ANNUAL REPORT
年 報 2008

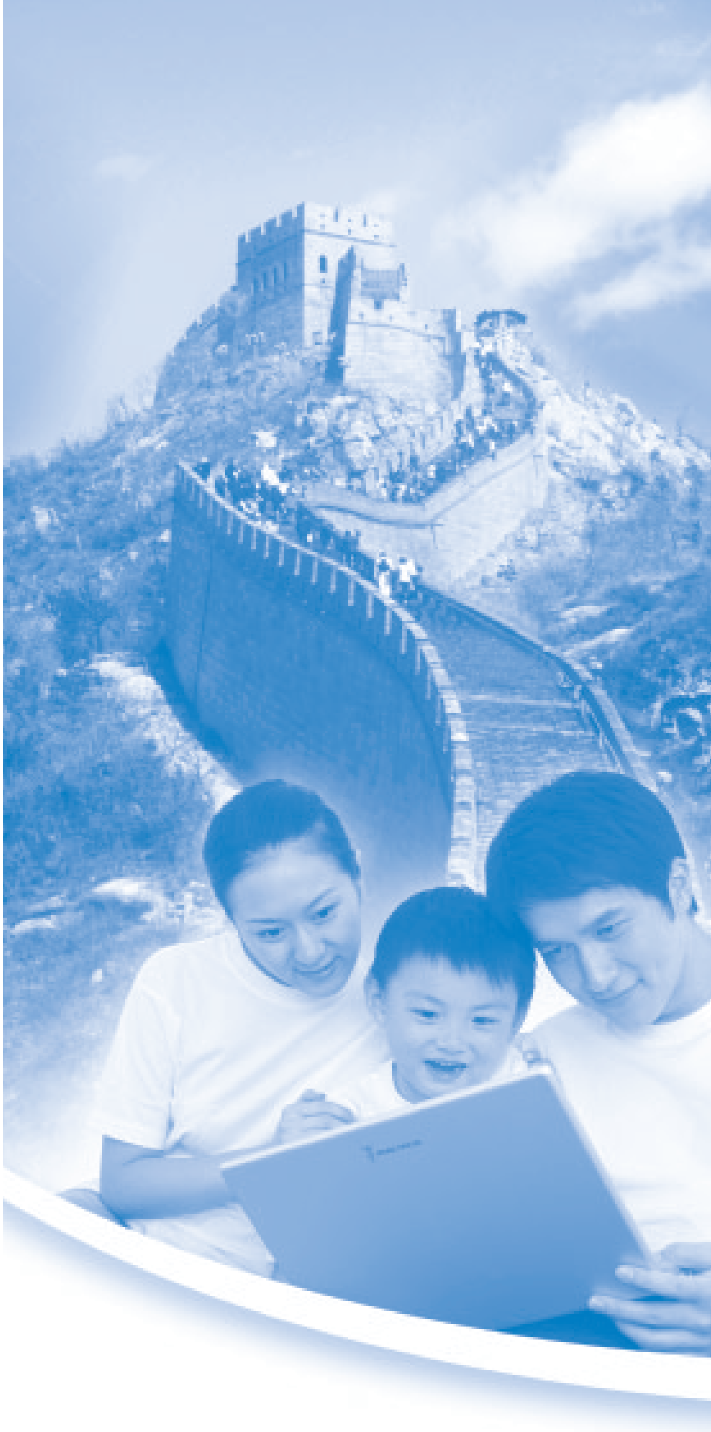
GWT

長城科技股份有限公司

Great Wall Technology Company Limited

Stock Code 股份代號：0074

CONTENTS



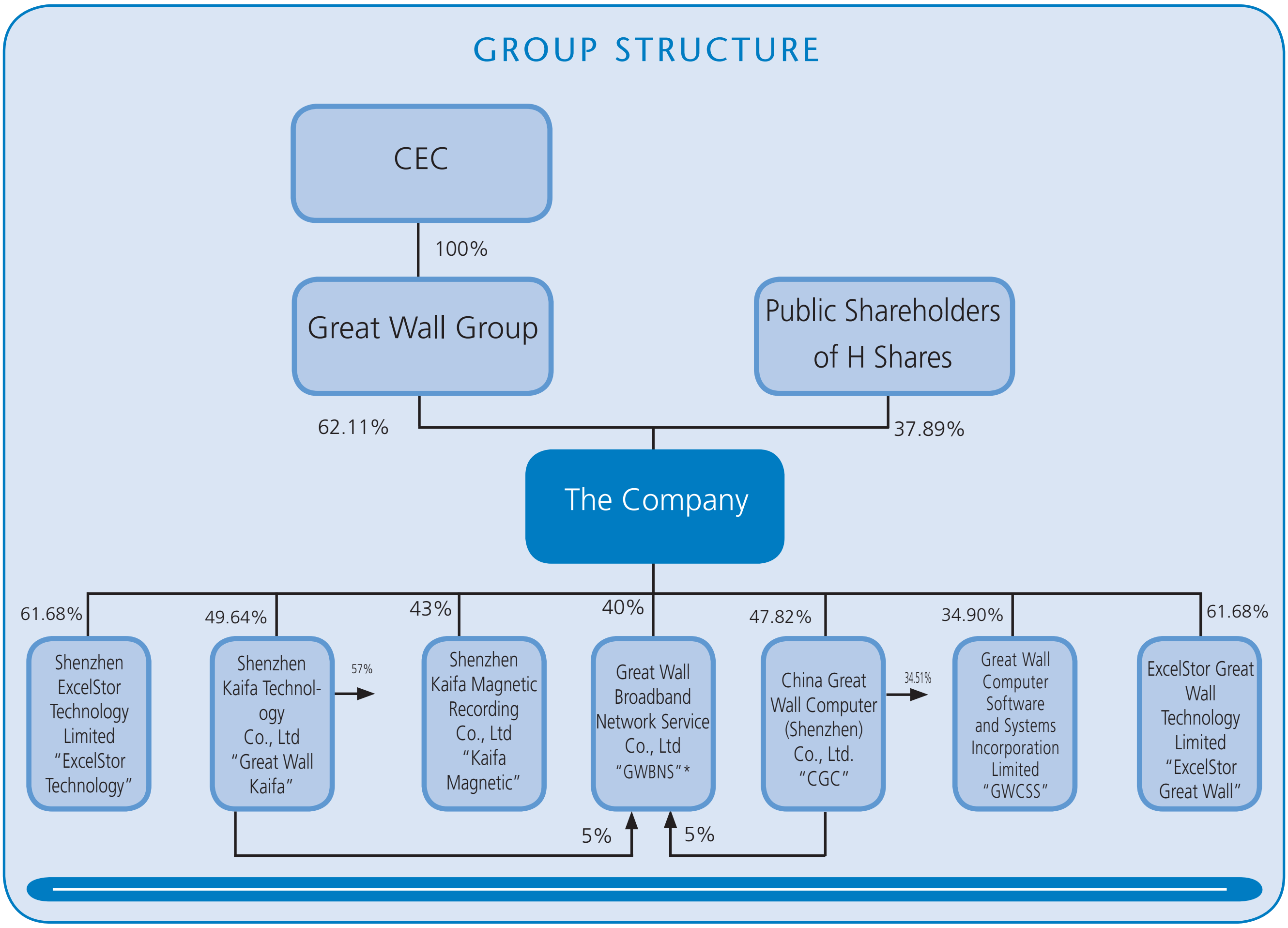
Corporate Information

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 Fu Qiang
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	:	SHINEWING (HK) CPA Limited Certified Public Accountants Hong Kong
Domestic Auditors	:	Shinewing CPA
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	:	Computershare Hong Kong Investor Services Limited Rooms 1806–1807, 18th Floor, Hopewell Center, 183 Queen's Road East, Hong Kong

China Great Wall Computer Group Company ("Great Wall Group") was the sole promoter of Great Wall Technology Company Limited (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 (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 (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 ("CEC") for restructuring (the "Restructuring"). The Company was notified by 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

Chairman's Statement

Dear Shareholders,

The year 2008 was an extraordinary year for the Company. The financial tsunami in the U.S. spread worldwide and posed a rigorous challenge on the Company's operation. Thanks to the care and support of PRC government at various levels, domestic and foreign shareholders, all quarters of society, and our customers in general, we adopted a series of concrete and effective measures to refine the market and adjust product mix, in order to ensure a solid and coordinated development for our operation.

We faced tough times during the reporting period owing to risen price in global resources, appreciation of Renminbi, increase in labor cost, strengthened barriers to environment protection, change in export condition, snow disaster, earthquake in Wenchuan, etc. However, the Company maintained its strategy of "prudent while aggressive", "quality first" and "quick response". It focused on high-end positioning, precision management, strengthened IEMS manufacture, expansion to new markets overseas, integration of the actual needs of the enterprise, proposal of four measures of "sources broadening, expense reducing, transformation and innovation" to fight against the financial tsunami in order to maintain its growth and boost its development. As the Company had made precise judgment on precautions against the financial crisis, and due to our early awareness, quick response, appropriate measures and diligent work, we managed to carry out targeted addressing measures to ensure the steady development of our production and operation.

