Details of the movements during the year ended 31 December 2007 in the reserves of the Group and the Company are set out in the consolidated statement of changes in equity on page 47 of this annual report.

FINANCIAL SUMMARY FOR THE PAST FIVE YEARS

A summary of the results of the Group for the past five years and the summary of the assets and liabilities for the past five years are set out on page 5 of this annual report.

FIXED ASSETS

Details of the movements during the year ended 31 December 2007 in the fixed assets of the Group and the Company are set out in note 14 to the financial statements.

SHARE CAPITAL STRUCTURE

As at 31 December 2007, the total share capital of the Company amounted to RMB1,197,742,000, divided into 1,197,742,000 shares of RMB1.00 each. The share capital of the Company as at 31 December 2007 was as follows:

	As at 31 December 2007 (audited) Number of shares	As at 31 December 2006 (audited) Number of shares
State-owned legal person shares	**743,870,000**	743,870,000
Oversea listed foreign shares (H Share)	**453,872,000**	453,872,000
Total	**1,197,742,000**	1,197,742,000

Note: There was no change in the share capital structure of the Company during the year and during the period from 31 December 2007 up to the date of this annual report.

SHAREHOLDINGS OF SUBSTANTIAL SHAREHOLDERS

Save as disclosed below and so far as the Directors, supervisors and chief executives of the Company are aware, as at 31 December 2007, no persons (other than the Directors, Supervisors and chief executives of the Company disclosed below) had an interest or short position in the Company's shares or underlying shares, as case may be, which are required to be disclosed to the Company and Hong Kong Stock Exchange under Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance (abbreviated as "SFO"), or which are required to be recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO, or were the substantial shareholders of the Company as such term is defined by the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (abbreviated as "Listing Rules")).

Name of shareholder	**Class of shares**	**Number of the Company's shares held**	**Shareholding percentage of issued state-owned legal person shares**	**Shareholding percentage of issued H shares**
Great Wall Group	State-owned legal person shares	743,870,000	100%	–
HKSCC Nominess Limited	H shares	449,177,900	–	98.97%
Fu Po Chu	H shares	460,000	–	0.10%
Corwin company Ltd	H shares	300,000	–	0.07%
Wai Kee Neng	H shares	300,000	–	0.07%
Chu Shu Ping	H shares	260,000	–	0.06%

DESIGNATED DEPOSITS AND OVERDUE TIME DEPOSITS

As at 31 December 2007, the Group had no designated deposits nor had any overdue and unrecoverable time deposits with any financial institutions.

SUBSIDIARIES AND ASSOCIATED COMPANY

Details of the Company's subsidiaries and associated companies as at 31 December 2007 are set out in notes 18 and 19 to the financial statements respectively.

PURCHASE, SALE AND REPURCHASE OF THE LISTED SECURITIES OF THE COMPANY OR ANY OF ITS SUBSIDIARIES

During the year 2007, the Company had not purchased, sold or repurchased any listed securities of the Company or any of its subsidiaries.

DIRECTORS

As at the date of this annual report, the members of the Board of Directors of the Company and their biographical notes are as follows:

Executive Directors

Mr. Lu Ming, aged 58, is chairman and president of the Company. Mr. Lu is vice president of China Electronics Corporation, vice chairman of CGC and director of the Great Wall Group, Great Wall Kaifa and TPV Technology Co. Ltd. Mr. Lu graduated from the Chinese Academy of Sciences with a master's degree in computer science and completed postgraduate studies at the High Energy Physics Research Institute in Hamburg, Germany and learned from Professor Samuel C.C. Ting. Mr. Lu is one of the founders of the Great Wall Group and has over 27 years' of experience in the information technology industry. Mr. Lu was previously also the vice president of the Company from 1998 to 2005, and was appointed as president of the Company in October 2005. In January 2008, he was elected chairman of the Company.

Mr. Tam Man Chi, aged 60, is an executive director of the Company. Mr. Tam is also president and chairman of Great Wall Kaifa. Mr. Tam has 40 years' of management experience in the international electronics industry. Mr. Tam was previously the vice president of the Company, but he resigned from that position with effect from 23 April 2003.

Mr. Wang Jincheng, aged 71, is a senior engineer and a committee member of the Chinese People's Political Consultative Conference. He graduated from the Beijing Science and Technology University (formerly known as the Beijing Industrial Institute) with a major in wireless radar. Mr. Wang, a committee member of the Chinese People's Political Consultative Conference, was mayor of Mian Yang, chairman of the board of directors of China Unicom Co. Ltd., chairman of the board of directors and general manager of China Electronics Corporation. He was a member of the National Scientific and Technological Advanced Research's Evaluation Committee, the standing director of the Chinese Aeronautics Committee as well as the chairman of the Electronics Branch of the Chinese "Divine Sword" Space Committee. Mr. Wang was elected executive director of the Company, and the appointment was approved at the general meeting held on 17 January 2005.

DIRECTORS (Continued)

Executive Directors

Mr. Su Duan, aged 55, is a senior engineer and a college graduate. Mr. Su graduated with an economics and management degree from the Correspondence Institute of the Party School of the Central Committee of the Communist Party of China. Mr. Su is currently a director and the person-in-charge of the human resources department of China Electronics Corporation. Previously, Mr. Su worked in various positions in China Electronics Corporation, including director of the presidential office of the management department, director of party-masses and discipline, deputy secretary of the ad hoc committee directly under central control and secretary of the discipline inspection committee, director of the party-masses work department, and deputy secretary of the party committee directly under central control and secretary of the discipline inspection committee. Mr. Su was elected executive director of the Company, and the appointment was approved at the extraordinary general meeting held on 10 November 2006.

Mr. Yang Jun, aged 44, is a senior engineer. He graduated from West-North Telecommunication Engineering College with a master's degree. Mr. Yang currently holds the positions of vice president of China Electronics Corporation, director of the Great Wall Group and chairman of Shenzhen Sed Industry Company, Limited. He previously held the positions of general manager of China TravelSky Information Centre, chairman of China TravelSky Technology Limited and deputy manager of China TravelSky Holding Company. Mr. Yang was elected executive director of the Company, and the appointment was approved at the general meeting held on 20 June 2005.

Independent Non-executive Directors

Mr. Li SanLi, aged 72, graduated from Tsinghua University in 1955, and obtained a PhD Degree from the Academy of Sciences of the former USSR in 1960. In 1995 he was elected as an academician of the Chinese Academy of Engineering (CAE). He is currently a professor in the Department of Computer Science & Technology of Tsinghua University and holds a joint position as Dean of the School of Computer Engineering & Science at Shanghai University. He have been engaged in the field of computers for 50 years. He has been responsible for building many computer systems, amongst which some have made significant contributions to his country. He is one of the pioneers in the discipline of computer system architecture. Recently he has been in charge of building several supercomputer systems. Two of them have been listed at the world famous top500 (www.top500.org): "Deep Super 21C" (2003, the 146th place at top500), and "ZiQiang 3000" (2004, the 126th place at top500 then). He had taken the positions of project chief scientist of the "State Climbing Program", co-chairman of the Computer Discipline of the Academic Degree Committee directly attached to the China State Council and president of IEEE China Section (Beijing Section, 95/96). He has been invited as joint professor of various universities including Beijing University, FuDan University, TongJi University. He also holds various social positions including vice-chairman of the Expert Committee of the Shanghai Government Informatization Leader Group, as well as expert consultant of the HangZhou, SuZhou, ShenZhen Municipal Governments. He has been elected as honorable president of "China Electronic Education Society".

DIRECTORS (Continued)

Independent Non-executive Directors

Ms. Wang Qinfang, aged 65, graduated from the Industrial Accounting Faculty of the Shanghai Institute of Finance and Economics. She holds the title of senior accountant and holds a PRC certified public accountant certificate. She was director of the Finance Department of China Electronic Industry Co., Ltd. deputy general manager of China Electronic Industry Co. Ltd., director of the Economic Adjustment Department of the PRC Ministry of Electronics and general manager of the China Electronic Information Trust & Investment Co. Ltd. Ms Wang is currently deputy director of the Electronic Branch of the China Accounting Society. Ms. Wang was elected independent non-executive director of the Company, and the appointment was approved at the extraordinary general meeting held on 17 January 2005.

Mr. Kennedy Ying Ho Wong, aged 45, is a solicitor of the High Court and a China Appointed Attesting Officer. He is the managing partner of Philip K H Wong, Kennedy Y H Wong & Co, Solicitors & Notaries. He is member of the National Committee of the Chinese People's Political Consultative Conference and vice chairman of the All China Youth Federation. He was selected as one of the Ten Outstanding Young Persons of Hong Kong in 1998 and one of the Outstanding Young Persons of the World in 2003. Mr. Wong is also a director of a number of listed companies in Hong Kong and Australia, including China Overseas Land & Investment Limited, Goldlion Holdings Limited, Qin Jia Yuan Media Services Company Limited, International Financial Network Holdings Limited, Pacific Alliance Asia Opportunity Fund Limited and Pacific Alliance China Land Limited. Dr. Wong was elected non-executive director of the Company, and the appointment was approved at the extraordinary general meeting held on 10 November 2006.

Supervisors

As at the date of this annual report, the members of the Supervisory Committee of the Company and their biographies are as follows:

Mr. Lang Jia, Chairman of the Company's supervisory committee, aged 54, graduated with a bachelor's degree in Chinese from Liaoning Normal University. Mr. Lang completed a course in world economic research graduate class in Liaoning University. Mr. Lang is currently a director of CEC Group Company, a member of the party group, and a director of the discipline inspection group under the party group in CEC and chief legal advisor of the Group companies. Mr. Lang previously served as procurator of Supreme People's Procuratorate of the People's Republic of China, and director of the discipline inspection office and deputy secretary of party committee in the China National School of Administration. Mr. Lang was elected supervisor and chairman of supervisory committee of the Company, and the appointment was approved at the extraordinary general meeting held on 10 November 2006.

Ms. Kong Xueping, aged 39, a Chinese national, graduated from Beijing University and holds a master's degree in law. She is a qualified PRC lawyer and a qualified corporate law advisor. She is currently the head of the legal department of CEC. She had previously worked at the editorial department of the sports academy of Shanxi Normal University. Ms. Kong was elected as supervisor of the Company, and the appointment was approved at the general meeting held in June 2007.

DIRECTORS (Continued)

Supervisors

Mr. Song Jianhua, aged 52, a Chinese national, graduated from Xuanhua Artillery Command Academy and completed advanced studies in 2006 SASAC affiliated batch of Central Party School. He had previously served as the camp commander of 35304 company and as deputy manager of the labour department office of Kunming City. Mr. Song joined Shenzhen Kaifa Technology Co. Ltd. in 1990 and has since served as office manager, chief executive, vice chairman of labour union of Shenzhen Kaifa Technology Co. Ltd. He is currently vice party chairman, secretary of the discipline committee and the chairman of labour union of Shenzhen Kaifa Technology Co. Ltd. He primarily served as supervisor of the 1st supervisory committee of Shenzhen Kaifa Technology Co. Ltd in December 1993, and thereafter served as supervisor and chairman of the 4th supervisory committee. At the election in May 2006, he was elected again as supervisor and chairman of the 5th supervisory committee. Mr. Song was elected as supervisor of the Company, and the appointment was approved at the general meeting held in June 2007.

Other Senior Management

As at the date of this annual report, other senior management of the Company and their biographical notes are as follows:

Mr. Du Heping, aged 53, is an in-service postgraduate from the economics management specialty of Central Party school. He was appointed vice president of the Company in October 2005, and was appointed as Executive Vice President in February 2008. He is also the Chairman of CGC and director of Shenzhen Kaifa Technology Co. Ltd. Mr. Du's career began in 1971 and held positions as worker, technician, engineer, deputy engineer in chief of the state-owned 4393 Factory (國營4393廠). He started working in Shenzhen in 1988 and held positions as officer in charge, factory manager of Great Wall Power Supplies Factory (長城電源廠) and deputy general manager of CGC. Mr. Du was the vice president of CGC from June 1997 to July 2005 and Secretary to the Board of CGC from December 2004 to September 2005. Mr. Du has received 2 First Class Science Technology Advance Award and 1 Third Class Science Technology Advance Award from the Ministry of Machinery and Electronics Industry. He has over 20 years of managerial experiences in science and technology, quality, infrastructure and technology improvement.

Mr. Wu Kaiming, aged 59, is a senior engineer. Mr. Wu graduated from the wireless technology specialty of Beijing Institute of Technology. He is currently director of the Great Wall Group and chairman of the board of directors of China Computer Leasing Company Limited. Mr. Wu was appointed vice president of the Company on 7 March 2005.

DIRECTORS (Continued)

Other Senior Management

Mr. Zhong Jimin, aged 53, is a Chinese national. He was appointed vice chairman of Shenzhen Kaifa Technology Co. Ltd. and vice president of the Company in February 2008. He graduated from Huazhong Institute of Technology, with a qualification of radio engineering. He holds a degree and the title of chief editor. He is currently director of the Office of China Electronic Corporation. He was the person-in-charge of the International Cooperation Department of China Electronic Corporation, executive director of CEC International Holdings Limited, chairman and general manager of 香港三訊電子公司, deputy general manager of CTGC, the deputy director of the managerial department of the China Electronic Corporation, the (commissioner-level) officer at the General Division of the General Office of the Electromechanical Department, director of the Editorial Department of the China Electronic Press (中國電子報社), assistant engineer of the Design Institute of the State-owned Factory no.798.

Mr. Siu Yuchun, aged 49, is a fellow of the Hong Kong Institute of Certified Public Accountants(HKICPA) and the Association of Chartered Certified Accountants (ACCA). He also holds a Bachelor degree of Economics from Acadia University of Canada and a Master degree of Business Administration from Dalhousie University of Canada. He was appointed the company secretary of the Company in July 2007, and the Qualified Accountant of the Company on 17 January 2008.

CHANGES IN DIRECTORS AND SUPERVISORS

From 1 January 2007 to the date of this annual report, the resignations of the Company's Directors and Supervisor are as follow:

Mr. Chen Zhaoxiong resigned as chairman and executive director of the Company on 27 December 2007 for personal reasons and it was accepted by the Company. Mr. Lu Ming, executive director, was elected chairman of the Company in January 2008.

The tenure of the Supervisory Committee expired in June 2007. Mr. Li Ruiyue and Mr. Qin Maojun resigned as supervisors of the Company. Mr. Lang Jia was elected supervisors again and Ms. Kong Xueping and Mr. Song Jianhua were elected supervisors of the Company, and the appointments were approved at the annual general meeting of the Company held in June 2007.

SUPERVISORS AND THE SUPERVISORY COMMITTEE

According to laws, regulations and Articles of Association of the Company with an attitude responsible to the shareholders as a whole, the Supervisory Committee of the Company had been able to perform conscientiously their obligations, accomplish standardized operation and supervise the Company's financial status and compliance with laws and regulations in the performance of duties by the Directors, general managers and other senior management, and had been able to safeguard the legal interests of the Company and the shareholders as a whole.

SHAREHOLDERS AND GENERAL MEETINGS

The Company had abided by relevant requirements to convene general meetings to ensure that the shareholders may exercise their voting rights according to law. During the Period, the Company had convened the 2006 General Meeting on 29 June 2007 and all procedures of the General Meeting had been consistent with the requirements of the Company Law of the PRC and the Articles of Association.

DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS

None of the Directors or supervisors proposed for re-election at the 2006 Annual General Meeting has a service contract in force with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into, or existed of any time, during the year.

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Board has obtained written confirmations from all Independent Non-executive Directors concerning their independence in accordance with Rule 3.13 of the Listing Rules of the Stock Exchange. The Directors are of the opinion that the existing Independent Non-executive Directors are independent based on the guidelines set out in Rule 3.13 of the Listing Rules.

DIRECTORS' AND SUPERVISORS' INTERESTS IN MATERIAL CONTRACTS

Other than service contracts, no contract of significance in relation to the Group's business was entered into between the Company's Directors or supervisors and the Company or any of its subsidiaries or holding companies in which any of the Company's Directors had a material interest, whether directly or indirectly, during the year ended 31 December 2007.

CONTROLLING SHAREHOLDERS' INTERESTS IN MATERIAL CONTRACTS

No contract of significance for the provisions of services or otherwise in relation to the Group's business was entered into between the Company's controlling shareholder or any of its subsidiaries and the Company or any of its subsidiaries in which such controlling shareholder had a material interest, whether directly or indirectly, during the year.

THE PURCHASE AND SALE OF SHARES BY THE DIRECTORS AND SUPERVISORS

During the year ended 31 December 2007, the Company had not granted any right to any Directors or Supervisors and their spouses or children less than 18 years of age to subscribe for shares in the Company. The interests of the Directors and supervisors of the Company in the shares of the Company, its subsidiaries or its associated corporation are set out in the section headed "Directors', Supervisors' and the Company's Chief Executives' Interests in the Share Capital of the Company and its Associated Corporations" below.

DIRECTORS', SUPERVISORS' AND THE COMPANY'S CHIEF EXECUTIVES' INTERESTS IN THE SHARE CAPITAL OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 31 December 2007, the interests and short positions of the Directors, supervisors and chief executives of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (as defined under Part XV of the SFO) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Directors, supervisors and chief executives of the Company were deemed or taken to have under such provisions of the SFO) or which were required to be and were recorded in the register required to be kept pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (abbreviated as the "Model Code") adopted by the Company were as follows:

1. Personal Interests

Name of Director	Number of Shares held	Approximate percentage of issued share capital of the company
Mr. Lu Ming	83,952 shares of CGC	0.0183%
Mr. Tam Man Chi	1,113,878 shares of Great Wall Kaifa	0.12%

2. Corporate Interests

Name of Director	Number of Shares held	Approximate percentage of issued share capital of the company
Mr. Tam Man Chi	73,389,587 shares of Great Wall Kaifa *(Note)*	8.34%

DIRECTORS', SUPERVISORS' AND THE COMPANY'S CHIEF EXECUTIVES' INTERESTS IN THE SHARE CAPITAL OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS (Continued)

Note:

Broadata (H.K.) Limited (abbreviated as "Broadata") held 8.34% of the overseas legal person shares in Great Wall Kaifa. Flash Bright International Limited held 67.96% shares in Broadata. Mr. Tam and his spouse held 100% equity shares in Flash Bright International Limited.

Save as disclosed above and so far as the Directors, supervisors and chief executives of the Company are aware, as at 31 December 2007, no other Directors, chief executives or supervisors of the Company had any interest or short position in the shares, underlying shares and/or debentures (as the case may be) of the Company and/or any of its associated corporations (as defined in Part XV of the SFO) which was required to be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interest or short position which any such Director, chief executive or supervisor is taken or deemed to have under such provisions of the SFO) of which was required to be entered in the register required to be kept by the Company pursuant to Section 352 of the SFO or which was otherwise required to be notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code as contained in Appendix 10 to the Listing Rules.

DIRECTORS' AND SUPERVISORS' REMUNERATION AND FIVE HIGHEST PAID INDIVIDUALS

Details of the Directors' and supervisors' remuneration and the five highest paid individuals of the Company during the year 2007 are set out in notes 8 and 9, respectively to the financial statements.

CONNECTED TRANSACTIONS

During the year 2007, the following continuing connected transactions were carried out by the Group:

(a) Purchase Agreements

On 18 May 2007, China Great Wall Computer (Shenzhen) Co. Ltd , a subsidiary of the Company, entered into framework agreements ("Purchase Agreements") with each of Amoi Electronics Co., Ltd, 中國長城計算機(香港)控股有限公司, 深圳市華明計算機控股有限公司 and 深圳桑達利電器有限公司 in relation to the purchase of computer components, hard disk drives and other products from each of Amoi Electronics Co., Ltd, 中國長城計算機(香港)控股有限公司, 深圳市華明計算機控股有限公司 and 深圳桑達利電器有限公司 for the period from 1 January 2007 to 31 December 2007. Each of Amoi Electronics Co., Ltd, 中國長城計算機(香港)控股有限公司, 深圳市華明計算機控股有限公司 and 深圳桑達利電器有限公司 is company controlled by CEC, a substantial shareholder of the Company, is connected person of the Company within the meaning of the Listing rules. The transactions amount under the Purchase Agreements is subject to a cap of RMB731,800,000 for the year ended 31 December 2007. The transactions under the Purchase Agreements are subject to reporting, announcement and independent shareholders' approval requirements under the Listing Rules.

For the year ended 31 December 2007, the purchase made under the Purchase Agreements amounted to RMB471,359,800 in total. The Purchase Agreements expired on 1 January 2008.

CONNECTED TRANSACTIONS (Continued)

(b) Sales Agreement

On 18 May 2007, China Great Wall Computer (Shenzhen) Co. Ltd, a subsidiary of the Company, entered into framework agreements ("Sale Agreements") with each of 湖南長城信息金融設備計有限責任公司 and 武漢長軟華成系統有限公司 in relation to the sale of computers, computer casings and other products to each of 湖南長城信息金融設備計有限責任公司 and 武漢長軟華成系統有限公司 for the period from 1 January 2007 to 31 December 2007. Each of 湖南長城信息金融設備計有限責任公司 and 武漢長軟華成系統有限公司 is company controlled by CEC, a substantial shareholder of the Company, is connected person of the Company within the meaning of the Listing rules. The transactions amount under the Sale Agreement is subject to a cap of RMB35,000,000 for the year ended 31 December 2007. The transactions under the Sale Agreements are subject to reporting and announcement requirements but are exempt from the independent shareholders' approval requirement under the Listing Rules.

For the year ended 31 December 2007, the sale made under the Sale Agreements amounted to RMB19,126,600 in total. The Sale Agreements expired on 1 January 2008.

Confirmation Of Independent Non-executive Directors

The Company's independent non-executive Directors have reviewed the above continuing connected transactions and confirmed that these transactions have been entered into:

(i) in the ordinary and usual course of business of the Group;

(ii) either on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Group than terms available to or from (as appropriate) independent third parties; and

(iii) in accordance with the relevant agreements governing them (if applicable) on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

Confirmation From Auditors Of The Company

The Board of Directors has received a confirmation from the auditors of the Company with respect to the above continuing connected transactions and the letter stated that for the year 2007, the above continuing connected transactions:

(i) have been approved by the Board of Directors;

(ii) have been entered into in accordance with the terms of the agreement governing the transactions; and

(iii) have not exceeded the cap amount announced by the Company.

LITIGATION

Note dispute and loan dispute between CGC and Sichuan Yintong Computer System Co. Ltd.

CGC was involved in a note dispute and loan dispute with Sichuan Yintong Computer System Co. Ltd. (abbreviated as "Yintong") and Chengdu Commercial Bank (abbreviated as "Chengdu Bank"). By its civil case judgment (2000) Chuan Jing Chu Zi 17, the Sichuan Higher People's Court has ruled in favour of CGC. However, since Chengdu Bank, which had a joint guarantee liability related to the subject matter of the case, has raised objections in relation to the proceedings and other matters and made an application for re-trial, the Sichuan Higher People's Court has suspended the enforcement of the said judgment by its verdict (2001) Chuan Jing Jian Zi 53 on 3 February 2001. On 17 December 2003, the Sichuan Higher People's Court issued the Urgent Notice Regarding the Trial and Enforcement of Cases in Relation to the Rectification of Investment and Trust Companies by the Provincial Government (Chuan Gao Fa 2003 486). The notice stipulated that prior to 30 June 2004, there would be no acceptance, trial or enforcement regarding cases in which any of five financial institutions, including Chengdu Bank, was/were the debtors.

By the civil case judgment (2005) Min Er Zhong 181 dated 17 March 2006, the Supreme Court of the People's Republic of China reserved Sichuan Higher People's Court's civil case judgment (2000) Chuan Jing Chu Zi 17 and made the decision final.

In accordance with the final judgment rendered by the Supreme Court of the People's Republic of China on a dispute on bills and debts between CGC, Sichuan Yintong Computer System Co. Ltd. and Chengdu Commercial Bank (civil case judgment (2005) Min Er Zhong Zi No. 181), on 21 June 2006, CGC received from Chengdu Commercial Bank a total payment of RMB34,199,781.03, which was broken down into RMB33,630,650 and RMB569,131.03, being payment of the principal and the costs of the case respectively. As the interest of the case of RMB17,086,558.57. CGC already received that payment at 11 June 2007.

GUARANTEE FOR INDEPENDENT THIRD PARTY

As at 31 December 2007, the Group had provided a guarantee of approximately RMB53,076,183 in respect of bank facilities granted to third parties of which our subsidiary Great Wall Kaifa, and China National Machinery & Equipment Import & Export Corporation (hereinafter as "CMEC") have collaborated on the export of Italy ENEL Smart Meter. The Bank of China had issued a performance bond for the project with CMEC as the applicant of the bond.

As at 31 December 2007, the Group has pledged some property amounted to RMB47,096,000 to acquire guarantee for bank loans from Beijing Zhongguancun Science Technology Guarantee Co., Ltd. As at 31 December 2007, the Group has provided guarantee to third party amounted to RMB3,603,000 for bank loans.

As at 31 December 2007, certain trade receivables with a carrying amount of RMB131,799,000 were pledged to secure guarantee from Beijing Zhongguan Science Technology Guarantee Co., Ltd. for the Loans.

GUARANTEE FOR ASSOCIATED COMPANY

As at 31 December 2007, the Group had provided guarantee of approximately RMB450 million in respect of bank facilities granted to GWBNS, an associated company.

Balance sheet of the above associated company is extracted from its audited management account as at 31 December 2007 and is set out as follows:

	RMB'000
Non-current Assets	1,233,279
Current Assets	297,846
Current Liabilities	1,649,404
Shareholders' Equity	(129,121)
Interests attributable to the Group	(64,561)

ADVANCE TO ASSOCIATED COMPANY

As at 31 December 2007, the balance of advance of RMB575,673,000 represented amount due from associated companies. The balances were incurred from the ordinary course of business of the Group. The balance of advance is interest bearing of which an amount of RMB80,090,000 bears interest at the rate of 5.05% per annum and is repayable from September 2009 to June 2016 an amount of RMB456,625,000 has an accumulated interest of approximately RMB34,905,000. All amounts due from associated companies had no fixed repayment period. Combined balance sheet of the associated companies are extracted from their management accounts as at 31 December 2007 and is set out as follows:

	RMB'000
Non-current Assets	1,427,087
Current Assets	345,308
Current Liabilities	1,688,428
Shareholders' Equity	(97,870)
Interests attributable to the Group	(49,248)

PRE-EMPTIVE RIGHTS

According to the Articles of Association of the Company and the laws of the PRC, there are no provisions for pre-emptive rights requiring the Company to offer new shares to the existing shareholders in proportion to their shareholdings.

BORROWINGS AND INTEREST CAPITALISED

Details of bank borrowings of the Group and the Company are set out in note 27 to the financial statements.

MAJOR CUSTOMERS

Sales to the Group's single largest customer and the Group's top five largest customers accounted for approximately 27% and 45% respectively, of the total turnover of the Group for the year ended 31 December 2007.

As far as the Directors are aware, none of the Directors or any of their associates (within the meaning of the Listing Rules), or those shareholders which own more than 5% of the share capital of the Company have an interest in any of the above customers of the Group during the year.

SUFFICIENCY OF PUBLIC FLOAT

According to the public information that is available to the Directors, the Company has maintained the prescribed public float under the Listing Rules as at the latest practicable date of this annual report.

CORPORATE GOVERNANCE

Major corporate governance practices adopted by the Company are set out in Corporate Governance Report on pages 27 to 40.

AUDITORS

A resolution will be proposed at the forthcoming AGM to appoint Messrs. Ernst & Young and Messrs. Ernst & Young Hua Ming as the international and domestic auditors of the Company respectively for the financial year ending 31 December 2007.

By Order of the Board

Lu Ming
Chairman

Shenzhen, China
18 April 2008

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company believes that a high level of corporate governance is pivotal to the protection of shareholders' interest and the sustainability of the Company's long-term development.

The Code on Corporate Governance Practices and Corporate Governance Report issued by the Hong Kong Stock Exchange was effective for the accounting periods commencing on or after 1 January 2005. The Board noted the changes and will apply them to the Company (as applicable).

The Company attaches great importance to the excellence, soundness and reasonableness of its corporate governance structure. The Company, currently and within the reporting period ended 31 December 2007, adopted and applied the principles of the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules (abbreviated as "CG Code"). The Company has complied with all the provisions in the CG Code.

The Board and management of the Company make every effort to comply with the CG Code in order to protect and enhance the benefits of shareholders. Following sustained development and growth of the Company, we will continue to monitor and revise the Company's governance policies in order to ensure that such policies meet the general rules and standards required by the shareholders.

In accordance with relevant laws and regulations, the Company had established inter-restricting management systems comprising general meeting, Board, Board committees, supervisory committee and management, which were characterized by clear division of work and responsibility. In practical operation, the Company had been perfecting its corporate governance structure, regulating itself and strengthening information disclosure.

THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS ("MODEL CODE")

For the reporting period ended 31 December 2007, the Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules as a code of conduct to regulate securities transactions of the directors and supervisors of the Company.

The Company, having made specific enquiries to all directors, has confirmed that all its directors have complied with the required standard set out in the Model Code during the reporting period.

BOARD

(a) Board composition

In accordance with the relevant provisions under the Listing Rules, the Board of the Company comprises eight directors, one of whom is the chairman of the Board, five being executive directors and three being independent non-executive directors. The details are as follow:

Executive Directors:
Lu Ming *(Chairman)*
Tam Man Chi
Wang Jincheng
Yang Jun
Su Duan

Independent non-executive Directors:
Li Sanli
Wang Qinfang
Kennedy Ying Ho Wong

The above directors will hold office for three years upon the date of the Company's 2006 annual general meeting.

Directors of the Company had observed strictly their commitments made public and performed their obligations with faithfulness, integrity and diligence. The composition of the Board of the Company was accordant with relevant laws and regulations. The Board of the Company had held itself responsible to shareholders for the leading and steering of the Company. The Board convened regular meetings and extraordinary meetings according to legal procedures and exercised its powers of office according to laws, regulations and Articles of Association and has taken good care of the interests of the Company and shareholders as a whole.

(b) Independent non-executive Directors

The Company has complied with the provisions of Rules 3.10 (1) and 3.10 (2) of the Listing Rule that at least three independent non-executive Directors be appointed by listed issuers and that at least one of the independent non-executive Directors must have appropriate professional qualifications or accounting or related financial management expertise. All independent non-executive Directors are financially independent from the Company and any of its subsidiaries.

All independent non-executive Directors have entered into service contracts with the Company. None of the independent non-executive Directors has an unexpired service contract with the Company which is not determinable by the Company within one year without payment of compensation other than under statutory compensation

The Company had received an annual confirmation of independence from each of the independent non-executive Director pursuant to Rule 3.13 of the Listing Rules. The Company was of the view that all the independent non-executive Directors met the independence guidelines set out in Rule 3.13 of the Listing Rules and are independent in accordance with the terms of the guidelines.

(c) Attendance record at board meetings

A total of four Board meetings were held during the year ended 31 December 2007.

Attendance rates of individual Board members during the year are as follows:

Name of Board members	**Attendance rates for the year ended 31 December 2007**
Executive Directors	
Mr. Lu Ming *(Chairman)*	4/4
Mr. Tam Man Chi	4/4
Mr. Wang Jincheng	4/4
Mr. Yang Jun	4/4
Mr. Su Duan	4/4
Mr. Chen Zhaoxiong	4/4

Note: Mr. Chen Zhaoxiong resigned as chairman and executive director of the Company in December 2007 for personal reasons. Mr. Lu Ming was elected as chairman.

Independent non-executive Directors	
Mr. Li Sanli	4/4
Ms. Wang Qinfang	4/4
Mr. Kennedy Ying Ho Wong	4/4

CG Code A.1.1 provides that the board should meet regularly and board meetings should be held at least four times a year at approximately quarterly intervals. In addition, CG Code A.1.3 provides that notice of at least 14 days should be given of a regular board meeting. The Company has amended the articles of association at the 2006 Annual General Meeting so that Article 102 is amended as the board of directors shall meet at regular intervals and no less than four times a year at approximately quarterly intervals, such meetings to be convened by the chairman of the board. Notice of regular board meetings shall be notified to all directors 14 days prior to the proposed meeting. In case of urgent matters, board meetings may be convened by one third or more of directors or the chief executive or vice chief executive. Regular board meetings shall not include written resolutions passed by directors. Thus, the Company complied with the requirements under CG Code .

(d) Role and function

Major functions of the Board under the leadership of the Chairman are as follows:

1. to formulate business development strategies;
2. to review and monitor the Group's financial performance;
3. to prepare and approve the Group's financial performance and financial statements;
4. to approve the Group's annual budget, material funding proposals, investment and divestment proposals and operation plans;
5. to monitor and evaluate the Group's internal control, risk management, financial reporting and compliance;
6. to formulate the profit distribution plan and loss recovery plan of the Company;
7. to decide on proposals such as merger, division and dissolution of the Company;
8. to formulate the basic management system of the Company;
9. to formulate proposals concerning amendments to the Company's Articles of Association; and
10. to exercise the Company's powers of raising funds and borrowing money, deciding on the charge, lease, subcontract or transfer of the Company's major assets and to authorize the president or vice presidents to exercise these powers mentioned herein within a certain scope, provided that the relevant laws, statutes, the Company's Articles of Association and relevant regulations are complied with.

The Directors, collectively and individually, are aware of their responsibilities to shareholders, for the manner in which the affairs of the Company are managed and operated. In the appropriate circumstances and as and when necessary, Directors will consent to the seeking of independent professional advice at the Group's expense, ensuring that board procedures, and all applicable rules and regulations, are followed.

Senior management are responsible for the daily operations of the Group. The Board gives clear directions as to the powers delegated to the management for the management and administration functions of the Group, in particular, with respect to the circumstances where management should report back and obtain prior approval from the Board before making decisions or entering into any commitments on behalf of the Group. The Board will review those arrangements on a periodic basis to ensure that they remain appropriate to the needs of the Group.

For the year ended 31 December 2007, the Board:

1. reviewed and monitored the performance of the Group;
2. reviewed and approved the annual results of the Group for the year ended 31 December 2006 and the interim results of the Group for the period ended 30 June 2007;
3. reviewed and approved notifiable/discloseable transactions.

To the best knowledge of the Company, there is no financial, business and family relationship among our Directors and between the Chairman and the Chief Executive Officer. All of them are free to exercise their independent judgment.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The positions of Chairman of the Board and Chief Executive Officer of the Company are assumed by different individuals to achieve effective delineation of the operation of the Board and the management of the Group's daily operations. Mr. Chen Zhaoxiong and Mr. Lu Ming are the Chairman of the Board and Chief Executive Officer of the Company respectively.

The Chairman of the Board shall ensure the efficient operation of and satisfactory performance of its obligations by the Board, which mainly include:

1. to preside over general meetings and to convene and preside over the Board meetings;
2. to check on the implementation of resolutions of the Board meetings;
3. to sign securities certificates issued by the Company;
4. to ensure all key and appropriate issues are properly briefed and discussed by the Board in a timely manner; and
5. to perform such other duties authorized by the Board.

Chief Executive Officer heads the management and is responsible for daily operation of the Group. He is responsible for the implementation of policies adopted by the Board and reporting to the Board in respect of the overall operation of the Company.

BOARD COMMITTEES

The Board has also established the following Board committees:

- Audit Committee
- Nomination and Remuneration Committee
- Strategic Development and Risk Management Committee

Each Board committee makes decisions on matters within its term of reference and applicable limits of authority to monitor the Company's business in particular aspects and assist directors' performance of their duties. The terms of reference as well as the structure and membership of each committee will be reviewed by the Company from time to time.

a) Audit Committee

The Audit Committee was established in December 1999. It currently consists of three independent non-executive Directors.

Composition of Audit Committee:
Mr. Kennedy Ying Ho Wong *(Chairman)*
Mr. Li Sanli
Ms. Wang Qinfang

ROLE AND FUNCTION

The Audit Committee is mainly responsible for, inter alia:

1. to make recommendations to the Board on the appointment, reappointment and removal of the external auditor, and to approve the remuneration and terms of engagement of the external auditor, and any questions of resignation or dismissal of that auditor;
2. to discuss with the external auditors before the audit commences, the nature and scope of audit and ensure co-ordination where more than one audit firm is involved;
3. to develop and implement policy on engagement of an external auditor to supply non-audit services;
4. to monitor integrity of financial statements of the Company and the Company's annual report and accounts, half year report and to review significant financial reporting contained in them;
5. to discuss problems and reservations arising from the interim and annual audits and matters that the external auditors may wish to discuss (in the absence of the management, where necessary);
6. to review the Group's financial and accounting policies and practices;
7. to review the Company's financial control, internal control and risk management systems;
8. to discuss the Company's internal control system with the management to ensure that the management has discharged its duty to have an effective internal control system.

A copy of the terms of reference of the Audit Committee is available upon request.