We shall continue our unrelenting efforts to build our innovative conglomerate characterized by "core technology, high-end manufacturing, and renowned brands" in the coming years, 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
22 April 2009

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

Results

	Year ended 31 December				
	2008	2007	2006	2005	2004
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
TURNOVER	**22,342,353**	23,682,455	19,919,261	14,924,774	11,419,186
Cost of sales	**(21,299,825)**	(22,357,157)	(18,540,402)	(13,928,766)	(10,627,991)
Gross profit	**1,042,528**	1,325,298	1,378,859	996,008	791,195
Other income and gains	**379,558**	297,107	226,907	178,754	208,969
Compensation for termination of contracts	**104,471**	–	–	–	–
Termination fee income	**52,235**	–	–	–	–
Gain on disposal of available-for-sale investments	**–**	572,806	–	–	–
Selling and distribution costs	**(265,092)**	(290,243)	(309,942)	(220,447)	(143,300)
Administrative expenses	**(550,550)**	(776,893)	(650,493)	(587,888)	(714,379)
Finance costs	**(74,134)**	(54,451)	(23,283)	(27,921)	(50,188)
Gain on disposal of associates	**–**	–	–	338,194	8,240
Loss on share reforms of subsidiaries	**–**	–	(426,636)	–	–
Share of profits and losses of associates	**(66,712)**	(11,584)	(35,943)	51,545	311,370
PROFIT BEFORE TAX	**622,304**	1,062,040	159,469	728,245	411,907
Income tax expense	**(7,576)**	(221,437)	7,820	(103,254)	(35,893)
PROFIT FOR THE YEAR	**614,728**	840,603	167,289	624,991	376,014
Attributable to:					
Equity holders of the Company	**355,639**	308,768	(122,196)	321,936	202,036
Minority interests	**259,089**	531,835	289,485	303,055	173,978
	614,728	840,603	167,289	624,991	376,014
DIVIDENDS					
Proposed final	**65,876**	–	–	23,955	50,305
EARNINGS PER SHAE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT					
Basic					
– For (loss)/profit for the year	**29.69 cents**	RMB25.78 cents	RMB(10.2) cents	RMB26.9 cents	RMB16.9 cents

Assets, Liabilities and Minority Interests

	2008	2007	2006	2005	2004
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Total Assets	**9,707,557**	11,806,882	10,216,515	9,430,229	8,979,263
Total Liabilities	**3,336,380**	5,011,439	3,700,789	3,645,078	3,727,047
Minority Interests	**2,573,599**	3,088,630	2,955,910	2,220,399	1,953,312

REVIEW OF 2008

A. Slight decrease in sales income

In 2008, the Group realized sales revenue of RMB22,342,353,000, representing a decrease of 5.66% from the same period last year. The audited profit after taxation attributable to equity holders was RMB355,639,000, representing an increase of 15.18% from the same period last year.

B. Optimization of product mix and increased proportion of new products

In 2008, the Group targeted at enhancing its proprietary and innovation capacity to increase its core competitiveness. In addition, it matched up with market needs and focus on major industries to conduct development and research of high-end products and new products, which further optimize product mix and strengthen risk resistance capability in the industry.

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 made a successful proprietary R&D based on our existing automatic installation facility for magnetic heads of worldwide leading level, and applied a batch of function tester for flexible cable in 2008. This step helped us to totally avoid dependence on imports and substantially reduced the time and cost involved by the Company in employing foreign experts for facility repairs.

Regarding the production of substrates, the Company had mastered the core manufacturing technology of hard disk substrates, such as CMP technology, chemical immersion nickel of high density for aluminum substrate, nanotechnology of particle purification and cleaning, examination and analysis technology of chemical deficiencies, through the proprietary R&D conducted for years. Among these technologies, CMP reached an international leading standard.

Regarding the production of hard disks, the Company conducted proprietary R&D on 2.5" GStorWave intelligent e drive with 250GB storage capacity and excellent anti-vibration function which contained intelligence and security storage plus anti-vibration design. In 2008, the Company officially released a series of storage products of new concepts including portable network storage server and external hard disk of "Benxiang" firewall, and the consumer products came along with the new market needs.

Regarding computer manufacturing and related products, the focus of computer manufacturing business was put on various industries and diversified products. Security desktop computer (2nd edition), products of security notebook and products of A58 and A81 fashionable notebook was launched and became very popular in the market.

Regarding monitors, based on 16:10 mainstream products in the current market, the Company developed future mainstream 16:9 products with competitive cost advantages and better visual effects in 2008 which had launched into the market in batches.

Regarding the production of power source, preliminary result of transforming to high-end products by Great Wall power supply was found. Series of power products for server, notebook, LCD TV, home appliances, industrial use, cars, communication, LIPS and adapter was developed and became popular in the market.

Regarding electricity meters and tax control machines, while Great Wall Kaifa enriched the existing production lines of electricity meters and tax control machines, the department of multi-media business conducted proprietary R&D on different types of new products of high definition network play with more fashionable outlook and outstanding function which was welcomed at the Hong Kong Electronics Fair (Spring Edition) and The 2008 International Consumer Electronics Show (CHTF-ICEF2008).

Regarding software and system integration, GWCSS had the strong power to undertake large-scale project construction. In 2008, GWCSS had obtained various projects, such as intermediary software purchase project for electronic approval system tool in relation to PRC patent, the development project of the comprehensive management system of code form documents for the State Intellectual Property Office of the PRC, etc.

C. Proactive implementation of internationalization strategy and prolonged international cooperation in depth

In order to effectively moderate the unfavorable effects brought from the change of exchange rate and financial crisis on enterprises and to enhance risk resistance capability, enterprises under the Group continued to upgrade its technology level and management capability and to further stabilize and strengthen the existing cooperative relationship internationally; meanwhile, obtaining a better results in developing new markets by broadening its expansion coverage in the overseas markets. Currently, OEM monitors of GWCSS occupied 16% of Vietnam market. Besides the traditional European and U.S. market, Great Wall power supply and Great Wall monitor added nearly 50 countries which included the ASEAN, the BRICs, Middle East and North Africa, and the export business recorded a steady growth.

D. Stimulate domestic sale through more investment in the market

廣西長城電腦公司was officially opened upon the completion of the construction of the phase one of Beihai base of China Great Wall Computer (Shenzhen) Co., Ltd. ("CGC"), a subsidiary of the Company, in January 2008. It gave the Company a strategic advantage to expand into the South Asian and the ASEAN market. In May 2008, CGC, a subsidiary of the Company, and state-owned Changhai Electrical Plant (長海電器廠) formed a joint equity venture Guilin Changhai Development Co., Ltd. (長海科技有限責任公司) in Guilin of Guangxi Province to engage in R&D and production of safe computers and special computers under the brand of "Great Wall". The above actions not only contributed to the development of the western region but also greatly reinforced the marketability of "Great Wall" brand in the region, leading to increased market share of Great Wall products.

E. Further enhance corporate brand image

The members of the Company and their products were accredited with various awards in 2008. The Company was ranked 13 by the 22nd Top-100 China Electronic Enterprises Rating; "Great Wall" was again named "China Top-Ten Leading Brands of Consumer Electronic Products" at the USA International Consumer Electronics Show; Great Wall Kaifa was awarded the title of "Top-Ten Listed Companies with Comprehensive Strength in Guangdong"; CGC and Shenzhen ExcelStor Technology Limited ("ExcelorStor Technology"), both are subsidiaries of the Company were designated as the "Leading Enterprise of proprietary and innovation industry" by the Shenzhen Municipal Government; GWCSS was ranked 31 among the Top-100 China Software Enterprises; Great Wall Power topped the China IT Brand Chart as the brand with the highest market share again in 2008 as it had done so for several consecutive years.

On 12 December 2008, CGC and the China Aerospace Foundation signed an official contract to work together for China's aerospace industry. Pursuant to which, CGC became the exclusive IT partner of China's aerospace industry, and "Great Wall" series of computers and their peripheral products, "ExcelStor" hard disks and other series of products would become designated products for China's aerospace industry. It was a strong support to Great Wall brand and further promoted the achievement of the development strategy that focused on technology, manufacturing and branding.

F. Strengthen internal management to promote cost reduction and efficiency enhancement

1. Reinforce financial management to control operating risks

The Company and its subsidiaries further reinforced their financial management in 2008 under the leadership of the Group and guidance of relevant departments. Particular emphasis was placed on the monitoring of various important areas such as corporate receivables, inventories, borrowings, investments and large capital transactions. Great Wall Kaifa placed emphasis on customer credit control and adopted different shipment and payment collection methods for different customers. Great Wall Computer reduced its inventory and risk exposure by strengthening its handling of overdue inventory and imposing higher penalty on overdue account receivables through the establishment of systems to manage overdue account receivables and inventories. ExcelStor further strengthened its comprehensive budget control by setting up the budget model that was based on profit targets, in line with changing market conditions and used by its business units.