The following is the attendance record of the Audit Committee meetings for the year ended 31 December 2007:

Committee member	**Attendance rates for the year ended 31 December 2007**
Mr. Kennedy Ying Ho Wong *(Chairman)*	2/2
Mr. Li Sanli	2/2
Ms. Wang Qinfang	2/2

During the meetings, the Audit Committee discussed the following matters:

1. Financial Reporting

   The Audit Committee discussed the interim and annual financial statements and system of internal control of the Group. The auditors, the chief executive officer, the company secretary and the financial manager of the Company have also answered questions on the financial results. The management of the Company provided breakdown, analysis and supporting documents to the Audit Committee members in order to ensure that the Audit Committee members were fully satisfied and make proper recommendations to the board.

2. External Auditors

   The appointment of Ernst & Young Hua Ming and Ernst & Young as domestic auditors and international auditors of the Company respectively for the year ended 2007 was approved.

b) Nomination and Remuneration Committee

The Nomination and Remuneration Committee was established on 8 April 2005. It currently consists of two independent non-executive directors and one executive director.

Composition of Nomination and Remuneration Committee:
Mr. Li Sanli *(Chairman)*
Mr. Wang Jincheng
Mr. Kennedy Ying Ho Wong

ROLE AND FUNCTION

The Nomination and Remuneration Committee is mainly responsible for, inter alia, the following directors' nomination and appointment issues:

1. to identify and nominate qualified individuals with reference to educational qualifications, industry background and experiences in the relevant field, subject to the approval of the Board, to be additional directors or to fill vacancy in the Board as and when they arise;
2. to review on an annual basis the Board structure, size and composition and the independence of the Board;
3. to develop the criteria for selection of directors;
4. to assess the independence of independent non-executive directors;
5. to make recommendations to the Board on all new appointments or re-appointments of directors, the establishment of a succession plan for directors, in particular the chairman and chief executive officer.

The Nomination and Remuneration Committee is mainly responsible for, inter alia, the following directors' remuneration issues:

1. to make recommendations to the Board on the Company's policy and structure for all remuneration of directors and senior management and on the establishment of a formal and transparent procedure for developing policy on such remuneration;
2. to assess the performance of the executive directors and approve the terms of their service contracts, determine the specific remuneration packages of all executive directors and senior management, including benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment, and make recommendations to the Board of the remuneration of non-executive directors;
3. to consider factors such as salaries paid by comparable companies, time commitment and responsibilities of the directors, employment conditions elsewhere in the Group and desirability of performance-based remuneration;
4. to review and approve performance-based remuneration by reference to corporate goals and objectives resolved by the board from time to time;
5. to review and approve the compensation payable to executive directors and senior management in connection with any loss or termination of their office or appointment to ensure that such compensation is determined in accordance with relevant contractual terms and that such compensation is otherwise fair and not excessive for the Company;
6. to review and approve compensation arrangements relating to dismissal or removal of directors for misconduct to ensure that such arrangements are determined in accordance with relevant contractual terms and that any compensation payment is otherwise reasonable and appropriate;
7. to ensure that no director or any of his associates is involved in deciding his own remuneration; and
8. to advise the shareholders on how to vote in respect of any service contract of director which shall be subject to the approval of shareholders (in accordance with the provisions of Rule 13.68 of the Listing Rules).

A copy of the terms of reference of the Nomination and Remuneration Committee is available upon request.

The following is the attendance record of the Nomination and Remuneration Committee meetings for the year ended 31 December 2007:

Committee member	**Attendance rates for the year ended 31 December 2007**
Mr. Li Sanli (Chairman)	1/1
Mr. Wang Jincheng	1/1
Mr. Kennedy Ying Ho Wong	1/1

During the meeting, the Nomination and Remuneration Committee considered the remuneration policy of executive directors, assess their performance and discuss and determine the bonus payments to all senior management.

The remuneration of the Directors, supervisors and senior management of the Company is determined with reference to state policies, the Company's profits realized in the corresponding period and individual achievement.

c) Strategic Development and Risk Control Committee

The Strategic Development and Risk Control Committee was established on 8 April 2005. It currently consists of five executive directors and three independent non-executive directors.

The Strategic Development and Risk Control Committee met once during the year ended 31 December 2007.

Composition of Strategic Development and Risk Control Committee:
Mr. Lu Ming *(Chairman)*
Mr. Tam Man Chi
Mr. Wang Jincheng
Mr. Yang Jun
Mr. Su Duan
Mr. Li Sanli
Ms. Wang Qinfang
Mr. Kennedy Ying Ho Wong

ROLE AND FUNCTION

The Strategic Development and Risk Control Committee is mainly responsible for, inter alia, the following:

1. to study and make recommendations on the Company's long term development strategies;
2. to study and make recommendations on material investments and financing proposals which are subject to the Board's approval as required under the Articles of Associations;
3. to study and make recommendations on material capital operations, asset operation projects which are subject to the Board's approval as required under the Articles of Associations;
4. to study and make recommendations on any other material issues concerning the Company's development;
5. to examine the implementation of the above issues;
6. to perform such other duties authorized by the Board.

The Strategic Development and Risk Control Committee met once during the year ended 31 December 2007.

The following is the attendance record of the Strategic Development and Risk Control Committee meeting for the year ended 31 December 2007:

Committee member	Attendance rates for the year ended 31 December 2007
Mr. Lu Ming (Chairman)	1/1
Mr. Tam Man Chi	1/1
Mr. Wang Jincheng	1/1
Mr. Yang Jun	1/1
Mr. Su Duan	1/1
Mr. Li Sanli	1/1
Ms. Wang Qinfang	1/1
Mr. Kennedy Ying Ho Wong	1/1

During the meeting, the Strategic Development and Risk Control Committee mainly discussed how to contain and minimize the Group's risks arising from the provision of guarantees and loans to GWBNS.

AUDITORS' REMUNERATION

It is the auditor's responsibility to form an independent opinion, based on their audit, on financial statements. Apart from the provision of audit services, the Company's external auditors also carried out review of the Company's interim results.

For the year ended 31 December 2007, Messrs. Ernst & Young, the external international auditors, and Messrs. Ernst & Young Hua Ming, the external domestic auditors, provided 2006 annual accounting statements audit services to the Company, and Ernst & Young provided 2007 interim results review services to the Company. Remuneration for the above services is as follows:

	Remuneration *RMB'000*
2006 annual accounting statements audit services in accordance with the accounting principles generally accepted in Hong Kong and the PRC GAAP respectively	2,125
2007 interim results review services	400

INTERNAL CONTROL AND RISK MANAGEMENT

The Board is responsible for maintaining and reviewing the effectiveness of the Group's internal control system, which is aimed at providing reasonable assurance for the effectiveness and efficiency of the operations, reliability of financial reports and compliance with applicable laws and regulations, so as to protect shareholders' investment and the Group's assets. The key procedures that the Group has established to provide effective internal controls and checks and balances include the following:

1. to enhance its risk awareness through education and training;
2. to establish a risk control team to enhance the guidance and leadership on risk control; to carry out checks on points of risk seriously; to further standardize the operation of the enterprise; to plug loopholes in the process of operation and management; and to establish, on a gradual basis, a mechanism to control operation risks with long-term effect;
3. to introduce advanced international management system; and to strengthen the process of supervision and control, for instance, the introduction and implementation of the 6 SIGMA Management Method by Great Wall Kaifa, Kaifa Magnetic and Excelstor Technology, which has effected a substantial savings of costs and an effective supervision and control of the operation process;
4. to strengthen the management of financial funds; to enhance risk resistance and forewarning capability; to procure continuing improvement of financial information quality by subsidiaries; to make serious analysis of the enterprise's risk exposure, so as to bring the forewarning role of financial analysis into full play;
5. to establish an internal audit department to perform independent risk reviews and internal control;
6. to issue self-assessment questionnaires to subsidiaries as a base for assessing internal control environment and risks;

7. to formulate corresponding policies and procedures to safeguard corporate assets, to keep proper accounting records; and to ensure that transactions are conducted within the scope of authority granted by the management;
8. to put in place arrangements for the internal audit department and external auditors, to conduct internal control tests based on results of risk assessment, and to report the test results to the Board, so as to ensure that the internal control measures function as effectively as planned, and to rectify, as necessary, any weakness in internal control which are identified.

Major functions of the Group's internal audit work include:

1. to review the Group's important controls on its business in financial, operational and compliance aspects;
2. to conduct special reviews on and investigations into areas of concern identified by the Group's senior management;
3. to monitor progress of corrective actions recommended by external auditors in their internal control reports.

The Board is responsible for overseeing the Company's internal control system and reviewing its effectiveness, while the Group's internal audit department and management are responsible for reviewing the effectiveness of the internal control systems of the Company and its subsidiaries. To consider the results of investigations done by, and the opinion of, the Group's internal audit department and management regarding the effectiveness of the Company's internal control system, and to report the review results to the board on an annual basis.

For the year ended 31 December 2007, the Board considers the Group's internal control system reasonable, effective and adequate. The scope of review covers all material aspects of internal control, including finance, operation and compliance control and risk management function.

Price-sensitive information

The procedures and internal control measures of the Company for handling and releasing price sensitive information are as follow:

1. to understand the obligations to be performed by us under the Listing Rules and to publish any price sensitive information immediately after a decision is made taken;
2. to strictly comply with the Guide on Disclosure of Price-Sensitive Information issued by the Stock Exchange in 2002 in handling related matters;
3. to put in place express and specific rules of the Company to prohibit any unauthorised use of confidential or insider information; and
4. to formulate and implement a set of procedures for responding to external enquiries on the Group's affairs, and to authorize the spokesman of the board of directors to respond to enquiries falling within a designated scope.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Board, supported by the finance department of the Company, is responsible for the preparation of the financial statements of the Group. The Board acknowledges their responsibilities for the preparation of the financial statements of the Group.

The Directors confirm that, to the best of their knowledge, information and belief having made all reasonable enquiries, they are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

The statement of the Auditors of the Company about their reporting responsibilities on the financial statements of the Group is set out in the Report of the Auditors on page 41 to 42.

INVESTOR RELATION

The Group is committed to fostering long-term, smooth and positive relationships with shareholders and investors through open and prompt communication. The Group adopts a policy of disclosing relevant information to shareholders in a timely manner. The Group's annual general meeting allows the directors to meet and communicate with shareholders, and the Company also attends various investment reporting meetings and roadshows to increase the opportunities for enhancing communication and understanding between the Company and the investors. Our corporate website contains corporate information, interim and annual reports issued by the Group as well as recent developments of the Group which enable shareholders and investors to have timely and updated information of the Group.

To all shareholders:

In 2007, pursuant to the Company Law of the PRC and the articles of association of the Company (the "Articles"), in accordance with the principles of honesty and loyalty, all members of the supervisory committee of the Company (the "Committee") faithfully discharged their duties diligently and loyal to their responsibility in safeguarding the integrity of the Company and to optimize the shareholders' interest.

1. The Committee members attended board meetings in order to exercise effective supervision over whether the management decisions and development plans of the Board of the Company were in full compliance with the relevant laws and regulations and the Articles, as well as being in the interests of its shareholders. During the Reporting Period, no action breaching state laws or regulations or harming the interests of the Company and its shareholders was found.

2. The Committee exercised supervision over the directors, the president and the senior management of the Company in carrying out their duties. In the opinion of the Committee, the directors, the president and the senior management of the Company have fulfilled their responsibilities to faithfully protect the interests of the Company and its shareholders. No violation of laws, regulation or the Articles by the directors, the president or the senior management of the Company was found.

3. The Committee supervised and inspected the financial operations of the Company. Having reviewed the financial report and the financial statements for the year 2007, the Committee was of the opinion that the Company complied with integrated financial management rules and kept clear accounts. Further, the Company's accounting and financial management was in compliance with relevant regulations. No detrimental transactions, situations harming the interests of the shareholders or cases of asset loss of the Company were found.

4. In 2008, the Committee expects the Company to seize the opportunity for better development trend, to accelerate its internal resource integration, improve organizational structure and enhance management standards in order for the Company to realize breakthroughs in terms of capital development, business expansion and technology upgrade, which further brings about a second leap of the Company's business development.

The Committee is confident about the Company's prospects.

The Supervisory Committee
Shenzhen, PRC

18 April 2008

To the shareholders of Great Wall Technology Company Limited

(Incorporated in the People's Republic of China with limited liability)

We have audited the financial statements of Great Wall Technology Company Limited set out on pages 43 to 132, which comprise the consolidated and company balance sheets as at 31 December 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2007 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Certified Public Accountants
18th floor, Two International Finance Centre
No.8 Finance Street
Central
Hong Kong
18 April 2008

Year ended 31 December 2007

	Notes	2007 RMB'000	2006 RMB'000
REVENUE	5	**23,682,455**	19,919,261
Cost of sales		**(22,357,157)**	(18,540,402)
Gross profit		**1,325,298**	1,378,859
Other income and gains	5	**297,107**	226,907
Gain on disposal of available-for-sale investments	6	**572,806**	–
Selling and distribution costs		**(290,243)**	(309,942)
Administrative expenses		**(505,738)**	(444,656)
Other expenses		**(271,155)**	(205,837)
Finance costs	7	**(54,451)**	(23,283)
Loss on share reforms of subsidiaries	40	**–**	(426,636)
Share of profits and losses of associates		**(11,584)**	(35,943)
PROFIT BEFORE TAX	6	**1,062,040**	159,469
Tax	10	**(221,437)**	7,820
PROFIT FOR THE YEAR		**840,603**	167,289
Attributable to:			
Equity holders of the parent	11	**308,768**	(122,196)
Minority interests		**531,835**	289,485
		840,603	167,289
DIVIDENDS			
Proposed final	12	**–**	–
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	13		
Basic			
– For profit/(loss) for the year		**25.78 Cents**	(10.2) Cents

31 December 2007

	Notes	2007 RMB'000	2006 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**2,197,616**	2,116,321
Investment properties	15	**883,920**	560,540
Prepaid land lease payments	16	**88,396**	86,775
Other intangible assets	17	**3,375**	2,790
Interests in associates	19	**448,183**	627,369
Available-for-sale investments	20	**1,148,207**	437,884
Pledged deposits	24	**15,602**	13,838
Prepayments	30	**17,253**	58,011
Deferred tax assets	29	**67,305**	63,995
Total non-current assets		**4,869,857**	3,967,523
CURRENT ASSETS			
Inventories	21	**913,370**	845,840
Trade and bills receivables	22	**2,898,602**	1,977,672
Prepayments, deposits and other receivables	23	**371,885**	371,729
Due from fellow subsidiaries	41(b)(iv)	**5,343**	1,675
Due from associates	41(b)(iii)	**4,651**	60,915
Pledged deposits	24	**23,937**	10,279
Cash and cash equivalents	24	**2,719,237**	2,980,882
Total current assets		**6,937,025**	6,248,992
CURRENT LIABILITIES			
Trade and bills payables	25	**3,027,224**	2,234,294
Other payables and accruals	26	**700,105**	662,987
Interest-bearing bank and other borrowings	27	**865,000**	446,365
Tax payable		**222,620**	92,643
Provisions	28	**59,773**	53,002
Due to associates	41(b)(iii)	**13,625**	69,422
Due to fellow subsidiaries	41(b)(iv)	**24,418**	2,294
Due to the intermediate holding company	41(b)(i)	**2,445**	1,364
Total current liabilities		**4,915,210**	3,562,371
NET CURRENT ASSETS		**2,021,815**	2,686,621
TOTAL ASSETS LESS CURRENT LIABILITIES		**6,891,672**	6,654,144

31 December 2007

	Notes	2007 RMB'000	2006 RMB'000
TOTAL ASSETS LESS CURRENT LIABILITIES		**6,891,672**	6,654,144
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	27	**–**	2,882
Financial guarantee contracts	36	**12,886**	29,410
Deferred tax liabilities	29	**59,703**	64,389
Other long term payables	31	**23,640**	41,737
Total non-current liabilities		**96,229**	138,418
Net assets		**6,795,443**	6,515,726
EQUITY			
Equity attributable to equity holders of the parent			
Issued capital	32	**1,197,742**	1,197,742
Reserves	33(a)	**2,509,071**	2,362,074
Proposed final dividend	12	**–**	–
		3,706,813	3,559,816
Minority interests		**3,088,630**	2,955,910
Total equity		**6,795,443**	6,515,726

Director *Director*

Consolidated Statement of Changes in Equity

Year ended 31 December 2007

		Attributable to equity holders of the parent (2006)										
	Notes	Issued capital RMB'000	Share premium account RMB'000	Goodwill reserve RMB'000	Available-for-sale investment revaluation reserve RMB'000	Statutory reserve RMB'000	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Proposed final dividend RMB'000	Total RMB'000	Minority interests RMB'000	Total equity RMB'000
At 1 January 2006		1,197,742	996,660	(28,155)	–	699,353	(5,783)	680,980	23,955	3,564,752	2,220,399	5,785,151
Exchange realignment		–	–	–	–	–	(6,337)	–	–	(6,337)	(5,090)	(11,427)
Changes in fair value of available-for-sale investments		–	–	–	148,919	–	–	–	–	148,919	151,683	300,602
Total income and expense recognised directly in equity		–	–	–	148,919	–	(6,337)	–	–	142,582	146,593	289,175
Profit/(loss) for the year		–	–	–	–	–	–	(122,196)	–	(122,196)	289,485	167,289
Total income and expense for the year		–	–	–	148,919	–	(6,337)	(122,196)	–	20,386	436,078	456,464
Dividends attributable to minority shareholders		–	–	–	–	–	–	–	–	–	(127,256)	(127,256)
Share of reserves of an associate		–	838	–	–	–	(2,205)	–	–	(1,367)	148	(1,219)
Disposal of subsidiaries	34	–	–	–	–	–	–	–	–	–	(95)	(95)
Disposal of partial interest in subsidiaries to minority shareholders	40	–	–	–	–	–	–	–	–	–	426,636	426,636
Final 2005 dividend declared		–	–	–	–	–	–	–	(23,955)	(23,955)	–	(23,955)
Transfer from retained profits		–	–	–	–	121,414	–	(121,414)	–	–	–	–
At 31 December 2006		1,197,742	997,498	(28,155)	148,919	820,767	(14,325)	437,370	–	3,559,816	2,955,910	6,515,726