2. Innovate on management mechanism to reduce production costs

Reinforce supply chain management through the use of information technology. The purchasing center of Great Wall Computer established "dynamic price changes tracking system" through the use of information technology management. Market purchasing prices were adjusted in time based on key raw material costs.

Reduce quality loss through strengthened production floor management. Shenzhen Kaifa Magnetic Recording Co., Ltd. ("Kaifa Magnetic Recording"), a subsidiary of the Company put forward the goal of management enhancement in terms of "raising pass rates by one percentage point and shortening production time by one minute" in 2008 and achieved remarkable results through various efforts such as exploring its potential and strengthening its management in areas like techniques, equipment and environment. "Raising pass rates by one percentage point" alone had reduced cost by RMB15 million. At the same time, production floor efficiency was vastly improved as a result of optimized modes of operation in groups of three and four persons.

Reduce costs through less repairs and returns. Great Wall Power conducted aging tests on fragile components purchased such as capacitors and fans, which had passed quality testing by suppliers, to ensure the premium quality of its products and to reduce the rate of repair of sold products.

3. Reduce management layers to optimize corporate structure

In accordance with the Group's "advice on the internal integration and reorganization plan of Great Wall Technology Company Limited", the Company actively pushed forward corporate restructuring. Its management costs were significantly lowered as a result of reduced number of its subsidiaries and optimized allocation of resources.

G. Conserve energy and reduce emission, switch to new domains of scientific development

In 2008, the Company actively fulfilled its responsibility in terms of environmental protection and energy saving. By advocating green production and consumption, saving social resources and pursuing loop economy, the Group had showed its commitment to coordinated development of business and environment as well as its efforts in building a resources saving and environmentally friendly enterprise. The Company had implemented environmental certification standards as prescribed by EU RoHS (the directive restricting use of certain hazardous substances in electronic and electrical equipment) and WEEE "the Waste Electrical and Electronic Equipment Directive" for the entire process of producing its core products, including raw material, parts and finished products. At the same time, the entire product lines of Great Wall monitors, power supplies, PC and notebooks had been certified as energy saving products by the State.

ExcelStor Hard Disk had introduced power saving module to save up to 65% electricity. ExcelStor Technology was awarded the title of "Advanced Unit in Waste Reduction in Shenzhen" in May 2008.

LOOKING FORWARD TO 2009

The year of 2009 will a year since the beginning of the new millennium in which China's economic development will experience the most severe tests. That we must fully recognize the severity and complexity of the economic situation both at home and around the world, and be sharp at grasping the trend, which is vital to effectively cope with the impact of the world financial crisis, to earnestly perform all work well in 2009, and to promote good and fast corporate development. Specific mind maps for the Company's development in 2009 are as follows:

1. Strengthen financial management to effectively control financial risks;

2. Speed up market expansion and develop diversified markets both at home and abroad;

3. Push forward restructuring and further optimize the allocation of resources;

4. Highlight innovation in technology and consolidate core competitiveness.

FINANCIAL REVIEW

During the year ended 31 December 2008 ("Reporting Period"), the Group realized a turnover of RMB22,342,353,000, representing a decrease of RMB1,340,102,000 as compared to the corresponding period of last year, and profit after tax attributable to the equity holders of the Company amounted to RMB355,639,000, representing an increase of 15.18% as compared to the corresponding period of last year.

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 2008, the Group's total cash and bank balances were RMB2,430,652,000 and the Group's total borrowings were RMB805,980,000. The structure of such borrowings was as follows:

(1) 100% was denominated in Renminbi;

(2) 100% was made on fixed interest rates.

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

As at 31 December 2007, the Group's total cash and bank balances were RMB2,404,237,000 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% 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 2008 as well as other information by business segment and geographical segment is shown in note 10 to the financial statements.

GEARING RATIO

As at 31 December 2008, the Group's total borrowings and shareholder's equity were RMB805,980,000 and RMB3,797,578,000 respectively, as compared to RMB865,000,000 and RMB3,706,813,000 respectively as at 31 December 2007.

As at 31 December 2008, the gearing ratio was 21.22%, and the gearing ratio as at 31 December 2007 was 23.34%. The gearing ratio was defined as the ratio between total borrowings and shareholder's equity.

CURRENT RATIO AND WORKING CAPITAL

As at 31 December 2008, the Group's current assets and current liabilities amounted to RMB5,507,529,000 and RMB3,220,071,000 respectively, and the Group's working capital was RMB2,287,458,000 while the current ratio was 1.71.

As at 31 December 2007, the Group's current assets and current liabilities amounted to RMB6,777,025,000 and RMB4,915,210,000 respectively, and the Group's working capital was RMB1,861,815,000 while the current ratio was 1.38.

CHARGE OF GROUP ASSETS

As at 31 December 2008, the Group had pledged to banks its bank savings of approximately RMB13,202,000 to secure general banking facilities for the Group. As at 31 December 2008, no borrowings were guaranteed by CEC, the ultimate holding company of the Group.

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

EXCHANGE RATE FLUCTUATIONS

During the Reporting Period, approximately over 81% 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 40% direct interest in GWBNS and each of Great Wall Kaifa and CGC, both being subsidiaries of the Company, holds a 5% interest in GWBNS.

Due to the fierce competition in the industry and substantial capital requirement, as at the end of 2008, GWBNS has recorded an accumulated loss of RMB1,137 million. As at 31 December 2008, the Company has provided a guarantee in respect of the loan granted to GWBNS, which amounted to RMB550 million and provided a loan of approximately RMB273 million to GWBNS. 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 2008 results of GWBNS have improved such that the annual loss for the financial year 2008 was RMB99 million less than that of last year.

EMPLOYEES

As at 31 December 2008, the number of employees of the Group was approximately 16,000. 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 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.

RETIREMENT BENEFIT SCHEME FOR EMPLOYEES

Details of the retirement benefit schemes for employees of the Group are set out in note 39 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 2008 are set out in the consolidated income statement on page 45 of this annual report.

DIVIDEND

The Board recommends the payment of a final dividend of RMB5.50 cents per share for the year ended 31 December 2008 (2007: Nil).

DISTRIBUTABLE RESERVES

As at 31 December 2008, 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 2008 in the reserves of the Group and the Company are set out in the consolidated statement of changes in equity on page 48 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 2008 in the fixed assets of the Group and the Company are set out in note 18 to the financial statements.

SHARE CAPITAL STRUCTURE

As at 31 December 2008, 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 2008 was as follows:

	As at 31 December 2008 (audited) Number of shares	As at 31 December 2007 (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 2008 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 2008, 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 ("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 (the "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	446,735,900	–	98.43%

DESIGNATED DEPOSITS AND OVERDUE TIME DEPOSITS

As at 31 December 2008, 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 2008 are set out in notes 42 and 22 to the financial statements respectively.

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

During the year 2008, 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 59, is chairman 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 28 years' of experience in the information technology industry. Mr. Lu was previously the vice president of the Company from 1998 to 2005, and the president of the Company from October 2005 to January 2009. In January 2008, he was elected chairman of the Company.

Mr. Tam Man Chi, aged 61, is an executive director of the Company. Mr. Tam is also president and chairman of Great Wall Kaifa. Mr. Tam has 41 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.

DIRECTORS (Continued)

Executive Directors

Mr. Wang Jincheng, aged 72, 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 9th and the 10th 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.

Mr. Yang Jun, aged 45, 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, chairman of China National Software & Service Co., Ltd., 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.

Mr. Su Duan, aged 56, 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, the General Manager of the human resources department of China Electronics Corporation, the General Manager of Amoi Electronics Company (夏新電子有限公司), and the Secretary General of the Party Committee in Amoi Electronics Co., Ltd.. Previously, Mr. Su has worked in various positions in China Electronics Corporation (CEC), including director of the presidential office of the management department, director of party-masses and discipline, director of the party-masses work department (the Office of Party Leadership Group), 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. Fu Qiang, aged 53, is the general manager of the Industrial Development Division of China Electronics Corporations (CEC), and is a director of Great Wall Information Industry Co. Ltd. Mr. Fu graduated from Fudan University in Shanghai with a major in computer science and completed his postgraduate studies at Peking University with a major in computer software. Mr. Fu had taken up various positions at Great Wall Computer Software and Systems Incorporation Limited, a subsidiary of the Company, namely software engineer, deputy general manager and secretary to the board of directors. In addition, Mr. Fu was the secretary to the board of directors and head of general office of China Great Wall Computer Group Company, as well as the deputy head of general office of CEC.

DIRECTORS (Continued)

Independent Non-executive Directors

Mr. Li Sanli, aged 73, 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 more than 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 chief scientist in a project of high-performance computer 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".

Ms. Wang Qinfang, aged 66, 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.