Consolidated Statement of Changes in Equity

Year ended 31 December 2007

		Attributable to equity holders of the parent (2007)											
	Notes	Issued capital RMB'000	Share premium account RMB'000	Goodwill reserve RMB'000	Asset revaluation reserve RMB'000	Available-for-sale investment revaluation reserve RMB'000	Statutory reserve RMB'000	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Proposed final dividend RMB'000	Total RMB'000	Minority interests RMB'000	Total equity RMB'000
At 1 January 2007		**1,197,742**	**997,498**	**(28,155)**	**–**	**148,919**	**820,767**	**(14,325)**	**437,370**	**–**	**3,559,816**	**2,955,910**	**6,515,726**
Exchange realignment		–	–	–	–	–	–	**(17,702)**	–	–	**(17,702)**	**(9,487)**	**(27,189)**
Changes in fair value of available-for-sale investments		–	–	–	–	**(25,287)**	–	–	–	–	**(25,287)**	**(27,592)**	**(52,879)**
Changes in fair value of transferred owner-occupied properties at transfer day		–	–	–	**34,569**	–	–	–	–	–	**34,569**	–	**34,569**
Total income and expense recognised directly in equity		–	–	–	**34,569**	**(25,287)**	–	**(17,702)**	–	–	**(8,420)**	**(37,079)**	**(45,499)**
Profit for the year		–	–	–	–	–	–	–	**308,768**	–	**308,768**	**531,835**	**840,603**
Total income and expense for the year		–	–	–	**34,569**	**(25,287)**	–	**(17,702)**	**308,768**	–	**300,348**	**494,756**	**795,104**
Dividends attributable to minority shareholders		–	–	–	–	–	–	–	–	–	–	**(201,094)**	**(201,094)**
Share of reserves of an associate		–	–	–	–	–	–	**(4,432)**	–	–	**(4,432)**	**(3,307)**	**(7,739)**
Disposal of a subsidiary	34	–	–	–	–	–	–	–	–	–	–	**(5,952)**	**(5,952)**
Disposal of available-for-sale investments		–	–	–	–	**(148,919)**	–	–	–	–	**(148,919)**	**(151,683)**	**(300,602)**
Transfer from retained profits		–	–	–	–	–	**86,853**	–	**(86,853)**	–	–	–	–
At 31 December 2007		**1,197,742**	**997,498**	**(28,155)**	**34,569**	**(25,287)**	**907,620**	**(36,459)**	**659,285**	**–**	**3,706,813**	**3,088,630**	**6,795,443**

Year ended 31 December 2007

	Notes	2007 RMB'000	2006 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**1,062,040**	159,469
Adjustments for:			
Finance costs	7	**54,451**	23,283
Interest income	5	**(69,941)**	(78,614)
Share of losses of associates		**11,584**	35,943
Dividend income from unlisted available-for-sale investments	5	**(57,521)**	(25,779)
Loss on disposal of items of property, plant and equipment	6	**20,792**	13,782
(Gain)/loss on disposal of subsidiaries	6	**6,349**	(15,960)
Loss on share reforms of subsidiaries	40	**–**	426,636
Depreciation	6	**304,789**	290,334
Decrease/(increase) in fair value of investment properties	6	**(91,472)**	24,388
Recognition of prepaid land lease payments	16	**2,802**	2,177
Amortisation of other intangible assets	6	**1,080**	414
Changes in fair value on financial guarantee contracts		**11,557**	(28,460)
Impairment of loans to an associate	6	**161,798**	86,791
Impairment of items of property, plant and equipment	6	**8,113**	16,401
Gain on disposal of equity investments at fair value through profit or loss	5	**(31,145)**	–
Gain on disposal of available-for-sales investments	6	**(572,806)**	–
		822,470	930,805
Increase in inventories		**(100,501)**	(18,503)
Decrease/(increase) in trade and other receivables		**(908,256)**	261,929
Decrease in amounts due from associates		**56,264**	236,336
Increase in trade and other payables		**846,632**	40,837
Decrease/(increase) in amounts due from fellow subsidiaries		**(3,668)**	17,017
(Decrease)/increase in an amount due to the intermediate holding company		**1,081**	(30)
Increase in amounts due to fellow subsidiaries		**22,124**	1,714
Decrease in amounts due to associates		**(55,797)**	(49,971)
Increase in provisions	28	**6,771**	41,377
Cash generated from operations		**687,120**	1,461,511
Mainland China profit tax paid		**(39,030)**	(70,028)
Hong Kong profits tax paid		**(4,803)**	(1,793)
Net cash inflow from operating activities		**643,287**	1,389,690

Year ended 31 December 2007

	Notes	2007 RMB'000	2006 RMB'000
Net cash inflow from operating activities		**643,287**	1,389,690
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		**66,822**	46,778
Dividends received from unlisted available-for-sale investments	5	**57,521**	25,779
Dividends received from associates		**18,122**	13,000
Purchases of items of property, plant and equipment		**(685,449)**	(660,701)
Addition to prepaid land lease payments	16	**(4,787)**	(18,140)
Proceeds from disposal of an associate		**–**	178,109
Proceeds from disposal of items of property, plant and equipment		**25,392**	45,353
Proceeds from disposal of available-for-sale investments		**596,313**	–
Proceeds from disposal of prepaid land lease payment		**291**	–
Additions to other intangible assets	17	**(2,015)**	(1,885)
Acquisition of an interest in an associate		**–**	(3,500)
Disposal of subsidiaries	34	**(2,620)**	23,356
Advances of loans to associates		**(20,012)**	(223,155)
Purchases of available-for-sale investments		**(1,139,626)**	(9,533)
Increase in pledged deposits		**(15,422)**	(24,117)
Gain on disposal of equity investments at fair value through profit or loss		**31,145**	–
Net cash (outflow)/inflow from investing activities		**(1,074,325)**	(608,656)
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank loans		**1,185,000**	999,976
Repayment of bank loans		**(769,248)**	(934,144)
Government grants raised		**11,124**	1,977
Government grants used		**(7,218)**	(15,635)
Interest paid		**(54,558)**	(23,385)
Dividends paid		**–**	(23,955)
Dividends paid to minority shareholders		**(203,499)**	(126,053)
Net cash outflow from financing activities		**161,601**	(121,219)
NET INCREASE IN CASH AND CASH EQUIVALENTS		**(269,437)**	659,815
Cash and cash equivalents at beginning of year		**2,980,882**	2,321,961
Effect of foreign exchange rate changes, net		**7,792**	(894)
CASH AND CASH EQUIVALENTS AT END OF YEAR		**2,719,237**	2,980,882

31 December 2007

	Notes	2007 RMB'000	2006 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**44,379**	131,783
Investment properties	15	**245,843**	144,659
Prepaid land lease payments	16	**3,995**	4,115
Interests in subsidiaries	18	**1,516,273**	1,514,344
Interests in associates	19	**395,295**	542,923
Available-for-sale investments	20	**2,500**	2,500
Deferred tax assets	29	**12,210**	23,638
Total non-current assets		**2,220,495**	2,363,962
CURRENT ASSETS			
Prepayments, deposits and other receivables	23	**2,157**	422
Due from subsidiaries		**–**	2,025
Due from associates		**33**	1,807
Cash and cash equivalents	24	**93,509**	43,249
Total current assets		**95,699**	47,503
CURRENT LIABILITIES			
Trade and bills payables	25	**217**	217
Other payables and accruals	26	**5,371**	8,771
Interest-bearing bank and other borrowings	27	**–**	127,000
Due to ultimate holding company		**2,490**	–
Tax payable		**214**	2,189
Total current liabilities		**8,292**	138,177
NET CURRENT ASSETS/(LIABILITIES)		**87,407**	(90,674)
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,307,902**	2,273,288

31 December 2007

	Notes	2007 RMB'000	2006 RMB'000
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,307,902**	2,273,288
NON-CURRENT LIABILITIES			
Financial guarantee contracts	36	**11,557**	4,236
Deferred tax liabilities	29	**7,089**	2,129
Total non-current liabilities		**18,646**	6,365
Net assets		**2,289,256**	2,266,923
EQUITY			
Issued capital	32	**1,197,742**	1,197,742
Reserves	33(b)	**1,091,514**	1,069,181
Proposed final dividend	12	**–**	–
Total equity		**2,289,256**	2,266,923

Director

Director

31 December 2007

1. CORPORATE INFORMATION

Great Wall Technology Company Limited (the "Company") is a limited liability company incorporated in the People's Republic of China ("PRC"). The registered office of the Company is located at No.2 Keyuan Road, Technology and Industrial Park, Nanshan District, Shenzhen, the PRC.

During the year, the Company and its subsidiaries (the "Group") were principally involved in the development, manufacture and sale of computer and related products including hardware and software products.

In the opinion of the directors, the parent of the Company is China Great Wall Computer Group Company, and the ultimate holding company of the Company is China Electronics Corporation ("CEC") as a result of the restructuring approved by the State-owned Assets Supervision and Administration Commission of the State Council ("SASAC") on 18 August 2006. Both of them are state-owned enterprises established in the PRC.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for investment properties, equity investment with quoted market price available, which have been measured at fair value. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand (RMB'000) except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2007. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Minority interests represent the interests of outside shareholders not held by the Group in the results and net assets of the Company's subsidiaries.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements. Except for in certain cases, giving rise to new and revised accounting policies and additional disclosures, the adoption of these new and revised standards and interpretation has had no material effect on these financial statements.

HKFRS 7	*Financial Instruments: Disclosures*
HKAS 1 Amendment	*Capital Disclosures*
HK(IFRIC)-Int 8	*Scope of HKFRS 2*
HK(IFRIC)-Int 9	*Reassessment of Embedded Derivatives*
HK(IFRIC)-Int 10	*Interim Financial Reporting and Impairment*

The principal effects of adopting these new and revised HKFRSs are as follows:

(a) HKFRS 7 Financial Instruments: Disclosures

This standard requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments. The new disclosures are included throughout the financial statements. While there has been no effect on the financial position or results of operations of the Group, comparative information has been included where appropriate.

(b) Amendment to HKAS 1 Presentation of Financial Statements – Capital Disclosures

This amendment requires the Group to make disclosures that enable users of the financial statements to evaluate the Group's objectives, policies and processes for managing capital. These new disclosures are shown in note 43 to the financial statements.

(c) HK(IFRIC)-Int 8 *Scope of HKFRS 2*

This interpretation requires HKFRS 2 to be applied to any arrangement in which the Group cannot identify specifically some or all of the goods or services received, for which equity instruments are granted or liabilities (based on a value of the Group's equity instruments) are incurred by the Group for a consideration, and which appears to be less than the fair value of the equity instruments granted or liabilities incurred. As the Company has not issued equity instruments to its employees, the interpretation has had no effect on these financial statements.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS(Continued)

(d) HK(IFRIC)-Int 9 *Reassessment of Embedded Derivatives*

This interpretation requires that the date to assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative is the date that the Group first becomes a party to the contract, with reassessment only if there is a change to the contract that significantly modifies the cash flows. As the Group has no embedded derivative requiring separation from the host contract, the interpretation has had no effect on these financial statements.

(e) HK(IFRIC)-Int 10 *Interim Financial Reporting and Impairment*

The Group has adopted this interpretation as of 1 January 2007, which requires that an impairment loss recognised in a previous interim period in respect of goodwill or an investment in either an equity instrument classified as available-for-sale or a financial asset carried at cost is not subsequently reversed. As the Group had no impairment losses previously reversed in respect of such assets, the interpretation has had no impact on the financial position or results of operations of the Group.

2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

HKFRS 8	*Operating Segments* [1]
HKAS 23 (Revised)	*Borrowing Costs* [1]
HK(IFRIC)-Int 11	*HKFRS 2 – Group and Treasury Share Transactions* [2]
HK(IFRIC)-Int 12	*Service Concession Arrangements* [4]
HK(IFRIC)-Int 13	*Customer Loyalty Programmes* [3]
HK(IFRIC)-Int 14	*HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* [4]
HKFRS 2	*Share-based payments — Vesting Conditions and Cancellations* [1]
HKFRS 3R	*Business Combination* [5]
HKAS 27	*Consolidated and Separate Financial Statements* [5]
HKAS 1	*Revised Presentation of Financial Statements* [1]

[1] Effective for annual periods beginning on or after 1 January 2009
[2] Effective for annual periods beginning on or after 1 March 2007
[3] Effective for annual periods beginning on or after 1 July 2008
[4] Effective for annual periods beginning on or after 1 January 2008
[5] Effective for annual periods beginning on or after 1 July 2009

2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (Continued)

HKFRS 8, which will replace HKAS 14 Segment Reporting, specifies how an entity should report information about its operating segments, based on information about the components of the entity that is available to the chief operating decision maker for the purposes of allocating resources to the segments and assessing their performance. The standard also requires the disclosure of information about the products and services provided by the segments, the geographical areas in which the Group operates, and revenue from the Group's major customers. The Group expects to adopt HKFRS 8 from 1 January 2009.

HKAS 23 has been revised to require capitalisation of borrowing costs when these costs are directly attributable to the acquisition, construction or production of a qualifying asset. As the Group's current policy for borrowing costs aligns with the requirements of the revised standard, the revised standard is unlikely to have any financial impact on the Group.

HK(IFRIC)-Int 11 requires arrangements whereby an employee is granted rights to the Group's equity instruments, to be accounted for as an equity-settled scheme, even if the Group acquires the instruments from another party, or the shareholders provide the equity instruments needed. HK(IFRIC)-Int 11 also addresses the accounting for share-based payment transactions involving two or more entities within the Group. As the Group currently has no such transactions, the interpretation is unlikely to have any financial impact on the Group.

HK(IFRIC)-Int 12 requires an operator under public-to-private service concession arrangements to recognise the consideration received or receivable in exchange for the construction services as a financial asset and/or an intangible asset, based on the terms of the contractual arrangements. HK(IFRIC)-Int 12 also addresses how an operator shall apply existing HKFRSs to account for the obligations and the rights arising from service concession arrangements by which a government or a public sector entity grants a contract for the construction of infrastructure used to provide public services and/or for the supply of public services. As the Group currently has no such arrangements, the interpretation is unlikely to have any financial impact on the Group.

HK(IFRIC)-Int 13 requires that loyalty award credits granted to customers as part of a sales transaction are accounted for as a separate component of the sales transaction. The consideration received in the sales transaction is allocated between the loyalty award credits and the other components of the sale. The amount allocated to the loyalty award credits is determined by reference to their fair value and is deferred until the awards are redeemed or the liability is otherwise extinguished.

HK(IFRIC)-Int 14 addresses how to assess the limit under HKAS 19 Employee Benefits, on the amount of a refund or a reduction in future contributions in relation to a defined benefit scheme that can be recognised as an asset, in particular, when a minimum funding requirement exists.

2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (Continued)

As the Group currently has no customer loyalty award credits and defined benefit scheme, HK(IFRIC)-Int 13 and HK(IFRIC)-Int 14 are not applicable to the Group and therefore are unlikely to have any financial impact on the Group.

HKFRS 2 restricts the definition of "vesting condition" to a condition that includes an explicit or implicit requirement to provide services. Any other conditions are non-vesting conditions, which have to be taken into account to determine the fair value of the equity instruments granted. In the case that the award does not vest as the result of a failure to meet a non-vesting condition that is within the control of either the entity or the counterparty, this must be accounted for as a cancellation. As the Group currently has not entered into share-based payment schemes, HKFRS 2 are not applicable to the Group and therefore are unlikely to have any financial impact on the Group.

HKFRS 3R introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results. HKAS 27 requires that a change in the ownership interest of a subsidiary is accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give raise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes introduced by HKFRS 3R and HKAS 27 must be applied prospectively and will affect future acquisitions and transactions with minority interests.

HKAS 1 separates owner and non-owner changes in equity. The statement of changes in equity will include only details of transactions with owners, with all non-owner changes in equity presented as a single line. In addition, HKAS 1 introduces the statement of comprehensive income: it presents all items of income and expense recognised in profit or loss, together with all other items of recognised income and expense, either in one single statement, or in two linked statements. The Group is still evaluating whether it will have one or two statements.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefit from its activities.

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

Associates

An associate is an entity, not being a subsidiary or a jointly-controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses. The Group's share of the post-acquisition results and reserves of associates is included in the consolidated income statement and consolidated reserves, respectively. Unrealised gains and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associate, except where unrealised losses provide evidence of an impairment of the asset transferred.

The results of associates are included in the Company's income statement to the extent of dividends received and receivable. The Company's interests in associates are treated as non-current assets and are stated at cost less any impairment losses.

Goodwill

Goodwill arising on the acquisition of subsidiaries and associates represents the excess of the acquiring cost over the Group's interest in the net fair value of the identifiable assets acquired, and liabilities and contingent liabilities assumed as at the date of acquisition.

Goodwill on acquisitions for which the agreement date is on or after 1 January 2005

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset, initially measured at cost and subsequently at cost less any accumulated impairment losses. In the case of associates, goodwill is included in the carrying amount thereof, rather than as a separately identified asset on the consolidated balance sheet.

The carrying amount of goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Goodwill (Continued)

Goodwill on acquisitions for which the agreement date is on or after 1 January 2005 (Continued)

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Goodwill previously eliminated against consolidated retained profits

Prior to the adoption of the HKICPA's Statement of Standard Accounting Practice 30 "Business Combinations" ("SSAP 30") in 2001, goodwill arising on acquisition of subsidiaries and associates was eliminated against consolidated retained profits in the year of acquisition. On the adoption of HKFRS 3, such goodwill remains eliminated against consolidated retained profits and is not recognised in the income statement when all or part of the business to which the goodwill relates is disposed of or when a cash-generating unit to which the goodwill relates becomes impaired.

Impairment of non-financial assets other than goodwill

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets, financial assets, investment properties, goodwill and non-current assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Goodwill (Continued)

Impairment of non-financial assets other than goodwill (Continued)

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. 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 the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises in those expenses categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the income statement in the period in which it arises.

Related parties

A party is considered to be related to the Group if:

(a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;

(b) the party is an associate;

(c) the party is a member of the key management personnel of the Group or its parent;

(d) the party is a close member of the family of any individual referred to in (a) or (c); or

(e) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (c) or (d).

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost or valuation less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

Depreciation is calculated on the straight-line basis to write off the cost or valuation of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Land and buildings	Over the terms of the respective leases
Staff quarters	Over the terms of the respective leases
Plant, machinery and equipment	9-18%
Motor vehicles	12.86-20%

Where parts of an item of property, plant and equipment have different useful lives, the cost or valuation of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at each balance sheet date.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment and depreciation (Continued)

Construction in progress represents buildings, machinery and projects under construction or installation, which are stated at cost less any impairment losses, and are not depreciated. Cost comprises the direct costs of construction and capitalized borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment or investment properties when completed and ready for use.

Investment properties

Investment properties are interests in land and buildings (including the leasehold interest under an operating lease for a property which would otherwise meet the definition of an investment property) held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. These properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the balance sheet date.

Gains or losses arising from changes in the fair values of investment properties are included in the income statement in the year in which they arise.

Any gains or losses on the retirement or disposal of an investment property are recognised in the income statement in the year of the retirement or disposal.

For a transfer from investment properties to owner-occupied properties or inventories, the deemed cost of property for subsequent accounting is its fair value at the date of change in use. If a property occupied by the Group as an owner-occupied property becomes an investment property, any difference at that date between the carrying amount and the fair value of the property is accounted for as a revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to the income statement. Any subsequent revaluation surplus is credited to the income statement to the extent of the deficit previously charged. On subsequent disposal of the investment property, the revaluation surplus included in equity may be transferred to retained earnings. The transfer from revaluation surplus to retained earnings is not made through profit or loss. When the Group completes the construction or development of a self-constructed investment property, any difference between the fair value of the property at the completion date and its previous carrying amount is recognised in the income statement.

Intangible assets (other than goodwill)

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each balance sheet date.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Intangible assets (other than goodwill) (Continued)

Patents and licences

Purchased patents and licences are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives.

Technology acquired

Technology acquired is stated at cost less impairment loss and is amortised on the straight-line basis over its estimated useful life.

Research and development costs

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

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of these leases are charged to the income statement so as to provide a constant periodic rate of charge over the lease terms.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the income statement on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases net of any incentives received from the lessor are charged to the income statement on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and other financial assets

Financial assets in the scope of HKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Gains or losses on investments held for trading are recognised in the income statement. The net fair value gain or loss recognised in the income statement does not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policy set out for “Revenue recognition” below.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These assets are subsequently carried at amortised cost using the effective interest method less any allowance for impairment. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets in listed and unlisted equity securities that are designated as available for sale or are not classified in any of the other two categories. After initial recognition, available-for-sale financial assets are measured at fair value, with gains or losses recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement. Interest and dividends earned are reported as interest income and dividend income, respectively and are recognised in the income statement as “Other income” in accordance with the policies set out for “Revenue recognition” below. Losses arising from the impairment of such investments are recognised in the income statement as “Impairment losses on available-for-sale financial assets” and are transferred from the available-for-sale investment revaluation reserve.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and other financial assets (Continued)

Available-for-sale financial assets (Continued)

When the fair value of unlisted equity securities cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, these securities are stated at cost less any impairment losses.

Fair value

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business at the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. These techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; and option pricing models.

Impairment of financial assets

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognised in the income statement. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

In relation to trade and other receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor and significant changes in the technological, market economic or legal environment that have an adverse effect on the debtor) that the Group will not be able to collect all the amounts due under the original terms of an invoice. The carrying amount of the receivables is reduced through the use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of financial assets (Continued)

Assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

Available-for-sale financial assets

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the income statement, is transferred from equity to the income statement. A provision for impairment is made for available-for-sale equity investments when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or ''prolonged" requires judgement. In addition, the Group evaluates other factors, such as the share price volatility. Impairment losses on equity instruments classified as available for sale are not reversed through the income statement.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Group retains the rights to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, where the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial liabilities at amortised cost (including interest-bearing loans and borrowings)

Financial liabilities including trade and other payables, an amount due to the intermediate holding company and interest-bearing loans and borrowings are initially stated at fair value less directly attributable transaction costs and are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost. The related interest expense is recognised within "Finance costs" in the income statement.

Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the amortisation process.

Financial guarantee contracts

Financial guarantee contracts in the scope of HKAS 39 are accounted for as financial liabilities. A financial guarantee contract is recognised initially at its fair value less transaction costs that are directly attributable to the acquisition or issue of the financial guarantee contract, except when the contract is recognised at fair value through profit or loss. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount determined in accordance with HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets*; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 *Revenue*.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the income statement.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Contracts for services

Contract revenue on the rendering of services comprises the agreed contract amount. Costs of rendering services comprise labour and other costs of personnel directly engaged in providing the services and attributable overheads.

Revenue from the rendering of services is recognised based on the percentage of completion of the transaction, provided that the revenue, the costs incurred and the estimated costs to completion can be measured reliably. The percentage of completion is established by reference to the costs incurred to date as compared to the total costs to be incurred under the transaction. Where the outcome of a contract cannot be measured reliably, revenue is recognised only to the extent that the expenses incurred are eligible to be recovered.

Provision is made for foreseeable losses as soon as they are anticipated by management.

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is treated as an amount due from contract customers.

Where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is treated as an amount due to contract customers.

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, 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, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheets, cash and bank balances comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the income statement.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Provisions (Continued)

Provisions for product warranties granted by the Group on certain products are recognised based on sales volume and past experience of the level of repairs and returns, discounted to their present values as appropriate.

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the income statement, or in equity if it relates to items that are recognised in the same or a different period directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries and associates, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised except:

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income tax (Continued)

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, the fair value is deducted from the carrying amount of the asset and released to the income statement by way of a reduced depreciation charge.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) from the rendering of services, on the percentage of completion basis, as further explained in the accounting policy for "Contracts for services" above;

(c) rental income, on a time proportion basis over the lease terms;

(d) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset;

(e) dividend income, when the shareholders' right to receive payment has been established; and

(f) royalty income, when the rights to receive payment have been established.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Employee benefits

Pension schemes and other retirement benefits

The employees in the company and its subsidiaries, which operates in Mainland China are required to participate in a central pension scheme operated by the local municipal government. The company and its subsidiaries are required to contribute 5% to 13% of their payroll costs to the central pension scheme. The contributions are charged to the income statement as they become payable in accordance with the rules of the central pension scheme.

Subsidiaries in Hong Kong operate a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for all of its employees. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the subsidiary in an independently administered fund. The subsidiary's employer contributions vest fully with the employees when contributed into the MPF Scheme.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of these borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised.

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies

These financial statements are presented in RMB, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the balance sheet date. All differences are taken to the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currencies of certain overseas subsidiaries and associates are currencies other than the RMB. As at the balance sheet date, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates ruling at the balance sheet date and, their income statements are translated into RMB at the weighted average exchange rates for the year. The resulting exchange differences are included in the exchange fluctuation reserve. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into RMB at the weighted average exchange rates for the year.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Operating lease commitments – Group as lessor

The Group has entered into commercial property leases on its investment property portfolio. The Group has determined that it retains all the significant risks and rewards of ownership of these properties which are leased out on operating leases.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

Judgements (Continued)

Classification between investment properties and owner-occupied properties

The Group determines whether a property qualifies as an investment property, and has developed criteria in making that judgement. Investment property is a property held to earn rentals or for capital appreciation or both. Therefore, the Group considers whether a property generates cash flows largely independently of the other assets held by the Group.

Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions could be sold separately (or leased out separately under a finance lease), the Group accounts for the portions separately. If the portions could not be sold separately, the property is an investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes.

Judgement is made on an individual property basis to determine whether ancillary services are so significant that a property does not qualify as an investment property.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Estimation of fair value of investment properties

In the absence of current prices in an active market for similar properties, the Group considers information from a variety of sources, including:

(a) current prices in an active market for properties of a different nature, condition or location (or subject to different leases or other contracts), adjusted to reflect those differences;

(b) recent prices of similar properties on less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices; and

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

Judgements (Continued)

Estimation of fair value of investment properties (Continued)

(c) discounted cash flow projections based on reliable estimates of future cash flows, supported by the terms of any existing lease and other contracts and (when possible) by external evidence such as current market rents for similar properties in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows.

The principal assumptions for the Group's estimation of the fair value include those related to current market rents for similar properties in the same location and condition, appropriate discount rates, expected future market rents and future maintenance costs. The carrying amount of investment properties at 31 December 2007 was RMB883,920,000 (2006: RMB560,540,000).

Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets at each reporting date. Indefinite life intangible assets are tested for impairment annually and at other times when such indicator exists. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying value of deferred tax assets relating to recognised tax losses at 31 December 2007 was nil (2006: Nil). The amount of unrecognised tax losses at 31 December 2007 was RMB402,182,000 (2006: RMB571,545,000). Further details are contained in note 29 to the financial statements.

4. SEGMENT INFORMATION

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group's operating businesses are structured and managed separately according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other business segments. Summary details of the business segments are as follows:

(a) the electronic parts and components segment produces magnetic heads, monitors, switch power supplies, hard disk drives and disk substrates mainly for use in personal computers ("PC");

(b) the computer segment produces PCs, printers, network electric meters, servers and PC peripheral products;

(c) the property investment segment invests in prime office space for its rental income potential; and

(d) the "others" segment comprises, principally, the software and system integration and other businesses.

In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

4. SEGMENT INFORMATION (Continued)

(a) Business segments

The following tables present revenue, profit and certain asset, liability and expenditure information for the Group's business segments for the years ended 31 December 2007 and 2006.

Year ended 31 December 2007	Electronic parts and components RMB'000	Computer RMB'000	Property investment RMB'000	Others RMB'000	Eliminations RMB'000	Consolidated RMB'000
Segment revenue:						
Sales to external customers	21,424,469	1,274,500	100,349	883,137	–	23,682,455
Other income and gains	42,589	–	–	4,115	–	46,704
Intersegment sales	285,835	–	35,598	–	(321,433)	–
Total	21,752,893	1,274,500	135,947	887,252	(321,433)	23,729,159
Segment results before increase in fair value of investment properties	411,190	(29,233)	103,005	3,191	(5,942)	482,211
Increase in fair value of investment properties	–	–	91,472	–	–	91,472
Segment results after increase in fair value of investment properties	411,190	(29,233)	194,477	3,191	(5,942)	573,683
Interest and dividend income and unallocated gains						158,931
Gain on disposal of available-for-sale investment						572.806
Corporate and other unallocated expenses						(177,345)
Finance costs						(54,451)
Share of profits and losses of associates	24,471	5,287	–	(41,342)	–	(11,584)
Profit before tax						1,062,040
Tax						(221,437)
Profit for the year						840,603
Assets and liabilities:						
Segment assets	4,992,070	1,083,151	883,920	388,142	–	7,347,283
Interests in associates	312,690	65,391	–	70,101	–	448,182
Corporate and other unallocated assets						4,011,417
Total assets						11,806,882
Segment liabilities	2,972,762	552,677	–	297,276	–	3,822,715
Corporate and other unallocated liabilities						1,188,724
Total liabilities						5,011,439

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4. SEGMENT INFORMATION (Continued)

a) Business segments (Continued)

Year ended 31 December 2007	Electronic parts and components RMB'000	Computer RMB'000	Property investment RMB'000	Others RMB'000	Eliminations RMB'000	Consolidated RMB'000
Other segment information:						
Depreciation and amortisation	269,380	30,974	–	2,344	–	302,698
Corporate and other unallocated amounts						5,973
						308,671
Capital expenditure	631,278	42,432	–	895	–	674,605
Corporate and other unallocated amounts						392
						674,997
Impairment losses recognised in the income statement	36,229	(21,550)	–	16,109	–	30,788
Corporate and other unallocated amounts						198,060
						228,848
Fair value gains on investment properties	–	–	(91,472)	–	–	(91,472)
Product warranties provision	6,771	–	–	–	–	6,771

4. SEGMENT INFORMATION (Continued)

a) Business segments (Continued)

Year ended 31 December 2006	Electronic parts and components RMB'000	Computer RMB'000	Property investment RMB'000	Others RMB'000	Eliminations RMB'000	Consolidated RMB'000
Segment revenue:						
Sales to external customers	17,447,498	1,269,023	82,107	1,120,633	–	19,919,261
Other income and gains	70,478	48,413	–	3,598	–	122,489
Intersegment sales	341,808	–	33,868	–	(375,676)	–
Total	17,859,784	1,317,436	115,975	1,124,231	(375,676)	20,041,750
Segment results before decrease in fair value of investment properties	593,329	(1,889)	90,839	(441)	(14,964)	666,874
Decrease in fair value of investment properties	–	–	(24,388)	–	–	(24,388)
Segment results after decrease in fair value of investment properties	593,329	(1,889)	66,451	(441)	(14,964)	642,486
Interest and dividend income and unallocated gains						104,418
Corporate and other unallocated expenses						(101,573)
Finance costs						(23,283)
Share of profits and losses of associates	31,750	(6,293)	–	(61,400)	–	(35,943)
Loss on share reforms of subsidiaries	(194,209)	(232,427)	–	–	–	(426,636)
Profit before tax						159,469
Tax						7,820
Profit for the year						167,289
Assets and liabilities:						
Segment assets	4,174,752	1,153,743	560,540	499,824	–	6,388,859
Interests in associates	238,581	112,214	–	276,574	–	627,369
Corporate and other unallocated assets						3,200,287
Total assets						10,216,515
Segment liabilities	2,147,452	496,023	–	395,046	–	3,038,521
Corporate and other unallocated liabilities						662,268
Total liabilities						3,700,789

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4. SEGMENT INFORMATION (Continued)

a) Business segments (Continued)

Year ended 31 December 2006	Electronic parts and components RMB'000	Computer RMB'000	Property investment RMB'000	Others RMB'000	Eliminations RMB'000	Consolidated RMB'000
Other segment information:						
Depreciation and amortisation	260,587	22,471	–	3,711	–	286,769
Corporate and other unallocated amounts						3,979
						290,748
Capital expenditure	538,208	48,446	–	6,965	–	593,619
Corporate and other unallocated amounts						29,096
						622,715
Impairment losses recognised in the income statement	919	16,844	–	4,579	–	22,342
Corporate and other unallocated amounts						86,791
						109,133
Other non-cash expense	194,209	232,427	–	–	–	426,636
Fair value losses on investment properties	–	–	24,388	–	–	24,388
Product warranty provision	41,377	–	–	–	–	41,377

4. SEGMENT INFORMATION (Continued)

(b) Geographical segments

The Group's manufacturing and sales operations and property investments are located in Hong Kong and in Mainland China.

The following table provides an analysis of the Group's turnover by geographical market, irrespective of the origin of the goods or services:

	Turnover by geographical market	
	2007	2006
	RMB'000	RMB'000
The PRC (including Hong Kong)	**9,380,048**	4,523,904
Asia Pacific (excluding the PRC)	**4,861,049**	8,092,131
North America	**8,710,371**	6,723,683
Others	**730,987**	579,543
	23,682,455	19,919,261

The analysis of the carrying amount of segment assets, and additions to property, plant and equipment and construction in progress, analysed by the geographical area in which the assets are located has not been presented as they are substantially located in the PRC.

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5. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after allowances for returns and trade discounts; the values of services rendered; and gross rental income received and receivable from investment properties during the year.

An analysis of revenue, other income and gains is as follows:

	2007	2006
	RMB'000	RMB'000
Revenue		
Sale of goods	**23,487,554**	19,767,726
Rendering of services	**94,552**	69,428
Gross rental income	**100,349**	82,107
	23,682,455	19,919,261
Other income		
Royalty income	**20,799**	50,590
Interest income	**69,941**	78,614
Dividend income from unlisted available-for-sale investments	**57,521**	25,779
Refund of value added tax	**632**	3,108
Sale of scrap materials	**3,639**	21,845
Others	**21,958**	31,011
	174,490	210,947
Gains		
Gain on disposal of subsidiaries	**–**	15,960
Gain on disposal of equity investments at fair value through profit or loss	**31,145**	–
Fair value gains on investment properties	**91,472**	–
	122,617	15,960
	297,107	226,907

6. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	Notes	**2007** **RMB'000**	2006 RMB'000
Cost of inventories sold		**22,316,740**	18,485,480
Cost of services provided		**13,402**	29,785
Depreciation	14	**304,789**	290,334
Amortisation of other intangible assets*	17	**1,080**	414
Research and development costs		**95,091**	81,916
Minimum lease payment under operating leases of land and buildings		**6,025**	7,490
Auditors' remuneration		**7,535**	7,175
Employee benefits expense (including directors' remuneration (note 8)):			
Wages and salaries		**444,162**	429,894
Pension scheme contributions**		**27,566**	20,708
		471,728	450,602
Direct operating expenses (including repairs and maintenance) arising on rental-earning investment properties		**27,015**	25,035
Foreign exchange differences, net		**42,561**	34,128
Impairment of items of property, plant and equipment	14	**8,113**	16,401
Impairment of trade receivables	22	**(1,794)**	5,941
Impairment of loans to an associate		**161,798**	86,791
Impairment of other receivables	23	**19,772**	1,582
Write-down of inventories to net realisable value		**11,753**	11,922
Reversal of inventories provision		**(14,223)**	(17,257)
Net rental income		**(73,334)**	(56,970)
Additional product warranties provision	28	**26,209**	41,377
Fair value (gain)/loss on investment properties***		**(91,472)**	24,388
Interest income			
Bank interest income	5	**(65,873)**	(54,273)
Interest income arising from loans to associates	5	**(4,068)**	(24,341)
Dividend income from available-for-sale investments	5	**(57,521)**	(25,779)
Loss on disposal of items of property, plant and equipment		**20,792**	13,782
(Gain)/loss on disposal of subsidiaries		**6,349**	(15,960)
Gain on disposal of equity investments at fair value through profit or loss	5	**(31,145)**	–
Gain on disposal of available-for-sale investments****		**(572,806)**	–

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6. PROFIT BEFORE TAX (Continued)

* The amortisation of other intangible assets for the year are included in "Other expenses" on the face of the consolidated income statement.

** At 31 December 2007, the Group had no amount capitalised and forfeited contributions available to reduce its contributions to the pension schemes in future years (2006: Nil).

*** Fair value gain on investment properties and gain on disposal of subsidiaries are included in "Other income and gains" while fair value loss on investment properties and loss on disposal of subsidiaries are included in "Other expenses".

**** The Group acquired 15,000,000 non-tradable shares of CITIC Securities Co.,Ltd("CITIC"), 0.72% of CITIC's total shares in 1999. CITIC performed share reform in August 2005. Pursuant to the share reform plan approved in August 2005, the Group would be entitled to trade these in Shanghai Stock Exchange since August 2006. In 2007, the Group has disposed of all these shares and realized a gain of RMB572,806,000.

7. FINANCE COSTS

	Group	
	2007	2006
	RMB'000	RMB'000
Interest on bank loans, wholly repayable within five years	**45,026**	22,286
Interest on discounted banking facilities	**9,425**	1,802
Total interest expenses	**54,451**	24,088
Less: Interest capitalised	**–**	(805)
	54,451	23,283

8. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	Group 2007 RMB'000	Group 2006 RMB'000
Fees	**728**	736
Other emoluments:		
Salaries, allowances and benefits in kind	**3,102**	3,463
Performance related bonuses*	**3,320**	3,260
Pension scheme contributions	**227**	210
	6,649	6,933
	7,377	7,669

* Certain executive directors of the Company are entitled to bonus payments which are determined as percentage of the profit after tax of a subsidiary of the Group.

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	2007 RMB'000	2006 RMB'000
Mr. Li Sanli	**100**	100
Ms. Wang Qinfang	**100**	100
Mr. Kennedy Ying Ho Wong	**100**	100
	300	300

There were no other emoluments payable to the independent non-executive directors during the year (2006: Nil).