Dr. Kennedy Ying Ho Wong, aged 46, 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. Dr. Wong is also a director of a number of listed companies in Hong Kong and Australia, including Asia Cement (China) Holdings Corporation, China Overseas Land & Investment Limited, Goldlion Holdings Limited, Hong Kong Resources Holdings Company Limited, Qin Jia Yuan Media Services Company 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.

DIRECTORS (Continued)

Supervisors

Mr. Lang Jia, Chairman of the Company's supervisory committee, aged 55, 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 40, 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.

Mr. Song Jianhua, aged 53, 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.

DIRECTORS (Continued)

Other Senior Management

Mr. Du Heping, born in February 1955, is a Chinese national. He is an in-service postgraduate from the economics management specialty of Central Party school, and is also a Senior Business Operator (高級經營師). He was appointed vice president of the Company in October 2005, and was appointed as Executive Vice President in February 2008, and was then appointed as President in January 2009. He is also the Chairman and the Secretary General of the Party Committee in China Great Wall Computer (Shenzhen) Co., Ltd., and also a director of Shenzhen Kaifa Technology Co. Ltd. He is a member of the 4th Shenzhen Municipal People's Congress, vice chairman of the China Quality Management Association for Electronic Industry (中國電子質量管理協會), vice chairman of Shenzhen Municipal Science and Technology Association (深圳市科學技術協會), chairman of Shenzhen Computer Industry Association (深圳市計算機行業協會), vice chairman of Shenzhen Computer Society (深圳市電腦學會), and chairman of the Association of Volunteers for Science Popularization in Shenzhen (深圳市科普志願者協會). He has been the vice president and the Secretary to the board of directors of China Great Wall Computer (Shenzhen) Co., Ltd., deputy general manager of China Great Wall Computer Shenzhen Company (中國長城計算機深圳公司), organizing officer in charge and factory manager of Great Wall Power Supplies Factory (長城電源廠), deputy engineer in chief of the state-owned 4393 Factory (國營4393廠). Mr. Du has been awarded the title of "Outstanding Persons on the Nation's Frontier"(全國邊陲優秀兒女), and has also received the title of model worker in Shanxi Province for two times. 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, and has also been awarded 1 First Class Science Technology Advance Award and 1 Third Class Science Technology Advance Award in Shenzhen. He has abundant experiences in science and technology development, production management and quality management.

Mr. Zhong Jimin, aged 54, 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 was a 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), and also assistant engineer of the Design Institute of the State-owned Factory no. 798.

Mr. Siu Yuchun, aged 50, 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 2008 to the date of this annual report, changes in the Company's Directors and Supervisor are as follow:

Mr Fu Qiang, was elected as executive director in April 2008.

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 2007 General Meeting on 19 June 2008 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 2007 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 2008.

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 2008, 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 2008, 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 (the "Model Code") adopted by the Company were as follows:

1. Personal Interests

Name of Director/ Chief Executive	**Number of Shares held**	**Approximate percentage of issued share capital of the company**
Mr. Lu Ming	83,952 shares of CGC	0.0153%
Mr. Tam Man Chi	1,113,878 shares of Great Wall Kaifa	0.12%
Mr. Du Heping	30,000 shares of CGC	0.0055%

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

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%

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 2008, 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 2008 are set out in notes 11 and 12, respectively to the financial statements.

CONNECTED TRANSACTIONS

(1) During the year 2008, the following continuing connected transactions were carried out by the Group:

(a) Purchase Agreements

On 20 June 2008, CGC, a subsidiary of the Company, entered into purchase 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, 深圳市華明計算機有限公司 and 深圳桑達百利電器有限公司 in relation to the purchase of computer related products from each of Amoi Electronics Co., Ltd, 中國長城計算機(香港)控股有限公司, 深圳市華明計算機有限公司 and 深圳桑達利電器有限公司 for the period from 1 January 2008 to 31 December 2008. Each of Amoi Electronics Co., Ltd, China Great Wall Computer (H.K.) Holding Limited, 深圳市華明計算機有限公司 and 深圳桑達百利電器有限公司 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 RMB871,500,000 for the year ended 31 December 2008. 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 2008, the purchase made under the Purchase Agreements amounted to RMB379,615,414.94 in total. The Purchase Agreements expired on 1 January 2009.

(b) Sales Agreement

On 20 June 2008, CGC, a subsidiary of the Company, entered into sale agreements ("Sale Agreements") with each of 湖南長城信息金融設備有限責任公司 and 武漢長軟華成系統有限公司 in relation to the sale of computer related products to each of 湖南長城信息金融設備有限責任公司 and 武漢長軟華成系統有限公司 for the period from 1 January 2008 to 31 December 2008. Each of 湖南長城信息金融設備有限責任公司 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 Agreements is subject to a cap of RMB54,000,000 for the year ended 31 December 2008. The transactions under the Sale Agreements are subject to reporting, announcement requirements and independent shareholders' approval requirements under the Listing Rules.

For the year ended 31 December 2008, the sale made under the Sale Agreements amounted to RMB7,440,658.97 in total. The Sale Agreements expired on 1 January 2009.

CONNECTED TRANSACTIONS (Continued)

(c) Framework Agreement

On 12 September 2008, CGC, a subsidiary of the Company, entered into framework agreement ("Framework Agreement") with Guilin Changhai Technology Company Limited in relation to the sale of computers and peripherals to Guilin Changhai Technology Company Limited for the period from 1 September 2008 to 31 December 2008. Guilin Changhai Technology Company Limited is a 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 Framework Agreement is subject to a cap of RMB22,000,000 for the four months ended 31 December 2008. The transactions under the Framework Agreement are subject to reporting and announcement requirements but are exempt from independent shareholders' approval requirement under the Listing Rules.

For the year ended 31 December 2008, the sale made under the Framework Agreement amounted to RMB18,688,469.24 in total. The Framework Agreement expired on 1 January 2009.

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 2008, 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.

CONNECTED TRANSACTIONS (Continued)

(2) During the year 2008, the Group carried out the following one-off connected transaction:

On 22 July 2008, Kaifa Technology (H.K.) Limited, a subsidiary of the Company, entered into share purchase agreement with Able Success Limited to acquire from it 37,201,665 shares in the share capital of Kaifa Magnetic, representing 14.8% of the issued share capital of Kaifa Magnetic, at an acquisition costs of RMB98,666,255.91.

Able Success Limited, being a substantial shareholder of Kaifa Magnetic, a subsidiary of the Company, is a connected person of the Company under the Listing Rules. The transaction with Able Success Limited constituted a connected transaction of the Company which was carried out in compliance with the reporting, announcement and independent shareholders' approval requirements under the Listing Rules.

GUARANTEE FOR INDEPENDENT THIRD PARTY

As at 31 December 2008, the Group had provided a guarantee of approximately RMB83,280,200 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 2008, the Group has pledged some property amounted to RMB43,080,000 to acquire guarantee for bank loans from CEC Finance Co., Limited, the fellow subsidiary of the Company.

GUARANTEE FOR ASSOCIATED COMPANY

As at 31 December 2008, the Group had provided guarantee of approximately RMB550 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 2008 and is set out as follows:

	RMB'000
Total Assets	1,492,076
Total Liabilities	1,373,617
Net Assets	118,459
Group's share of net assets of associates	59,229
Group's share of results of associate for the year	(17,556)

LOAN TO ASSOCIATED COMPANIES

As at 31 December 2008, loans to associated companies of RMB416,231,000 are unsecured, interest-bearing at fixed rates ranging from 5.58%–7.02% per annum and is repayable twelve months from the balance sheet date.

Combined balance sheet of the associated companies are extracted from their management accounts as at 31 December 2008 and is set out as follows:

	RMB'000
Total Assets	3,991,182
Total Liabilities	(3,000,373)
Net Assets	990,809
Group's share of net assets of associates	226,351
Group's share of results of associates for the year	66,712

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 29 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 30% and 72% respectively, of the total turnover of the Group for the year ended 31 December 2008.

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 28 to 41.

AUDITORS

On 29 December 2008, Ernst & Young was removed as auditors of the Company and SHINEWING (HK) CPA Limited was appointed as auditors of the Company to fill the vacancy so arising. Save as disclosed, there have been no other changes in auditors of the Company in the past three years.

The financial statements for the year ended 31 December 2008 have been audited by SHINEWING (HK) CPA Limited who retire and being eligible, will offer themselves for re-appointment.

By Order of the Board

Lu Ming
Chairman

Shenzhen, China
22 April 2009

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 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 2008, adopted and applied the principles of the Code on Corporate Governance Practices ("CG Code") as set out in Appendix 14 of the Listing Rules. Save for the fact that Mr. Lu Ming assumed both the roles of Chairman of the Board and Chief Executive Officer of the Company for the year ended 31 December 2008, the Company has complied with all the provisions in the CG Code.

The Board also noted the recent amendments to the Listing Rules which took effect on 1 January 2009 has expanded the CG Code to specifically provide that the Board of directors of the Company is responsible for reviewing and ensuring adequate accounting systems and appropriate human resources for financial reporting function whilst the audit committee has an oversight role over the financial reporting function and to review the report to the Board on the same. Currently, the Company is reviewing the Company's governance policies and terms of reference of the Audit Committee and will apply the amendments accordingly to ensure the continuous compliance with the CG Code by the Company.

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, 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 nine directors, one of whom is the chairman of the Board, six 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
Fu Qiang

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 2008.

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

Name of Board members	**Attendance rates for the year ended 31 December 2008**
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. Fu Qiang	2/4
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 2008, 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 2007 and the interim results of the Group for the period ended 30 June 2008;
3. reviewed and approved notifiable/connected 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

It has been the practice of the Company that 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. The respective roles of the Chairman of the Board and Chief Executive Officer of the Company are set out below.

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.

After the resignation of Mr. Chen Zhaoxiong, the ex-Chariman of the Board, on January 2008, Mr. Lu Ming, the Chief Executive Officer of the Company, was appointed the Chairman of the Board. For year 2008, Mr. Lu Ming took up both the roles of the Chairman of the Board and Chief Executive Officer of the Company. Such deviation from the CG Code was due to the fact that the daily management of the Group has been led by Mr. Lu Ming in the past years. The Board considers that this arrangement provides the Group with strong consistent leadership and allows for effective management of the Group for the transitional period. As from January 2009, Mr. Lu Ming ceased to be the Chief Executive Officer of the Company and such role is now assumed by Mr. Du Heping.

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.

Currently, the Company is reviewing the terms of reference of the Audit Committee in light of the amendments to CG Code which took effect on 1 January 2009. The Company will revise the terms of reference of the Audit Committee accordingly to ensure the continuous compliance with the CG Code by the Company.

The following is the attendance record of the Audit Committee meetings for the year ended 31 December 2008:

Committee member	**Attendance rates for the year ended 31 December 2008**
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

There were changes in the Company's international auditors and domestic auditors during the year 2008.

Ernst & Young and Ernst & Young Hua Ming has been the international auditors and domestic auditors of the Company respectively since year 2005. Pursuant to the "Notice regarding Undertaking Central Enterprise Financial Auditing by Sampling in 2008" (關於開展中央企業2008年度財務抽查審計工作的通知) (Guo Zi Ting Fa Ping Jia [2008] No. 26 (the "Notice") dated 25 March 2008 issued by the State-owned Assets Supervision and Administration Commission of the State Council of the People's Republic of China ("SASAC"), CEC, the ultimate controlling shareholder of the Company, belongs to enterprises which are subject to group financial auditing by sampling for 2008 of SASAC, and the Company, as a listed company controlled by CEC, is also subject to such financial auditing.

CEC received the "CEC - Notification regarding Financial Auditing by Sampling for 2008" (中國電子信息產業集團公司2008年度 抽查審計工作的通知書) (Ping Jia Han [2008] No. 236) (the "Notification") dated 5 July 2008 from SASAC. The Notification sets out that pursuant to the decision of Three Gorges International Tendering Company Limited (三峽國際招標有限責任公司), the company appointed by SASAC to arrange tendering and evaluation for the purpose of the financial auditing under the Notice, Shinewing Certified Public Accountants is to be responsible for the financial auditing by sampling of CEC group (including the Company) and SHINEWING (HK) CPA Limited is to be the international auditors of the Company for the year ended 31 December 2008. Accordingly, the Company was required to timely complete the relevant procedures and legal formalities for the change of auditors in accordance with the requirements of the Notice and Notification.

The Audit Committee of the Company recommended to the Board that SHINEWING (HK) CPA Limited and Shinewing Certified Public Accountants should be appointed to replace Ernst & Young and Ernst & Young Hua Ming as the Company's international auditors and domestic auditors respectively for the year ended 31 December 2008. The appointment of Shinewing Certified Public Accountants and SHINEWING (HK) CPA Limited as domestic auditors and international auditors of the Company respectively for the year ended 2008 was approved at the extraordinary general meeting of the Company held on 29 December 2008.

(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 2008:

Committee member	**Attendance rates for the year ended 31 December 2008**
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 six executive directors and three independent non-executive directors.

The Strategic Development and Risk Control Committee met once during the year ended 31 December 2008.

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. Fu Qiang
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 following is the attendance record of the Strategic Development and Risk Control Committee meeting for the year ended 31 December 2008:

Committee member	Attendance rates for the year ended 31 December 2008
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. Fu Qiang	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 through the economic crisis.

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 2008, Messrs. Ernst & Young the external international auditors, and Messrs. Ernst & Young Hua Ming, the external domestic auditors, provided 2007 annual accounting statements audit services to the Company, and Ernst & Young provided 2008 interim results review services to the Company. Remuneration for the above services is as follows:

	Remuneration *RMB'000*
2007 annual accounting statements audit services in accordance with the accounting principles generally accepted in Hong Kong and the PRC GAAP respectively	2,980
2008 interim results review services	500

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 2008, 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;
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 42 to 43.

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 2008, 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 2008, 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 2009, 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

22 April 2009

SHINEWING (HK) CPA Limited
16/F., United Centre
95 Queensway, Hong Kong

TO THE SHAREHOLDERS OF GREAT WALL TECHNOLOGY COMPANY LIMITED
(Incorporated in the People's Republic of China with limited liability)

We have audited the consolidated financial statements of Great Wall Technology Company Limited set out on pages 44 to 113, which comprise the consolidated balance sheet as at 31 December 2008, 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 CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated 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 the consolidated 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.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated 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 the true and fair presentation of the consolidated 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 consolidated 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 consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2008 and of the Group's profit and cash flows for the year then ended in accordance with the Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

SHINEWING (HK) CPA Limited
Certified Public Accountants
Pang Wai Hang
Practising Certificate Number: P05044

Hong Kong
22 April 2009

Consolidated Income Statement

For the year ended 31 December 2008

	Notes	**2008** **RMB'000**	2007 RMB'000
Turnover	7	**22,342,353**	23,682,455
Cost of sales		**(21,299,825)**	(22,357,157)
Gross profit		**1,042,528**	1,325,298
Other income and gains	7	**379,558**	297,107
Gain on disposal of available-for-sale investments		**–**	572,806
Compensation for termination of contracts	8	**104,471**	–
Termination fee income	9	**52,235**	–
Selling and distribution costs		**(265,092)**	(290,243)
Administrative expenses		**(550,550)**	(776,893)
Finance costs	11	**(74,134)**	(54,451)
Share of results of associates		**(66,712)**	(11,584)
Profit before tax	12	**622,304**	1,062,040
Income tax expense	15	**(7,576)**	(221,437)
Profit for the year		**614,728**	840,603
Attributable to:			
Equity holders of the Company		**355,639**	308,768
Minority interests		**259,089**	531,835
		614,728	840,603
Dividends	16	**65,876**	–
Earnings per share attributable to equity holders of the Company	17		
– Basic (expressed in RMB per share)		**29.69 cents**	25.78 cents

As at 31 December 2008

	Notes	2008 RMB'000	2007 RMB'000
Non-current assets			
Property, plant and equipment	18	**2,115,672**	2,197,616
Prepaid land lease payments	19	**115,281**	88,396
Investment properties	20	**875,130**	883,920
Intangible assets	21	**4,659**	3,375
Interests in associates	22	**303,899**	448,183
Available-for-sale investments	23	**522,311**	1,148,207
Term deposits	27	**65,008**	160,000
Pledged deposits	27	**3,948**	15,602
Deposits paid for acquisition of property, plant and equipment		**–**	17,253
Deferred tax assets	32	**194,120**	67,305
		4,200,028	5,029,857
Current assets			
Inventories	24	**887,582**	913,370
Trade and bills receivables	25	**1,339,946**	2,898,602
Prepaid land lease payments	19	**3,763**	2,846
Prepayments, deposits and other receivables	26	**300,996**	369,039
Amounts due from fellow subsidiaries	40	**71,182**	5,343
Amounts due from associates	40	**–**	4,651
Term deposits	27	**440,000**	155,000
Pledged deposits	27	**33,408**	23,937
Cash and cash equivalents	27	**2,430,652**	2,404,237
		5,507,529	6,777,025
Current liabilities			
Trade and bills payables	28	**1,754,436**	3,027,224
Other payables and accruals		**505,648**	700,105
Bank and other loans	29	**805,980**	865,000
Tax payable		**105,354**	222,620
Provisions for products warranties	30	**46,239**	59,773
Amount due to intermediate holding company	40	**–**	2,445
Amounts due to fellow subsidiaries	40	**2,342**	24,418
Amounts due to associates	40	**72**	13,625
		3,220,071	4,915,210
Net current assets		**2,287,458**	1,861,815
Total assets less current liabilities		**6,487,486**	6,891,672