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8. DIRECTORS' REMUNERATION (Continued)

(b) Executive directors

	Fees	Salaries, allowances and benefits in kind	Performance related bonuses	Pension scheme contributions	Total Remuneration
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
2007					
Mr. Chen Zhaoxiong (Resigned on 27 December 2007)	**–**	**–**	**–**	**–**	**–**
Mr. Lu Ming	**–**	**–**	**–**	**–**	**–**
Mr. Tam Man Chi	**170**	**3,102**	**3,320**	**227**	**6,819**
Mr. Wang Jincheng	**100**	**–**	**–**	**–**	**100**
Mr. Yang Jun	**–**	**–**	**–**	**–**	**–**
Mr. Su Duan	**100**	**–**	**–**	**–**	**100**
	370	**3,102**	**3,320**	**227**	**7,019**
2006					
Mr. Chen Zhaoxiong	–	–	–	–	–
Mr. Lu Ming	–	–	–	–	–
Mr. Tam Man Chi	136	3,190	3,260	210	6,796
Mr. Wang Jincheng	100	–	–	–	100
Mr. Yang Jun	–	–	–	–	–
Mr. Su Duan (appointed on 10 November 2006)	100	–	–	–	100
Mr. Li Weisheng (resigned on 10 November 2006)	100	273	–	–	373
	436	3,463	3,260	210	7,369

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

8. DIRECTORS' REMUNERATION (Continued)

(c) Supervisors

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Performance related bonuses RMB'000	Pension scheme contributions RMB'000	Total Remuneration RMB'000
2007					
Ms. Kong Xueping					
(Appointed on 29 June 2007)	**29**	**–**	**–**	**–**	**29**
Ms. Song Jianhua					
(Appointed on 29 June 2007)	**29**	**–**	**–**	**–**	**29**
Mr. Li Ruiyue					
(Resigned on 29 June 2007)	**–**	**–**	**–**	**–**	**–**
Mr. Qin Maojun					
(Resigned on 29 June 2007)	**–**	**–**	**–**	**–**	**–**
Mr. Lang Jia	**–**	**–**	**–**	**–**	**–**
	58	**–**	**–**	**–**	**58**
2006					
Mr. Li Ruiyue	50	–	–	–	50
Mr. Qin Maojun	50	–	–	–	50
Mr. Lang Jia (appointed on					
10 November 2006)	–	–	–	–	–
Mr. Diao Guoxing (resigned on					
10 November 2006)	50	169	–	–	219
	150	169	–	–	319

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included one (2006: one) director details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining four (2006: four) non-director, highest paid employees for the year are as follows:

	Group	
	2007	2006
	RMB'000	RMB'000
Salaries, allowances and benefits in kind	**13,149**	2,074
Performance related bonuses	**–**	–
Pension scheme contributions	**–**	–
	13,149	2,074

The number of non-director, highest paid employees whose remuneration fell within the following bands is as follows:

	Number of employees	
	2007	2006
Nil to RMB500,000	**–**	2
RMB500,001 to RMB1,000,000	**–**	2
RMB2,000,001 to RMB3,000,000	**2**	–
RMB3,000,001 to RMB4,000,000	**1**	–
RMB5,000,001 to RMB6,000,000	**1**	–
	4	4

10. TAX

	2007	2006
	RMB'000	RMB'000
Group:		
Current – Hong Kong		
Charge for the year	**6,202**	7,595
Current – Mainland China		
Charge for the year	**178,862**	59,966
Overprovision in prior years	**(8,546)**	(13,820)
Deferred	**44,919**	(61,561)
Total tax charge/(credit) for the year	**221,437**	(7,820)

A reconciliation of the income tax expense applicable to profit before tax using the statutory income tax rates for the countries in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rates, and a reconciliation of the applicable rates (i.e., the statutory tax rates) to the effective tax rates, are as follows:

	2007		2006	
	RMB'000	**%**	RMB'000	%
Profit before tax	**1,062,040**		159,469	
Tax at the applicable tax rate (15%)	**159,306**	**15.0**	23,920	15.0
Lower tax rate for specific provinces or local authorities	**(23,366)**	**(2.2)**	(35,034)	(22.0)
Effect on opening deferred tax of increase in rates	**(6,937)**	**(0.7)**	–	
Profits and losses attributable to associates	**2,820**	**0.3**	5,634	3.5
Income not subject to tax	**(11,468)**	**(1.1)**	(10,300)	(6.5)
Expenses not deductible for tax	**61,316**	**5.8**	17,087	10.7
Tax losses utilised from previous periods	**–**	**–**	4,135	2.6
Tax losses not recognised	**4,972**	**0.5**	556	0.3
Effect of different tax rate of subsidiaries' operations in other jurisdictions	**–**	**–**	2	–
Adjustments in respect of current tax of previous periods	**34,794**	**3.3**	(13,820)	(8.7)
Tax charge/(credit) at the Group's effective rate	**221,437**	**20.9**	(7,820)	(4.9)

10. TAX (Continued)

Taxation in Mainland China is calculated at the rate prevailing in Mainland China. Some of the subsidiaries of the Group are approved to be high technology enterprises and income tax is calculated at a rate of 15% of the estimated assessable profit for the year.

Certain subsidiaries operating in Mainland China are entitled to exemptions from income tax for the two years commencing from their first profit-making year of operation and thereafter, entitled to a 50% relief from income tax for the next three years.

One subsidiary operating in the Cayman Islands is not required to pay any taxes on either income or capital gains arising in the Cayman Islands.

Hong Kong profits tax is calculated at a rate of 17.5% of the estimated assessable profit for the year.

Details of deferred taxation are set out in note 29.

During the 5th Session of the 10th National People's Congress, which was concluded on 16 March 2007, the PRC Corporate Income Tax Law ("the New Corporate Income Tax Law") was approved and will become effective on 1 January 2008. The New Corporate Income Tax Law introduces a wide range of changes which include, but are not limited to, the unification of the income tax rate for domestic-invested and foreign-invested enterprises, which results in an increase of income tax rate applicable to the Group from 15% to 25% gradually (2008: 18%, 2009: 20%, 2010: 22%, 2011: 24%, 2012: 25%). The effect of this change has been reflected in the calculation of deferred income tax as at 31 December 2007.

11. PROFIT/(LOSS) ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

The consolidated profit/(loss) attributable to equity holders of the parent for the year ended 31 December 2007 includes a profit of RMB22,333,000 (2006: loss RMB88,794,000) which has been dealt with in the financial statements of the Company (note 33).

12. DIVIDENDS

	2007	2006
	RMB'000	RMB'000
Proposed final per ordinary share	**–**	–

The proposed final dividends for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

13. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of basic earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares in issue during the year.

A diluted earnings per share amounts for the years ended 31 December 2007 and 2006 have not been disclosed as no diluting events existed during the year.

The calculation of basic earnings per share is based on:

	2007	2006
	RMB'000	RMB'000
Earnings/(loss)		
Profit/(loss) attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	**308,768**	(122,196)

	Number of shares	
	2007	2006
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**1,197,742,000**	1,197,742,000

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14. PROPERTY, PLANT AND EQUIPMENT

Group

	Land and buildings in Mainland China under medium term leases RMB'000	Staff quarters in Mainland China under medium term leases RMB'000	Plant, machinery and equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2007						
At 1 January 2007:						
Cost	961,903	152,890	2,634,395	28,939	224,914	4,003,041
Accumulated depreciation and impairment	(158,356)	(33,097)	(1,648,003)	(17,857)	–	(1,857,313)
Exchange realignment	(83)	–	(24,950)	(6)	(4,368)	(29,407)
Net carrying amount	803,464	119,793	961,442	11,076	220,546	2,116,321
At 1 January 2007, net of accumulated depreciation and impairment	803,464	119,793	961,442	11,076	220,546	2,116,321
Additions	41,461	–	337,367	5,038	246,444	630,310
Transfers	35,083	–	121,624	–	(156,707)	–
Disposals	(34,757)	–	(11,071)	(356)	–	(46,184)
Transfer from investment properties (note 15)	15,491	–	–	–	–	15,491
Transfer to investment properties (note 15)	(58,437)	–	–	–	(116,508)	(174,945)
Disposal of subsidiaries (note 34)	–	–	(432)	–	–	(432)
Impairment	–	–	(8,113)	–	–	(8,113)
Depreciation provided during the year	(21,782)	(6,722)	(273,004)	(3,281)	–	(304,789)
Exchange realignment	(174)	–	(28,866)	(119)	(884)	(30,043)
At 31 December 2007, net of accumulated depreciation and impairment	780,349	113,071	1,098,947	12,358	192,891	2,197,616
At 31 December 2007:						
Cost	935,130	152,890	3,037,322	30,211	198,143	4,353,696
Accumulated depreciation and impairment	(154,524)	(39,819)	(1,884,559)	(17,728)	–	(2,096,630)
Exchange realignment	(257)	–	(53,816)	(125)	(5,252)	(59,450)
Net carrying amount	780,349	113,071	1,098,947	12,358	192,891	2,197,616

14. PROPERTY, PLANT AND EQUIPMENT (Continued)

Group

	Land and buildings in Mainland China under medium term leases RMB'000	Staff quarters in Mainland China under medium term leases RMB'000	Plant, machinery and equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2006						
At 1 January 2006:						
Cost	813,240	152,890	2,137,540	21,843	364,106	3,489,619
Accumulated depreciation and impairment	(145,918)	(26,375)	(1,362,715)	(15,570)	–	(1,550,578)
Exchange realignment	(83)	–	(10,669)	(5)	(4,359)	(15,116)
Net carrying amount	667,239	126,515	764,156	6,268	359,747	1,923,925
At 1 January 2006, net of accumulated depreciation and impairment	667,239	126,515	764,156	6,268	359,747	1,923,925
Additions	7,063	–	328,725	6,962	259,940	602,690
Transfers	147,875	–	203,905	502	(352,282)	–
Disposals	(592)	–	(31,500)	(368)	(26,675)	(59,135)
Transfer from investment properties (note 15)	21,761	–	–	–	–	21,761
Transfer to investment properties (note 15)	(27,444)	–	–	–	(20,175)	(47,619)
Disposal of subsidiaries (note 34)	–	–	(4,275)	–	–	(4,275)
Impairment	–	–	(16,392)	(9)	–	(16,401)
Depreciation provided during the year	(12,438)	(6,722)	(268,896)	(2,278)	–	(290,334)
Exchange realignment	–	–	(14,281)	(1)	(9)	(14,291)
At 31 December 2006, net of accumulated depreciation and impairment	803,464	119,793	961,442	11,076	220,546	2,116,321
At 31 December 2006:						
Cost	961,903	152,890	2,634,395	28,939	224,914	4,003,041
Accumulated depreciation and impairment	(158,356)	(33,097)	(1,648,003)	(17,857)	–	(1,857,313)
Exchange realignment	(83)	–	(24,950)	(6)	(4,368)	(29,407)
Net carrying amount	803,464	119,793	961,442	11,076	220,546	2,116,321

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14. PROPERTY, PLANT AND EQUIPMENT (Continued)

Company

	Land and buildings in Mainland China under medium term leases RMB'000	Plant, machinery and equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2007					
At 1 January 2007:					
Cost	52,203	6,406	1,932	82,865	143,406
Accumulated depreciation and impairment	(5,260)	(4,799)	(1,564)	–	(11,623)
Net carrying amount	46,943	1,607	368	82,865	131,783
At 1 January 2007, net of accumulated depreciation and impairment	46,943	1,607	368	82,865	131,783
Additions	–	27,461	171	202	27,834
Transfers	18,532	–	–	(18,532)	–
Disposals	(27,346)	(120)	–	–	(27,466)
Transfer to investment properties (note 15)	(19,787)	–	–	(63,264)	(83,051)
Depreciation provided during the year	(513)	(4,073)	(135)	–	(4,721)
At 31 December 2007, net of accumulated depreciation and impairment	17,829	24,875	404	1,271	44,379
At 31 December 2007:					
Cost	23,602	33,688	2,103	1,271	60,664
Accumulated depreciation and impairment	(5,773)	(8,813)	(1,699)	–	(16,285)
Net carrying amount	17,829	24,875	404	1,271	44,379

14. PROPERTY, PLANT AND EQUIPMENT (Continued)

Company

	Land and buildings in Mainland China under medium term leases RMB'000	Plant, machinery and equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2006					
At 1 January 2006:					
Cost	53,993	6,088	1,507	54,531	116,119
Accumulated depreciation and impairment	(2,573)	(3,629)	(1,442)	–	(7,644)
Net carrying amount	51,420	2,459	65	54,531	108,475
At 1 January 2006, net of accumulated depreciation and impairment	51,420	2,459	65	54,531	108,475
Additions	–	337	425	28,334	29,096
Transfer to investment properties (note 15)	(1,790)	–	–	–	(1,790)
Disposals	–	(19)	–	–	(19)
Depreciation provided during the year	(2,687)	(1,170)	(122)	–	(3,979)
At 31 December 2006, net of accumulated depreciation and impairment	46,943	1,607	368	82,865	131,783
At 31 December 2006:					
Cost	52,203	6,406	1,932	82,865	143,406
Accumulated depreciation and impairment	(5,260)	(4,799)	(1,564)	–	(11,623)
Net carrying amount	46,943	1,607	368	82,865	131,783

14. PROPERTY, PLANT AND EQUIPMENT (Continued)

At 31 December 2007, certain of the Group's land and buildings with a net book value of approximately RMB213,042,000 were pledged to secure a banking facility and certain of the Group's buildings with a net book value of RMB47,096,000 were pledged to secure a guarantee from Beijing Zhongguancun Science Technology Guarantee Co., Ltd. (note 27).

15. INVESTMENT PROPERTIES

	Group		Company	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
Carrying amount at 1 January	**560,540**	559,070	**144,659**	149,713
Transfer from property, plant and equipment (note 14)	**174,945**	47,619	**83,051**	1,790
Additions from acquisition	**37,885**	–	**–**	–
Transfer to property, plant and equipment (note 14)	**(15,491)**	(21,761)	**–**	–
Revaluation surplus at transfer date from transferred owner-occupied properties	**34,569**	–	**–**	–
Net profit/(loss) from a fair value adjustment	**91,472**	(24,388)	**18,133**	(6,844)
Carrying amount at 31 December	**883,920**	560,540	**245,843**	144,659

The Group's investment properties are situated in Mainland China and are held under medium-term leases.

The Group's investment properties were revalued on 31 December 2007 by Dudley Surveyors Limited, an independent professionally qualified valuer, at RMB883,920,000 on an open market, existing use basis. The investment properties are leased to third parties under operating leases, further summary details of which are included in note 38 to the financial statements.

As at 31 December 2007, certain investment properties with a carrying amount of RMB77,420,000 are in the process of getting land use right certificates.

15. INVESTMENT PROPERTIES (Continued)

In the opinion of the directors, details for material investment properties are as following:

Investment properties	**Address**	**Existing use**	**Hold term**
No.1 building of the Company	NO.2&3 Keyuan Road, Technology & industry park, Nanshan District, Shenzhen, China	Factory	Medium term lease
No.2 building of the Company	NO.2&3 Keyuan Road, Technology & industry park, Nanshan District, Shenzhen, China	Office	Medium term lease
No.3 building of the Company	NO.2&3 Keyuan Road, Technology & industry park, Nanshan District, Shenzhen, China	Office	Medium term lease
1,2,3,5,6,7,16,27,29 Floors of Great Wall Building	NO.66 East Zhongguancun Road, Haidian District, Beijing, China	Office	Medium term lease

16. PREPAID LAND LEASE PAYMENTS

	Group		**Company**	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
Carrying amount at 1 January	**90,625**	74,662	**4,235**	4,355
Additions during the year	**4,787**	18,140	**–**	–
Disposals during the year	**(290)**	–	**–**	–
Recognised during the year	**(2,802)**	(2,177)	**(120)**	(120)
Exchange realignment	**(1,078)**	–	**–**	–
Carrying amount at 31 December	**91,242**	90,625	**4,115**	4,235
Current portion included in prepayments, deposits and other receivables	**(2,846)**	(3,850)	**(120)**	(120)
Non-current portion	**88,396**	86,775	**3,995**	4,115

As at 31 December 2007, certain leasehold lands with a carrying amount of RMB4,787,000 are in the process of getting land use right certificates.

The leasehold lands are held under medium-term leases and are situated in Mainland China.

17. OTHER INTANGIBLE ASSETS

Group

	Patents and licences RMB'000	Technology acquired RMB'000	Software RMB'000	Total RMB'000
31 December 2007:				
At 1 January 2007:				
Cost, net of accumulated amortisation and impairment	488	2,302	–	2,790
Additions	–	842	1,173	2,015
Disposal of subsidiaries (note 34)	(350)	–	–	(350)
Amortisation provided during the year	(138)	(612)	(330)	(1,080)
At 31 December 2007	–	2,532	843	3,375
At 31 December 2007:				
Cost	47,383	88,839	1,173	137,395
Accumulated amortisation and impairment	(47,383)	(86,307)	(330)	(134,020)
Net carrying amount	–	2,532	843	3,375
31 December 2006:				
At 1 January 2006:				
Cost, net of accumulated amortisation and impairment	638	2,337	–	2,975
Additions	–	1,885	–	1,885
Disposal of subsidiaries (note 34)	–	(1,656)	–	(1,656)
Amortisation provided during the year	(150)	(264)	–	(414)
At 31 December 2006	488	2,302	–	2,790
At 31 December 2006:				
Cost	48,122	85,771	–	133,893
Accumulated amortisation and impairment	(47,634)	(83,469)	–	(131,103)
Net carrying amount	488	2,302	–	2,790

18. INTERESTS IN SUBSIDIARIES

	Company 2007 RMB'000	2006 RMB'000
Unlisted shares, at cost	**446,415**	446,415
Shares listed in Mainland China, at cost	**1,069,858**	1,067,929
	1,516,273	1,514,344
Market value of listed shares	**10,008,811**	4,223,693

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
China Great Wall Computer (Shenzhen) Co., Ltd. ("CGC") *	PRC	RMB458,491,500	47.82%	–	Manufacture and trading of personal computer ("PC") and PC peripheral products
ExcelStor Great Wall Technology Limited	Cayman Islands	US$25,000,000	61.68%	–	Trading of hard disk drives ("HDD")
ExcelStor Technology (Shenzhen) Limited**	PRC	US$26,600,000	61.68%	–	Manufacture of HDD

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18. INTERESTS IN SUBSIDIARIES (Continued)

Particulars of the principal subsidiaries are as follows (Continued):

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Great Wall Computer Software and System Incorporation Limited ("GWCSS") **	PRC	RMB167,174,000	34.9%	34.51%	Development of computer software
Kaifa Technology (H.K.) Limited	Hong Kong	US$500,000	–	100%	Trading of HDD and HDD substrates
Shenzhen Kaifa Magnetic Recording Joint-stock Co., Ltd. **	PRC	RMB251,363,000	43%	42%	Production and development of HDD substrates
Shenzhen Kaifa Technology Co., Ltd. ("S. Kaifa") *	PRC	RMB732,932,000	49.64%	–	Production of HDD heads and related electronic products

* Subsidiaries with their A shares listed on the Shenzhen Stock Exchange in the PRC

** Companies incorporated as private limited companies in the PRC

All subsidiaries above, except for Excelstor Technology (Shenzhen) Limited, are not audited by Ernst & Young Hong Kong or any other member firm of the Ernst & Young global network.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantive portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

19. INTERESTS IN ASSOCIATES

	Group		Company	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
Unlisted shares, at cost	**–**	–	**210,000**	210,000
Share of net assets	**179,102**	218,426	**–**	–
Loans to associates	**575,673**	553,737	**491,887**	477,717
Provision for impairment	**(306,592)**	(144,794)	**(306,592)**	(144,794)
	448,183	627,369	**395,295**	542,923

At the balance sheet date, an amount of approximately RMB80,090,000 of loans to an associate is unsecured, interest-bearing at a rate of 5.05% per annum and is repayable from September 2009 to June 2016. The remaining balance is unsecured, interest-bearing at a rate of 5.58%-6.12% per annum and has no fixed terms of repayment. The carrying amounts of these loans approximate to their fair values.

At the balance sheet date, an amount of approximately RMB306,592,000 (2006: RMB144,794,000) of impairment was included on loans to an associate. The associate has been loss making since its establishment. At each balance sheet date, the management calculated the present value of estimated future cash flows related to the loans and compared that with the carrying amount of the loans, the difference between which was measured as the impairment.

The Group's trade receivables and payables balance with associates are discussed in note 41 to the financial statements.

Particulars of the principal associates are as follows:

Name	Place of incorporation/ registration	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Companyl Direct	Indirect	Principa activities
Great Wall Broadband Network Service Co., Ltd. *	PRC	RMB600,000,000	35%	15%	Provision of broadband network services
ExcelStor Group Limited*	Cayman Islands	US$15,000,000	–	33.33%	Trading of HDD

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19. INTERESTS IN ASSOCIATES (Continued)

Particulars of the principal associates are as follows (Continued):

Name	Place of incorporation/ registration	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Companyl Direct	Percentage of equity attributable to the Companyl Indirect	Principa activities
IBM Leasing Company Limited*	PRC	RMB163,507,782	–	20%	Direct finance leasing and provision of consulting services
G&W Technologies, Co., Ltd.*	Republic of Korea	US$2,577,320	–	27.82%	Manufacture of HDD spindle motors
O-Net Communications Limited*	Cayman Islands	HK$22,224,299	–	45.99%	Trading of fiber optic components and manufacture of fiber optic parts for optical communications networks, integrated parts for optical communications networks and crystal parts for optical communications networks
Shenzhen Elcoteq Electronics Co., Ltd. (formerly known as "Shenzhen GKI Electronics Co., Ltd.")*	PRC	RMB99,609,465	–	30%	Manufacture of motherboards

19. INTERESTS IN ASSOCIATES (Continued)

Particulars of the principal associates are as follows (Continued):

Name	Place of incorporation/ registration	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Companyl		Principa activities
			Direct	Indirect	
Shenzhen Hai Liang Storage Products Co., Ltd.	PRC	RMB494,742,208	–	20%	Manufacture and sales of magnetic head products
Shenzhen KTM Glass Substrate Co., Ltd.*	PRC	RMB122,108,400	–	49%	Manufacture and sales of glass substrates
Shenzhen Great Wall Kemei Technology Co., Ltd.*	PRC	RMB10,000,000	–	35%	Trading of network ammeters

* Not audited by Ernst & Young Hong Kong or any other member firm of the Ernst & Young global network.

The above table lists the associates of the Group which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other associates would, in the opinion of the directors, result in particulars of excessive length.

The Group's shareholdings in the associates all comprise equity shares held through subsidiaries of the Company, except for Greatwall Boardhand Network Service Co, Ltd.35% shareholding in which is held by the Company and 15% shareholding in which is held by subsidiaries of the Company.

The following table illustrates the summarised financial information of the Group's associates extracted from their management accounts:

	Group	
	2007	2006
	RMB'000	RMB'000
Assets	**5,048,732**	4,662,641
Liabilities	**3,947,742**	3,479,413
Revenues	**6,497,519**	8,099,617
Profit/(Loss)	**82,393**	(19,516)

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20. AVAILABLE-FOR-SALE INVESTMENTS

	Group		Company	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
Listed equity investment, at fair value	**1,070,360**	377,157	**–**	–
Unlisted equity investments, at cost	**75,800**	58,292	**2,500**	2,500
Club debenture, at fair value	**2,047**	2,435	**–**	–
	1,148,207	437,884	**2,500**	2,500

During the year, the gross loss of the Group's available-for-sale investments recognised directly in equity was RMB52,879,000 (2006: gain of RMB300,602,000) (note 33).

The above investments consist of investments in equity securities which were designated as available-for-sale financial assets and have no fixed maturity date or coupon rate.

The fair values of listed equity investments are based on quoted market prices.

The unlisted equity investments are stated at cost less any impairment losses as the fair value cannot be reliably measured because the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value.

21. INVENTORIES

	Group	
	2007	2006
	RMB'000	RMB'000
Raw materials	**463,053**	364,553
Work in progress	**45,791**	65,975
Finished goods	**391,956**	406,669
Consumables	**12,570**	8,643
	913,370	845,840

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22. TRADE AND BILLS RECEIVABLES

	Group	
	2007	2006
	RMB'000	RMB'000
Trade and bills receivables	**3,227,519**	2,292,734
Impairment	**(328,917)**	(315,062)
	2,898,602	1,977,672

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally for a period of three months, extending up to six to twelve months for major customers. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. At the balance sheet date, the Group has certain concentrations of credit risk as 20% (2006: 33%) and 58% (2006: 34%) of the Group's trade receivables were due from the Group's largest customer and the five largest customers, respectively. Trade receivables are non-interest-bearing.

An aged analysis of the trade and bills receivables as at the balance sheet date, based on the invoice date and net of provision, is as follows:

	Group	
	2007	2006
	RMB'000	RMB'000
Within 90 days	**2,853,824**	1,815,949
91 to 180 days	**19,718**	77,521
181 to 365 days	**4,304**	59,702
Over 365 days	**20,756**	24,500
	2,898,602	1,977,672

22. TRADE AND BILLS RECEIVABLES (Continued)

The movements in provision for impairment of trade receivables are as follows:

	Group	
	2007	2006
	RMB'000	RMB'000
At 1 January	**315,062**	273,223
Transfer from financial guarantee contracts	**23,845**	37,442
Amount written off as uncollectible	**(5,240)**	(42)
Impairment losses recognised/(reversed) (note 6)	**(1,794)**	5,941
Foreign exchange gain	**(2,956)**	(1,502)
	328,917	315,062

Included in the above provision for impairment of trade receivables is a provision for individually impaired trade receivables of RMB295,778,000 (2006: RMB281,774,000) with a carrying amount of RMB499,710,000 (2006: RMB478,670,000). The individually impaired trade receivables relate to customers that were in financial difficulties and only a portion of the receivables is expected to be recovered.

The aged analysis of the trade and bills receivables that are not considered to be impaired is as follows:

	Group	
	2007	2006
	RMB'000	RMB'000
Neither past due nor impaired	**1,847,846**	1,175,901
Less than one month past due	**100,343**	166,558
One to three months past due	**92,869**	84,325
Over three months past due	**75,263**	80,147
	2,116,321	1,506,931

Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

As at the balance sheet date, certain trade receivables with a carrying amount of RMB131,799,000 were pledged to secure guarantee from Beijing Zhongguancun Science Technology Guarantee Co., Ltd. for the short term bank loans (note 27).

23. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
Prepayments	**193,368**	226,094	**252**	251
Interest receivable	**19,621**	17,672	**–**	–
Other receivables	**158,896**	127,963	**1,905**	171
	371,885	371,729	**2,157**	422

None of the prepayments is either past due or impaired.

	Group		Company	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
Other receivables	**277,380**	227,926	**1,905**	171
Impairment	**(118,484)**	(99,963)	**–**	–
	158,896	127,963	**1,905**	171

An aged analysis of the other receivables as at the balance sheet date, based on the invoice date, is as follows:

	Group		Company	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within one year	**89,587**	120,846	**1,905**	171
One to two years	**66,929**	3,946	**–**	–
Two to three years	**1,518**	2,092	**–**	–
Over three years	**862**	1,079	**–**	–
	158,896	127,963	**1,905**	171

23. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES (Continued)

The movements in provision for impairment of other receivables are as follows:

	Group		Company	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
At 1 January	**99,963**	112,495	**–**	–
Impairment losses recognised	**19,772**	1,582	**–**	–
Amount written off as uncollectible	**(1,251)**	(14,114)	**–**	–
	118,484	99,963	**–**	–

24. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	Group		Company	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
Cash and bank balances	**1,372,296**	1,031,934	**93,509**	43,249
Time deposits	**1,386,480**	1,973,065	**–**	–
	2,758,776	3,004,999	**93,509**	43,249
Less: Current pledged deposits				
Pledged for bank facilities	**8,933**	9,581	**–**	–
Pledged for contracts execution	**15,004**	698	**–**	–
	23,937	10,279	**–**	–
Non-current pledged deposits				
Pledged for contracts execution	**13,430**	11,472	**–**	–
Pledged for others	**2,172**	2,366	**–**	–
	15,602	13,838	**–**	–
Cash and cash equivalents	**2,719,237**	2,980,882	**93,509**	43,249

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to RMB2,111,955,000 (2006: RMB2,568,202,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

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24. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS (Continued)

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default. The carrying amounts of the cash and cash equivalents and the pledged deposits approximate to their fair values.

25. TRADE AND BILLS PAYABLES

An aged analysis of the trade and bills payables as at the balance sheet date, based on the invoice date, is as follows:

	Group		**Company**	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within 90 days	**2,786,141**	2,046,712	**–**	–
91 to 180 days	**78,763**	143,340	**–**	–
181 to 365 days	**128,298**	7,114	**–**	–
Over 365 days	**34,022**	37,128	**217**	217
	3,027,224	2,234,294	**217**	217

The trade and bills payables are non-interest-bearing and are normally settled on terms of 30 to 90 days. The carrying amount of trade and bills payables approximates to their fair value.

26. OTHER PAYABLES AND ACCRUALS

	Group		**Company**	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
Advances from customers	**62,521**	81,380	**–**	–
Other payables	**238,067**	262,971	**1,699**	5,694
Accruals	**399,517**	318,636	**3,672**	3,077
	700,105	662,987	**5,371**	8,771

Other payables are non-interest-bearing and have an average term of three months.

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27. INTEREST-BEARING BANK AND OTHER BORROWINGS

	Effective interest rate (%)	Maturity	Group 2007 RMB'000	Group 2006 RMB'000	Company 2007 RMB'000	Company 2006 RMB'000
Current						
Bank loans – unsecured	RMB Benchmark Rate-0.1	2008	**560,000**	334,074	–	127,000
Bank loans – unsecured	5.04-5.49	2008	**100,000**	39,024	–	–
Bank loans – unsecured	5.49-6.21	2008	**165,000**	73,267	–	–
Bank loans – guaranteed	6.21-7.20	2008	**20,000**	–	–	–
Other loans – guaranteed	6.48	2008	**20,000**	–	–	–
			865,000	446,365	–	127,000
Non-current						
Secured bank loans	5.85		–	2,882	–	–
			865,000	449,247	–	127,000

	Group 2007 RMB'000	Group 2006 RMB'000	Company 2007 RMB'000	Company 2006 RMB'000
Analysed into:				
Within one year or on demand	**865,000**	446,365	–	127,000
In the second year	–	2,882	–	–
	865,000	449,247	–	127,000

27. INTEREST-BEARING BANK BORROWINGS (Continued)

Bank loans of RMB20,000,000 and other loans of RMB20,000,000 were guaranteed by Beijing Zhongguancun Science Technology Guarantee Co., Ltd.

Certain of the Group's land and buildings with a net book value of approximately RMB47,096,000 and trade receivables with a carrying amount of RMB131,799,000 were pledged to secure the guarantee from Beijing Zhongguancun Science Technology Guarantee Co., Ltd. for the short term bank loans.

All bank borrowings are denominated in RMB (2006: RMB229,365,000 were denominated in US$ and the remaining balances were denominated in RMB).

The carrying amounts of the Group's and the Company's current and non-current borrowings approximate to their fair values.

28. PROVISIONS

	Group	
	2007	2006
	RMB'000	RMB'000
At 1 January	**53,002**	11,625
Additional provision	**26,209**	41,377
Amounts utilised during the year	**(16,948)**	–
Exchange realignment	**(2,490)**	–
At 31 December	**59,773**	53,002

The Group provides 3–10 year warranties to its customers on certain electronic products, under which faulty products are repaired or replaced. The amount of the provision for the warranty is estimated based on sales volume and past experience of the level of repairs and returns. The estimation basis is reviewed on an ongoing basis and revised where appropriate.

29. DEFERRED TAX

The movements in deferred tax liabilities and assets during the year are as follows:

Deferred tax liabilities

Group

	2007					
	Depreciation allowance in excess of related depreciation RMB'000	Capitalisation of interest RMB'000	Revaluation of properties RMB'000	Revaluation of available-for-sale investments RMB'000	Equity of associates RMB'000	Total RMB'000
At 1 January 2007	2,897	7,605	839	53,048	–	64,389
Deferred tax charged/(credited) to the income statement during the year (note 10)	11,973	(905)	29,697	–	764	41,529
Effect of change in tax rate (note 10)	1,925	2,535	2,373	–	–	6,833
Deferred tax credited to equity during the year	–	–	–	(53,048)	–	(53,048)
Gross deferred tax liabilities at 31 December 2007	16,795	9,235	32,909	–	764	59,703

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29. DEFERRED TAX (Continued)

The movements in deferred tax liabilities and assets during the year are as follows (Continued):

Deferred tax assets

Group	2007					
	Loss on share reforms of subsidiaries RMB'000	**Stock provision RMB'000**	**Amortisation of intangible assets RMB'000**	**Accrual RMB'000**	**Depreciation of fixed assets RMB'000**	**Total RMB'000**
At 1 January 2007	**63,995**	**–**	**–**	**–**	**–**	**63,995**
Deferred tax (charged)/ credited to the income statement during the year (note 10)	**(43,340)**	**4,502**	**20**	**1,788**	**26,703**	**(10,327)**
Effect of change in tax rate (note 10)	**13,770**	**–**	**–**	**–**	**–**	**13,770**
Exchange differences	**–**	**(18)**	**–**	**–**	**(115)**	**(133)**
Gross deferred tax assets at 31 December 2007	**34,425**	**4,484**	**20**	**1,788**	**26,588**	**67,305**

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29. DEFERRED TAX (Continued)

The movements in deferred tax liabilities and assets during the year are as follows (Continued):

Deferred tax liabilities

Group

	2006				
	Depreciation allowance in excess of related depreciation RMB'000	Capitalisation of interest RMB'000	Revaluation of properties RMB'000	Revaluation of available-for-sale investments RMB'000	Total RMB'000
At 1 January 2006	27	8,511	4,497	–	13,035
Deferred tax charged/ (credited) to the income statement during the year (note 10)	2,870	(906)	(3,658)	–	(1,694)
Deferred tax debited to equity during the year	–	–	–	53,048	53,048
Gross deferred tax liabilities at 31 December 2006	2,897	7,605	839	53,048	64,389

Deferred tax assets

Group

	2006		
	Tax losses RMB'000	Loss on share reforms of subsidiaries RMB'000	Total RMB'000
At 1 January 2006	4,128	–	4,128
Deferred tax (charged)/credited to the income statement during the year (note 10)	(4,128)	63,995	59,867
Gross deferred tax assets at 31 December 2006	–	63,995	63,995

29. DEFERRED TAX (Continued)

Deferred tax assets have not been recognised in respect of the following items:

	Group	
	2007	2006
	RMB'000	RMB'000
Tax losses	**402,182**	571,545
Deductible temporary differences	**462,231**	263,928
	864,413	835,473

The above tax losses are available for offsetting against future taxable profits of the companies in which the losses arose from 2008 to 2010. Deferred tax assets have not been recognised in respect of the above items as it is not considered probable that taxable profits will be available against which the above items can be utilised.

At 31 December 2007, there was no significant unrecognised deferred tax liability (2006: Nil).

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29. DEFERRED TAX (Continued)

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

Deferred tax liabilities

Company	2007			
	Capitalisation of interest RMB'000	Revaluation of properties RMB'000	Depreciation allowance in excess of related depreciation RMB'000	Total RMB'000
At 1 January 2007	**1,383**	**–**	**746**	**2,129**
Deferred tax credited to the income statement during the year	**(26)**	**2,822**	**1,206**	**4,002**
Effect of change in tax rate	**461**	**–**	**497**	**958**
Gross deferred tax liabilities at 31 December 2007	**1,818**	**2,822**	**2,449**	**7,089**

Deferred tax assets

Company	2007		
	Revaluation of properties RMB'000	Loss on share reforms of subsidiaries RMB'000	Total RMB'000
At 1 January 2007	**1,027**	**22,611**	**23,638**
Deferred tax charged to the income statement during the year	**(1,027)**	**(15,285)**	**(16,312)**
Effect of change in tax rate	**–**	**4,884**	**4,884**
Gross deferred tax assets at 31 December 2007	**–**	**12,210**	**12,210**

29. DEFERRED TAX (Continued)

Deferred tax liabilities

Company

	2006		
	Capitalisation of interest RMB'000	Depreciation allowance in excess of related depreciation RMB'000	Total RMB'000
At 1 January 2006	1,409	–	1,409
Deferred tax credited to the income statement during the year	(26)	746	720
Gross deferred tax liabilities at 31 December 2006	1,383	746	2,129

Deferred tax assets

Company

	2006			
	Tax losses RMB'000	Revaluation of properties RMB'000	Loss on share reforms of subsidiaries RMB'000	Total RMB'000
At 1 January 2006	1,409	–	–	1,409
Deferred tax charged to the income statement during the year	(1,409)	1,027	22,611	22,229
Gross deferred tax assets at 31 December 2006	–	1,027	22,611	23,638

30. PREPAYMENTS

These prepayments are for property, plant and equipment, and they will be transferred to property, plant and equipment subsequently.