Consolidated Balance Sheet

As at 31 December 2008

	Notes	2008 RMB'000	2007 RMB'000
Non-current liabilities			
Financial guarantee contracts	31	**21,140**	12,886
Deferred tax liabilities	32	**87,516**	59,703
Government grants	33	**7,653**	23,640
		116,309	96,229
Net assets		**6,371,177**	6,795,443
Capital and reserves			
Share capital	34	**1,197,742**	1,197,742
Reserves		**2,599,836**	2,509,071
Equity attributable to equity holders of the Company		**3,797,578**	3,706,813
Minority interests		**2,573,599**	3,088,630
Total equity		**6,371,177**	6,795,443

The consolidated financial statements on pages 44 to 113 were approved and authorised for issue by the board of directors on 22 April 2009:

Director *Director*

For the year ended 31 December 2008

	Equity attributable to equity holders of the Company												
	Share capital	Share premium account	Goodwill reserve	Asset revaluation reserve	Available-for-sale investment revaluation reserve	Statutory reserve (Note)	Translation reserve	Other reserve	Retained profits	Proposed final dividend	Total	Minority interests	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	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 difference arising from translation of foreign operations	–	–	–	–	–	–	(17,702)	–	–	–	(17,702)	(9,487)	(27,189)
Changes in fair value of available-for-sale investments	–	–	–	–	(50,654)	–	–	–	–	–	(50,654)	(55,273)	(105,927)
Deferred tax on changes in fair value of available-for-sale investments	–	–	–	–	25,367	–	–	–	–	–	25,367	27,681	53,048
Disposal of available-for-sale investments	–	–	–	–	(148,919)	–	–	–	–	–	(148,919)	(151,683)	(300,602)
Changes in fair value of transferred owner-occupied properties at transfer date	–	–	–	34,569	–	–	–	–	–	–	34,569	–	34,569
Total income and expense recognised directly in equity	–	–	–	34,569	(174,206)	–	(17,702)	–	–	–	(157,339)	(188,762)	(346,101)
Profit for the year	–	–	–	–	–	–	–	–	308,768	–	308,768	531,835	840,603
Total recognised income and expense for the year	–	–	–	34,569	(174,206)	–	(17,702)	–	308,768	–	151,429	343,073	494,502
Dividends attributable to minority shareholders	–	–	–	–	–	–	–	–	–	–	–	(201,094)	(201,094)
Share of reserves of associates	–	–	–	–	–	–	(4,432)	–	–	–	(4,432)	(3,307)	(7,739)
Disposal of subsidiaries (Note 36)	–	–	–	–	–	–	–	–	–	–	–	(5,952)	(5,952)
Transfer	–	–	–	–	–	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

For the year ended 31 December 2008

	Equity attributable to equity holders of the Company												
	Share capital	Share premium account	Goodwill reserve	Asset revaluation reserve	Available-for-sale investment revaluation reserve	Statutory reserve (Note)	Translation reserve	Other reserve	Retained profits	Proposed final dividend	Total	Minority interests	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2008	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
Exchange difference arising from translation of foreign operations	–	–	–	–	–	(8,318)	(6,321)	–	–	–	(14,639)	(37,735)	(52,374)
Changes in fair value of available-for-sale investments	–	–	–	–	(300,986)	–	–	–	–	–	(300,986)	(328,429)	(629,415)
Deferred tax on changes in fair value of available-for-sale investments	–	–	–	–	48,941	–	–	–	–	–	48,941	53,403	102,344
Changes in fair value of transferred owner-occupied properties at transfer date	–	–	–	16,235	–	–	–	–	–	–	16,235	–	16,235
Deferred tax on changes in fair value of transferred owner-occupied properties at transfer date	–	–	–	(3,247)	–	–	–	–	–	–	(3,247)	–	(3,247)
Total income and expense recognised directly in equity	–	–	–	12,988	(252,045)	(8,318)	(6,321)	–	–	–	(253,696)	(312,761)	(566,457)
Profit for the year	–	–	–	–	–	–	–	–	355,639	–	355,639	259,089	614,728
Total income and expense for the year	–	–	–	12,988	(252,045)	(8,318)	(6,321)	–	355,639	–	101,943	(53,672)	48,271
Dividends attributable to minority shareholders	–	–	–	–	–	–	–	–	–	–	–	(363,548)	(363,548)
Share of reserves of associates	–	–	–	–	–	–	(4,831)	–	–	–	(4,831)	(3,605)	(8,436)
Acquisition of additional interests in a subsidiary (Note 42)	–	–	–	–	–	–	–	(6,347)	–	–	(6,347)	(94,206)	(100,553)
Proposed final dividend	–	–	–	–	–	–	–	–	(65,876)	65,876	–	–	–
Transfer	–	–	–	–	–	7,387	–	–	(7,387)	–	–	–	–
At 31 December 2008	1,197,742	997,498	(28,155)	47,557	(277,332)	906,689	(47,611)	(6,347)	941,661	65,876	3,797,578	2,573,599	6,371,177

Note: In accordance with the relevant People's Republic of China (the "PRC") rules and regulations, subsidiaries established in the PRC are required to set aside 10% of their profit after income tax as recorded in the PRC statutory financial statements as statutory reserves, except where the reserve fund balance has reached 50% of the subsidiaries' registered capital. The reserve fund can only be used to make good the subsidiaries' previous years' losses, to expand the subsidiaries' production operations or to increase the capital of the subsidiaries.

For the year ended 31 December 2008

	2008 RMB'000	2007 RMB'000
OPERATING ACTIVITIES		
Profit before tax	**622,304**	1,062,040
Adjustments for:		
Finance costs	**74,134**	54,451
Interest income	**(65,285)**	(65,873)
Interest income from loan to associates	**(778)**	(4,068)
Share of results of associates	**66,712**	11,584
Discount on acquisition of a subsidiary	**(4,609)**	–
Dividend income from listed available-for-sale investments	**(39,796)**	–
Dividend income from unlisted available-for-sale investments	**(42,617)**	(57,521)
(Gain) loss on disposal of property, plant and equipment	**(8,477)**	20,792
Loss on disposal of subsidiaries	**–**	6,349
Loss on disposal of an associate	**2,792**	–
Gain on disposal of prepaid land lease payments	**(6,214)**	–
Depreciation of property, plant and equipment	**366,643**	304,789
Fair value gain on investment properties	**(40,053)**	(91,472)
Amortisation of prepaid land lease payments	**2,846**	2,802
Amortisation of intangible assets	**1,033**	1,080
Changes in fair value of financial guarantee contracts	**8,254**	11,557
Impairment of loans to associates	**32,073**	161,798
Impairment of trade receivables	**33,734**	–
Reversal of impairment of trade receivables	**(19,287)**	(1,794)
Reversal of impairment of other receivables	**(49,089)**	–
Impairment of other receivables	**31,950**	19,772
Allowance for inventories	**30,952**	11,753
Reversal of accrued staff costs	**(13,930)**	–
Reversal of allowance for inventories	**–**	(14,223)
Impairment of property, plant and equipment	**6,046**	8,113
Gain on disposal of equity investments at fair value through profit and loss ("FVTPL")	**(10,050)**	(31,145)
Gain on disposal of available-for-sale investments	**–**	(572,806)
Operating cash flows before movements in working capital	**979,288**	837,978
Increase in inventories	**(5,164)**	(98,031)
Decrease (increase) in trade and bills receivables	**1,544,209**	(925,024)
Decrease (increase) in prepayments, deposits and other receivables	**85,709**	(1,210)
Decrease in amounts due from associates	**4,651**	56,264
Increase in amounts due from fellow subsidiaries	**(65,839)**	(3,668)
(Decrease) increase in trade and bills payables	**(1,273,764)**	792,930
(Decrease) increase in other payables and accruals	**(361,402)**	53,702
(Decrease) increase in amount due to the intermediate holding company	**(2,445)**	1,081
(Decrease) increase in amounts due to fellow subsidiaries	**(22,076)**	22,124
Decrease in amounts due to associates	**(13,553)**	(55,797)
(Decrease) increase in provisions	**(13,534)**	6,771
Cash generated from operations	**856,080**	687,120
PRC Enterprise Income Tax paid	**(118,810)**	(39,030)
Hong Kong profits tax paid	**(5,937)**	(4,803)
NET CASH FROM OPERATING ACTIVITIES	**731,333**	643,287