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31. OTHER LONG TERM PAYABLES

Other long term payables represent government grants. There are no unfulfilled conditions or contingencies relating to these grants.

32. SHARE CAPITAL

Shares

	2007	2006
	RMB'000	RMB'000
Authorised, issued and fully paid:		
743,870,000 state-owned legal person shares of RMB1.00 each	**743,870**	743,870
453,872,000 overseas listed foreign invested shares of RMB1.00 each	**453,872**	453,872
	1,197,742	1,197,742

There was no change in the authorised and issued capital of the Company during the year.

33. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on pages 46 to 47 of the financial statements.

Certain amounts of goodwill arising on the acquisition of subsidiaries in prior years remain eliminated against the consolidated reserves.

(b) Company

	Share premium account	**Retained profits**	**Total**
	RMB'000	RMB'000	RMB'000
Balance at 1 January 2006	996,660	161,315	1,157,975
Loss for the year	–	(88,794)	(88,794)
At 31 December 2006 and 1 January 2007	996,660	72,521	1,069,181
Profit for the year	–	22,333	22,333
At 31 December 2007	996,660	94,854	1,091,514

34. DISPOSAL OF SUBSIDIARIES

	Notes	**2007** **RMB'000**	2006 RMB'000
Net assets disposed of:			
Property, plant and equipment	14	**432**	4,275
Other intangible assets	17	**350**	1,656
Cash and bank balances		**3,620**	1,644
Trade receivables		**5,395**	977
Inventories		**11,136**	1,870
Prepayments and other receivables		**10,708**	26,627
Trade payables		**(2,084)**	(17,871)
Other payables and accruals		**(11,989)**	(8,043)
Tax payable		**27**	–
Minority interests		**(5,952)**	(95)
		11,643	11,040
Goodwill		**–**	–
Add: (Loss)/gain on disposal of subsidiaries	6	**(6,349)**	15,960
		5,294	27,000
Satisfied by:			
Cash		**5,294**	27,000

An analysis of the net inflow/(outflow) of cash and cash equivalents in respect of the disposal of subsidiaries is as follows:

	2007 **RMB'000**	2006 RMB'000
Cash consideration	**5,294**	27,000
Less: Cash consideration not received	**(4,294)**	(2,000)
Cash and bank balances disposed of	**(3,620)**	(1,644)
Net inflow/(outflow) of cash and cash equivalents in respect of the disposal of subsidiaries	**(2,620)**	23,356

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35. CONTINGENT LIABILITIES

(a) At the balance sheet date, contingent liabilities not provided for in the financial statements were as follows:

	Group		Company	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
Guarantees given to banks in connection with facilities granted to:				
An associate	**450,000**	470,000	**450,000**	470,000
Third parties	**56,680**	153,098	**–**	–
	506,680	623,098	**450,000**	470,000

(b) As at 31 December 2007, the banking facilities guaranteed by the Group to an associate were utilised to the extent of approximately RMB450,000,000 (2006: RMB470,000,000).

36. FINANCIAL GUARANTEE CONTRACTS

The Group has provided financial guarantees for an associate with a maximum amount of RMB450 million which will expire in 2008.

The Group has provided financial guarantees for third-party customers with a maximum amount of RMB3,603,000 which will expire in 2008.

In accordance with HKAS 39, such financial guarantee contract is accounted for as a financial liability and recognised initially at its fair value and subsequently measured at the higher of the amount determined in accordance with HKAS 37 and HKAS 18.

37. PLEDGE OF ASSETS

Details of the Group's bank loans which are secured by the assets of the Group, are included in note 14, note 22 and note 27 to the financial statements.

38. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group and the Company lease their investment properties (note 15 to the financial statements) under operating lease arrangements, with leases negotiated for terms ranging from one to six years. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

At 31 December 2007, the Group and the Company had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Group		**Company**	
	2007 **RMB'000**	2006 RMB'000	**2007** **RMB'000**	2006 RMB'000
Within one year	**93,155**	63,753	**26,990**	13,772
In the second to fifth years, inclusive	**172,283**	107,859	**27,703**	13,757
After five years	**–**	7,447	**–**	–
	265,438	179,059	**54,693**	27,529

(b) As lessee

The Group leases certain of its office properties under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to five years.

At 31 December 2007, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2007 **RMB'000**	2006 RMB'000
Within one year	**3,361**	1,184
In the second to fifth years, inclusive	**3,211**	312
	6,572	1,496

39. COMMITMENTS

In addition to the operating lease commitments detailed in note 38(b) above, the Group had the following capital commitments at the balance sheet date:

	Group	
	2007	2006
	RMB'000	RMB'000
Contracted, but not provided for:		
Land and buildings	**94,536**	–
Plant and machinery	**65,039**	20,989
	159,575	20,989

40. LOSS ON SHARE REFORMS OF SUBSIDIARIES

On 15 April 2006, the Company's General Shareholder Meeting approved the state-owned share reform plans of CGC and S. Kaifa, subsidiaries of the Company, whose shares were listed on the Shenzhen Stock Exchange. On 20 April 2006, these share reform plans were approved by the shareholders of CGC and S. Kaifa accordingly.

Pursuant to the approved share reform plan of CGC, on 12 May 2006, the Company has compensated the existing A share shareholders with 3.2 shares of CGC for every 10 shares held in exchange for non-tradable shares of CGC converted to tradable A shares. The Company compensated a total of 58,003,200 shares to the A share shareholders of CGC.

Pursuant to the approved share reform plan of S. Kaifa, on 19 May 2006, the Company and other shareholders who holding non-tradable shares of S. Kaifa have compensated the existing A share shareholders with 3.0 shares of S. Kaifa for every 10 shares held in exchange for non-tradable shares of S. Kaifa converted to tradable A shares. The Company compensated a total of 47,076,057 shares to the A share shareholders of S. Kaifa.

Losses on disposal of equity interests in CGC and S. Kaifa amounting to approximately RMB232,427,000 and RMB194,209,000, respectively, were recognised upon the valid dates of these share reforms and disclosed in the consolidated income statement of the Group for the year ended 31 December 2006.

41. RELATED PARTY TRANSACTIONS

(a) In addition to the transactions detailed elsewhere in these financial statements, the Group had the following material transactions with related parties during the year:

		Group	
		2007	2006
	Notes	**RMB'000**	RMB'000
Ultimate holding company			
Sale of products	(ii)	**593**	–
Intermediate holding company:			
License fees	(i)	**2,551**	1,997
Associates:			
Sale of products	(ii)	**218,882**	2,129,482
Rental income	(iii)	**29,706**	32,311
Royalty income	(iv)	**20,799**	50,590
Interest income	(v)	**4,173**	20,248
Processing fee income		**7,831**	21,084
Purchases of components and parts	(vi)	**529,165**	657,928
Fellow subsidiaries:			
Sale of products	(ii)	**30,383**	23,509
Purchases of components and parts	(vi)	**449,157**	439,338
Rental income	(iii)	**14,048**	15,174
Interest expense	(vii)	**402**	–

Notes:

(i) The license fee paid to the intermediate holding company was based on a rate of 0.15% of the revenue from the products under the "Great Wall"brand.

(ii) The sales to the ultimate holding company, associates and the fellow subsidiaries were made according to the published prices and conditions offered to major customers of the Group.

(iii) The rental income from the property leased to associates and fellow subsidiaries was made according to the market rate offered to third parties.

(iv) The royalty income from the associates arose from the sales of Pathfinder Hard Disk Units at a rate of US$2.07 per unit.

(v) The interest income from associates was based on an interest rates of 5.05% per annum.

(vi) The purchases from associates and fellow subsidiaries were made according to published prices and conditions offered by associates and fellow subsidiaries to their major customers.

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41. RELATED PARTY TRANSACTIONS (Continued)

Notes: (Continued)

(vii) The interest expense to a fellow subsidiary was based on an interest rate of 6.39% per annum.

(b) Outstanding balances with related parties:

(i) The other payables were unsecured, interest-free and have no fixed terms of repayment.

(ii) Details of the Group's loans to its associates as at the balance sheet date are included in note 19 to the financial statements.

(iii) As disclosed in the consolidated balance sheet, the Group had outstanding trade receivables from and trade payables to associates of RMB4,651,000 (2006: RMB60,915,000) and RMB13,625,000 (2006: RMB69,422,000), respectively, as at the balance sheet date. They are repayable on similar credit term to those offered to the major customers of the Group and those offered by associates to their major customers.

(iv) These balances are unsecured, interest-free and have no fixed terms of repayment.

42. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the balance sheet date are as follows:

2007

Financial assets

	Group		
	Loans and receivables RMB'000	**Available-for-sale financial assets RMB'000**	**Total RMB'000**
Interests in associates (note 19)	269,081	–	269,081
Available-for-sale investments (note 20)	–	1,148,207	1,148,207
Trade and bills receivables (note 22)	2,898,602	–	2,898,602
Financial assets included in prepayments, deposits and other receivables	158,896	–	158,896
Due from fellow subsidiaries	5,343	–	5,343
Due from associates	4,651	–	4,651
Pledged deposits (note 24)	39,539	–	39,539
Cash and cash equivalents (note 24)	2,719,237	–	2,719,237
	6,095,349	1,148,207	7,243,556

Financial liabilities

	Financial liabilities at amortised cost RMB'000	**Other financial liabilities RMB'000**	**Total RMB'000**
Trade and bills payables (note 25)	3,027,224	–	3,027,224
Financial liabilities included in other payables and accruals	126,468	–	126,468
Interest-bearing bank and other borrowings (note 27)	865,000	–	865,000
Due to associates	13,625	–	13,625
Due to fellow subsidiaries	24,418	–	24,418
Due to the intermediate holding company	2,445	–	2,445
Financial guarantee contracts	–	12,886	12,886
	4,059,180	12,886	4,072,066

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42. FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

The carrying amounts of each of the categories of financial instruments as at the balance sheet date are as follows (Continued):

2006

	Group		
Financial assets			
	Loans and receivables RMB'000	Available-for-sale financial assets RMB'000	Total RMB'000
Interests in associates (note 19)	408,943	–	408,943
Available-for-sale investments (note 20)	–	437,884	437,884
Trade and bills receivables (note 22)	1,977,672	–	1,977,672
Financial assets included in prepayments, deposits and other receivables	127,963	–	127,963
Due from fellow subsidiaries	1,675	–	1,675
Due from associates	60,915	–	60,915
Pledged deposits (note 24)	24,117	–	24,117
Cash and cash equivalents (note 24)	2,980,882	–	2,980,882
	5,582,167	437,884	6,020,051

Financial liabilities

	Financial liabilities at amortised cost RMB'000	Other financial liabilities RMB'000	Total RMB'000
Trade and bills payables (note 25)	2,234,294	–	2,234,294
Financial liabilities included in other payables and accruals	174,323	–	174,323
Interest-bearing bank and other borrowings (note 27)	449,247	–	449,247
Due to associates	69,422	–	69,422
Due to fellow subsidiaries	2,294	–	2,294
Due to the intermediate holding company	1,364	–	1,364
Financial guarantee contracts	–	29,410	29,410
	2,930,944	29,410	2,960,354

42. FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

The carrying amounts of each of the categories of financial instruments as at the balance sheet date are as follows (Continued):

Company

Financial assets	2007 Loans and receivables RMB'000	2007 Available-for-sale financial assets RMB'000	2007 Total RMB'000	2006 Loans and receivables RMB'000	2006 Available-for-sale financial assets RMB'000	2006 Total RMB'000
Interests in associates (note 19)	**185,295**	**–**	**185,295**	332,923	–	332,923
Available-for-sale investments (note 20)	**–**	**2,500**	**2,500**	–	2,500	2,500
Due from subsidiaries	**–**	**–**	**–**	2,025	–	2,025
Due from associates	**33**	**–**	**33**	1,807	–	1,807
Financial assets included in prepayments, deposits and other receivables	**1,905**	**–**	**1,905**	171	–	171
Cash and cash equivalents (note 24)	**93,509**	**–**	**93,509**	43,249	–	43,249
	280,742	**2,500**	**283,242**	380,175	2,500	382,675

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42. FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

Financial liabilities

	Company					
	2007			2006		
	Financial liabilities at amortised cost RMB'000	**Other financial liabilities RMB'000**	**Total RMB'000**	Financial liabilities at amortised cost RMB'000	Other financial liabilities RMB'000	Total RMB'000
Trade and bills payables (note 25)	**217**	**–**	**217**	217	–	217
Due to ultimate holding company	**2,490**	**–**	**2,490**	–	–	–
Financial liabilities included in other payables and accruals	**599**	**–**	**599**	3,083	–	3,083
Interest-bearing bank and other borrowings (note 27)	**–**	**–**	**–**	127,000	–	127,000
Financial guarantee contracts	**–**	**11,557**	**11,557**	–	4,236	4,236
	3,306	**11,557**	**14,863**	130,300	4,236	134,536

43. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise bank loans, other interest-bearing loans and cash and short term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

It is, and has been throughout the year under review, the Group's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The board reviews and agrees policies for managing each of these risks and they are summarised below.

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long term debt obligations with a floating interest rate.

The Group's policy is to manage its interest cost using a mix of fixed and variable rate debts. Approximately 25% (2006: 75%) of the Group's interest-bearing borrowings bore interest at fixed rates.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings) and the Group's equity.

		Group	
	Increase/ (decrease) in basis points	**Increase/ (decrease) in profit before tax**	**Increase/ (decrease) in equity**
		RMB'000	RMB'000
2007			
RMB	+100bp	(2,938)	(2,938)
RMB	-100bp	2,938	2,938
2006			
US$	+100bp	(1,644)	(1,644)
RMB	+100bp	(438)	(438)
US$	-100bp	1,644	1,644
RMB	-100bp	438	438

43. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Foreign currency risk

The Group has transactional currency exposures. These exposures arise from sales or purchases by operating units in currencies other than the unit's functional currency. Approximately 79% (2006: 81%) of the Group's sales are denominated in currencies other than the functional currency of the operating units making the sale, whilst almost 52% (2006: 49%) of costs are denominated in the unit's functional currency. The Group plans to use forward currency contracts to eliminate the foreign currency exposures.

The following table demonstrates the sensitivity at the balance sheet date to a reasonably possible change in the United States dollar exchange rate, with all other variables held constant, of the Group's profit before tax due to changes in the fair value of monetary assets and liabilities and the Group's equity.

		Group	
	Increase/ (decrease) in US$ rate	**Increase/ (decrease) in profit before tax**	**Increase/ (decrease) in equity**
	%	RMB'000	RMB'000
2007			
If RMB weakens against US$	5%	46,426	46,426
If RMB strengthens against US$	-5%	(46,426)	(46,426)
2006			
If RMB weakens against US$	5%	15,891	15,891
If RMB strengthens against US$	-5%	(15,891)	(15,891)

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant. For transactions that are not denominated in the functional currency of the relevant operating unit, the Group does not offer credit terms without the specific approval of the Head of Credit Control.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, amounts due from associates, other receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments. The group is also exposed to credit risk through the granting of financial guarantees, further details of which are disclosed in note 36 to the financial statements.

43. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Credit risk (Continued)

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer/counterparty, by geographical region and by industry sector. At the balance sheet date, the Group has certain concentrations of credit risk as 20% (2006: 33%) and 58% (2006: 34%) of the Group's trade receivables were due from the Group's largest customer and five largest customers, respectively.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade and other receivables are disclosed in note 22 and note 23 to the financial statements.

Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets (e.g., trade receivables) and projected cash flows from operations.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans and other interest-bearing loans. All borrowings would mature in less than one year as at 31 December 2007.

Equity price risk

Equity price risk is the risk that the fair values of equity securities decrease as a result of changes in the levels of equity indices and the value of individual securities. The Group is exposed to equity price risk arising from individual equity investments classified as available-for-sale investments (note 20) as at 31 December 2007. The Group's listed investments are listed on the Hong Kong stock exchanges* and are valued at quoted market prices at the balance sheet date.

The market equity indices for the following stock exchanges, at the close of business of the nearest trading day in the year to the balance sheet date, and their respective highest and lowest points during the year were as follows:

	31 December 2007	**High/low 2007**	31 December 2006	High/low 2006
Hong Kong – Hang Seng Index*	**27,812**	**31,638/ 18,664**	19,964	20,001/ 14,944

The following table demonstrates the sensitivity to every 10% change in the fair values of the equity investments, with all other variables held constant and before any impact on tax, based on their carrying amounts at the balance sheet date.

43. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Equity price risk (Continued)

	Carrying amount of equity investments RMB'000	**Increase in Equity** RMB'000
2007		
Investments listed in:		
Hong Kong – Available-for-sale investments	1,070,360	107,036
2006		
Investments listed in:		
Hong Kong – Available-for-sale investments	377,157	37,716

Capital management

The primary objective of the Group's capital management is to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholder value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended 31 December 2007 and 31 December 2006.

43. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Capital management (Continued)

The Group monitors capital using a gearing ratio, which is defined as the ratio between total borrowings and shareholder's equity. The Group's policy is to maintain the gearing ratio less than 45%. The gearing ratios as at the balance sheet dates were as follows:

	Group	
	2007	2006
	RMB'000	RMB'000
Interest-bearing bank and other borrowings (note 27)	**865,000**	449,247
Equity attributable to equity holders	**3,706,813**	3,559,816
Gearing ratio	**23.34%**	12.62%

44. POST BALANCE SHEET EVENTS

(a) Disposal of an associate

On 31 March 2008, the Group entered into a sales and purchase agreement to dispose of its entire interest in International Business Machine Lease Co., Ltd., an associate as at 31 December 2007, to an independent third party for a total consideration of RMB31,796,400. The loss on disposal before tax is expected to be approximately RMB2,633,600.

(b) Increase the capital of an associate

On 7 April 2008, all the shareholders of Great Wall Broadband unanimously resolved that the registered capital of Great Wall Broadband shall be increased from RMB600,000,000 to RMB900,000,000. The increased registered capital of RMB300,000,000 of Great Wall Broadband shall be contributed as to RMB150,000,000 by the Company and the remaining RMB150,000,000 by CITIC Networks Co., Ltd. Upon completion of the contribution, the equity interest of the Company in Great Wall Broadband will increase from 35% to 40%. The Group's total equity interest in Great Wall Broadband remains unchanged at 50% after the contribution.

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45. COMPARATIVE AMOUNTS

As further explained in note 2.2 to the financial statements, due to the adoption of new and revised HKFRSs during the current year, certain comparative amounts have been adjusted to conform with the current year's presentation and to show separately comparative amounts in respect of items disclosed for the first time in 2007.

46. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 18 April 2008.

2007

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長城科技股份有限公司

Great Wall Technology Company Limited