For the year ended 31 December 2008

	Notes	2008 RMB'000	2007 RMB'000
INVESTING ACTIVITIES			
Proceeds from disposal of property, plant and equipment		**311,707**	25,392
Repayment (advance) of loans to associates		**160,238**	(20,012)
Dividend received from listed available-for-sale investment		**39,796**	–
Dividends received from unlisted available-for-sale investments		**42,617**	57,521
Interest received		**65,285**	66,822
Proceeds from disposal of an associate		**31,796**	–
Proceeds from disposal of equity investments at FVTPL		**28,718**	59,608
Dividends received from associates		**19,220**	18,122
Proceeds from disposal of prepaid land lease payments		**8,301**	291
Acquisition of a subsidiary	35	**2,605**	–
Decrease (increase) in pledged deposits		**2,183**	(15,422)
Purchase of property, plant and equipment		**(517,057)**	(685,449)
Increase in term deposits with terms over three months		**(190,008)**	(315,000)
Capital injection to associates		**(172,600)**	–
Acquisition of additional interests in a subsidiary		**(100,553)**	–
Addition to prepaid land lease payments		**(28,561)**	(4,787)
Purchases of available-for-sale investments		**(3,519)**	(1,139,626)
Purchases of equity investments at FVTPL		**(18,668)**	(28,463)
Additions to intangible assets		**(947)**	(2,015)
Proceeds from disposal of available-for-sale investments		**–**	596,313
Disposal of subsidiaries	36	**–**	(2,620)
NET CASH USED IN INVESTING ACTIVITIES		**(319,447)**	(1,389,325)
FINANCING ACTIVITIES			
Repayment of bank loans		**(865,000)**	(769,248)
Dividends paid to minority shareholders		**(182,673)**	(203,499)
Interest paid		**(74,536)**	(54,558)
Government grants used		**(21,099)**	(7,218)
New bank loans		**805,980**	1,185,000
Government grants raised		**5,112**	11,124
NET CASH (USED IN) FROM FINANCING ACTIVITIES		**(332,216)**	161,601
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**79,670**	(584,437)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**2,404,237**	2,980,882
EFFECT OF FOREIGN EXCHANGE RATE CHANGES, NET		**(53,255)**	7,792
CASH AND CASH EQUIVALENTS AT END OF YEAR, representing bank balances and cash		**2,430,652**	2,404,237

1. CORPORATE INFORMATION

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

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.

These consolidated financial statements are presented in Renminbi ("RMB") which is the same as the functional currency of the Company.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In the current year, the Group has applied the following amendments and interpretations ("INTs") (herein collectively referred to as "New HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), which are or have become effective.

Hong Kong Accounting Standard ("HKAS") 39 and HKFRS 7 (Amendments)	*Reclassification of Financial Assets*
HK(IFRIC)-INT 11	*HKFRS 2 – Group and Treasury Share Transactions*
HK(IFRIC)-INT 12	*Service Concession Arrangements*
HK(IFRIC)-INT 14	*HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*

The adoption of the New HKFRSs had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

The Group has not early applied the following new and revised standards, amendments and INTs that have been issued but are not yet effective.

HKFRSs (Amendments)	*Improvements to HKFRSs*[1]
HKAS 1 & 32 (Amendments)	*Puttable Financial Instruments and Obligations Arising on Liquidation*[2]
HKAS 1(Revised)	*Presentation of Financial Statements*[2]
HKAS 23 (Revised)	*Borrowing Costs*[2]
HKAS 27 (Revised)	*Consolidated and Separate Financial Statements*[3]
HKAS 39 (Amendment)	*Eligible hedged items*[3]
HKFRS 1 (Revised)	*First-time Adoption of HKFRSs*[3]
HKFRS 1 & HKAS 27 (Amendments)	*Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*[2]
HKFRS 2 (Amendment)	*Share-based Payment – Vesting Conditions and Cancellations*[2]
HKFRS 3 (Revised)	*Business Combinations*[3]
HKFRS 7 (Amendment)	*Financial Instruments Disclosures – Improving Disclosures about Financial Instruments*[2]
HKFRS 8	*Operating Segments*[2]
HKFRS 7 (Amendments)	*Financial Instruments Disclosures – Improving Disclosures about Financial Instruments*[2]
HK(IFRIC)-Int 9 & HKAS 39 (Amendments)	*Embedded Derivatives*[6]
HK(IFRIC)-Int 13	*Customer Loyalty Programmes*[4]
HK(IFRIC)-Int 15	*Agreements for the Construction of Real Estate*[2]
HK(IFRIC)-Int 16	*Hedges of a Net Investment in a Foreign Operation*[5]
HK(IFRIC)-Int 17	*Distributions of non-cash Assets to Owners*[3]
HK(IFRIC)-Int 18	*Transfers of Assets from Customers*[7]

1 Effective for annual periods beginning on or after 1 January 2009 except the amendments to HKFRS 5, effective for annual periods beginning on or after 1 July 2009
2 Effective for annual periods beginning on or after 1 January 2009
3 Effective for annual periods beginning on or after 1 July 2009
4 Effective for annual periods beginning on or after 1 July 2008
5 Effective for annual periods beginning on or after 1 October 2008
6 Effective for annual periods ending or after 30 June 2009
7 Effective for transfer of assets from customers received on or after 1 July 2009

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

The application of HKFRS 3 (Revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. HKAS 27 (Revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary. The directors of the Company anticipate that the application of the other new and revised standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis, except for investment properties and certain financial instruments, which are measured at fair values, as explained in the accounting policies set out below.

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Stock Exchange") ("Listing Rules") and by the Hong Kong Companies Ordinance.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of business acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the consolidation. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Business combinations

The acquisition of businesses is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under HKFRS 3 Business Combinations are recognised at their fair values at the acquisition date.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

Acquisition of additional interest in a subsidiary

When the Group increases its interest in an entity that is already controlled by the Group, goodwill arising on such acquisition represents the difference between the cost of additional interest acquired and the increase in the Group's share of the net carrying amount of the identifiable assets, liabilities and contingent liabilities acquired. The difference between the cost of additional interest acquired and the net carrying value of the identifiable assets, liabilities and contingent liabilities attributable to the additional interest acquired is recognised as a reserve movement (other reserve). The amount represents the difference that arose since the original acquisition date that is attributable to the Group's increased interest in the subsidiary. On the subsequent disposal of the subsidiary, the reserve is transferred to retained profits.

Excess of an acquirer's interest in the net fair value of an acquiree's identifiable assets, liabilities and contingent liabilities over cost ("discount on acquisitions")

A discount on acquisition arising on an acquisition of a subsidiary represents the excess of the net fair value of an acquiree's identifiable assets, liabilities and contingent liabilities over the cost of the business combination. Discount on acquisition is recognised immediately in profit or loss.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Goodwill (Continued)

Goodwill arising on acquisitions prior to 1 January 2005

Goodwill arising on acquisitions of subsidiaries prior to 1 January 2001 continues to be held in reserves, and will be charged to the retained profits at the time when the business to which the goodwill relates is disposed of or when a cash-generating unit to which the goodwill relates becomes impaired.

Investments in associates

An associate is an entity over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of net assets of the associates, less any identified impairment loss.

When the Group's share of losses of an associate equals or exceeds its interest in that associate, the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold and services provided in the normal course of business, net of discounts and sales related taxes.

Revenue 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;

Income from the rendering of services is recognised when services performed;

Rental income is recognised on a time proportion basis over the lease terms;

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition (Continued)

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount;

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established; and

Royalty income is recognised when the rights to receive payment have been established.

Property, plant and equipment

Property, plant and equipment including land and buildings held for use in the production or supply of goods or services, or for administrative purposes other than construction in progress are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost of items of property, plant and equipment other than construction in progress over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method.

Construction in progress includes property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognised impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated income statement in the year in which the item is derecognised.

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 rentals and/or for capital appreciation.

On initial recognition, investment properties are measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at their fair values using the fair value model. Gains or losses arising from changes in the fair value of investment properties are included in profit or loss for the period in which they arise.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investment properties (Continued)

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated income statement in the year in which the item is derecognised.

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 because its use has changed as evidenced by end of owner-occupation, any difference at that date between the carrying amount and the fair value of the property is accounted for in assets 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 consolidated income statement. Any subsequent revaluation surplus is credited to the consolidated income statement to the extent of the deficit previously charged. On subsequent disposal of the investment property, the assets revaluation reserve included in equity may be transferred to retained profits. The transfer from assets revaluation reserve to retained profits 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 consolidated income statement.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognised in the consolidated income statement on a straight-line basis over the term of the relevant lease.

The Group as lessee

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leasing (Continued)

Leasehold land and building

The land and building elements of a lease of land and building are considered separately for the purpose of lease classification, unless the lease payments cannot be allocated reliably between the land and building elements, in which case, the entire lease is generally treated as a finance lease and accounted for as property, plant and equipment. To the extent the allocation of the lease payments can be made reliably, leasehold interests in land are accounted for as operating leases except for those that are classified and accounted for as investment properties under the fair value model.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value, are included in profit or loss for the period.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. RMB) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year. Exchange differences arising, if any, are recognised as a separate component of equity (the translation reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Borrowing costs

Borrowing cost directly attributable to the acquisition, construction or production of qualifying assets, are capitalized as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. All other borrowing costs are recognised in profit or loss in the year in which they are incurred.

Government grants

Government grants are recognised as income over the periods necessary to match them with the related costs. Grants related to depreciable assets are presented as a deduction from the carrying amount of the relevant asset and are released to income over the useful lives of the assets. Grants related to expense items are recognised in the same period as those expenses are charged in the consolidated income statement and are reported separately as "other income and gains".

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Retirement benefits costs

Payments to retirement benefits schemes are charged as an expense when employees have rendered service entitling them to the contributions.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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 profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Intangible assets

Intangible assets acquired separately

Intangible assets acquired separately and with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives.

Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the consolidated income statement when the asset is derecognised.

Research and development expenditure

Expenditure on research activities is recognised as an expense in the year in which it is incurred.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss ("FVTPL")) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are classified into one of the three categories, including financial assets at FVTPL, loans and receivables and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

Interest income is recognised on an effective interest basis for debt instruments.

Financial assets at FVTPL

The Group's financial assets at FVTPL comprise financial asset classified as held for trading.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

At each balance sheet date subsequent to initial recognition, financial assets at FVTPL are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss excluded any dividend or interest earned on the financial assets.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including trade and bills receivables, deposits and other receivables, amounts due from fellow subsidiaries and associates, pledged deposits, term deposits and bank balances are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at FVTPL or loans and receivables.

At each balance sheet date subsequent to initial recognition, available-for-sale financial assets are measured at fair value. Changes in fair value are recognised in equity, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously recognised in equity is removed from equity and recognised in profit or loss (see accounting policy on impairment loss on financial assets below).

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition (see accounting policy on impairment loss on financial assets below).

Impairment loss on financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been impacted.

For an available-for-sale equity investment, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or

- default or delinquency in interest or principal payments; or

- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment loss on financial assets (Continued)

For certain categories of financial asset, such as trade and other receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of trade and other receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the credit period, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, an impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade and other receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade and other receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Impairment losses on available-for-sale equity investments will not be reversed in profit or loss in subsequent periods. Any increase in fair value subsequent to impairment loss is recognised directly in equity. For available-for-sale debt investments, impairment losses are subsequently reversed if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. The Group's financial liabilities are generally classified into financial liabilities at FVTPL and other financial liabilities.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period. Interest expense is recognised on an effective interest basis.

Other financial liabilities

Other financial liabilities, including trade and bills payables, other payables and accruals, amounts due to intermediate holding company, fellow subsidiaries and associates, financial guarantee contracts and bank and other loans are subsequently measured at amortised cost, using the effective interest rate method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. A financial guarantee contract issued by the Group is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid or payable is recognised in profit or loss.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

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.

Impairment losses on tangible and intangible assets

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as other income immediately.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the Group's accounting policies which are described in note 3, the directors of the Company are required to make judgements, management has made the following estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. that have the most significant effect on the amounts recognised in the consolidated financial statements in the next financial year are discussed below.

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

Critical judgements in applying the entity's accounting policies

The followings are the critical judgements, apart from those involving estimations that the directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

Land use rights

Despite the Group has paid the full purchase consideration, formal titles of certain of the Group's rights to the use of the land were not yet granted from the relevant government authorities. In the opinion of the directors, the absence of formal title to these land use rights does not impair the value of the relevant properties to the Group.

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.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

Critical judgements in applying the entity's accounting policies (Continued)

Classification between investment properties and owner-occupied properties (continued)

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.

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. Further details of which are disclosed in note 32.

Key sources of estimation uncertainty

The followings are 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.

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. 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.

Estimated impairment of property, plant and equipment

During the year, impairment loss on property, plant and equipment was recognised in the consolidated income statement. Determining whether property, plant and equipment are impaired requires an estimation of the recoverable amount of the property, plant and equipment. Such estimation was based on certain assumptions, which are subject to uncertainty and might materially differ from the actual results.

Estimate impairment loss of trade and other receivables

The policy for making impairment loss on trade and other receivables of the Group is based on the evaluation of collectability and aging analysis of accounts and on management's judgement. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each debtor. If the financial conditions of debtors of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional impairment loss may be required.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

Key sources of estimation uncertainty (Continued)

Estimated impairment of loans to associates

During the year, impairment loss on loans to associates was recognised in the consolidated income statement. Determining whether the loans to associates are impaired requires an estimation of the recoverable amount of the respective loans. Such estimation was based on certain assumptions, which are subject to uncertainty and might materially differ from the actual results.

Estimated allowance for inventories

The management of the Group reviews the inventories listing on a product-by-product basis at each balance sheet date and makes allowance for slow moving inventory items amounting to approximately RMB30,952,000 (2007: RMB11,753,000). The management estimates the net realisable value for such items based primarily on the latest invoice prices and current market conditions.

Income tax

The Group is subject to income taxes in several jurisdictions. There are certain transactions and calculations for which the ultimate tax determination may be uncertain. The Group recognises liabilities for anticipated tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred tax provisions in the period in which such determination is made.

Estimation of fair value of financial guarantee contracts

The Group considers information from a variety of sources for the estimation of the fair value of financial guarantee contracts. The principal assumptions for the Group's estimation of the fair value include those related to the probability of default by the specified counterparty extrapolated from the market-based credit information and the amount of loss given the default.

Provision for products warranties

As explained in note 30, the Group makes provisions under the warranties it gives on sale of electronic products taking into account the Group's past experience of the level of repairs and returns. As the Group are continually upgrading its product designs and launching new models it is possible that the past experience of the level of repairs and returns is not indicative of future claims that the Group will receive in respect of past sales. Any increase or decrease in the provision would affect profit or loss in future years.

5. FINANCIAL INSTRUMENTS BY CATEGORY

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

Financial assets

	2008 **RMB'000**	2007 RMB'000
Loans and receivables (including cash and cash equivalents)	**4,560,696**	5,845,889
Available-for-sale investments	**522,311**	1,148,207
	5,083,007	6,994,096

Financial liabilities

	2008 **RMB'000**	2007 RMB'000
Financial liabilities at amortised cost	**2,938,640**	4,570,296
Financial guarantee contracts at fair value	**21,140**	12,886
	2,959,780	4,583,182

6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise available-for-sale investments, bank and other loans, pledged and term deposits and cash and cash equivalents and balances with intermediate holding company, fellow subsidiaries and associates and financial guarantee contracts. 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 and bills receivables, deposits and other receivables and trade and bills payables, other payables and accruals, which arise directly from its operations.

The main risks arising from the Group's financial instruments are credit risk, liquidity risk, interest rate risk, foreign currency risk and equity price risk. The policies on how to mitigate these risks are set out below. The Group's overall risk management programme focus on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Credit risk

The Group trades only with recognised and creditworthy third parties and there is no requirement for collateral. The credit risk of the Group's other financial assets, which comprise pledged and term deposits and cash and cash equivalents, amounts due from fellow subsidiaries and associates, trade and other receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these financial assets. The Group is also exposed to credit risk through the granting of financial guarantees, further details of which are disclosed in note 31.

At the balance sheet date, the Group has certain concentrations of credit risk as 34% (2007: 20%) and 68% (2007: 58%) of the Group's trade receivables were due from the Group's largest customer and five largest customers, respectively.

The bank balances and pledged and term deposits are deposited with creditworthy banks with no recent history of default.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts and the contingent liabilities arising from the financial guarantees provided. In addition, the Group reviews the recoverable amount of each individual trade debt and the financial guarantee provided at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

Interest rate risk

The Group's fair value interest rate risk relates primarily to the Group's pledged and term deposits, bank balances and bank and other loans. The Group's is exposed to fair value interest rate risk in relation to fixed-rate pledged and term deposits, bank balances and bank and other loans. The Group historically has not used any financial instruments to hedge potential fluctuations in interest rates.

As the management considers the Group's exposure to the above fair value interest rate risk is not significant, no interest-rate swaps or other hedging activities are undertaken by management during two years ended 31 December 2008.

6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Foreign currency risk

The Group has transactional currency exposures. These exposures arise from sales or purchases by the Group's subsidiaries in currencies other than their respective functional currency, primarily with respect to United States dollar ("US$"). The Group's exposure to currency risk is attributable to the trade receivables and trade payables, pledged bank and term deposits and cash and cash equivalents of the Group which are denominated in US$. The functional currencies of the relevant group entities are RMB and HK$. The Group does not have a foreign currency hedging policy in respect of foreign currency exposure. However, the directors monitor the related foreign currency exposure and will consider hedging significant foreign currency exposure should the need arise.

The following table demonstrates the sensitivity at the balance sheet date to a reasonably possible change in the US$ 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.

	Increase (decrease) in US$	**Increase (decrease) in profit before tax and equity**
	%	RMB'000
2008		
If RMB weakens against US$	**5**	**49,743**
If RMB strengthens against US$	**–5**	**(49,743)**
2007		
If RMB weakens against US$	5	46,426
If RMB strengthens against US$	–5	(46,426)

6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Foreign currency risk (Continued)

Monetary assets and liabilities in the consolidated balance sheet are mainly the following amounts denominated in currencies other than the functional currency of the Group to which they relate:

	2008	2007
	RMB'000	RMB'000
Monetary assets		
Trade receivables	**170,053**	326,858
Pledged and term deposits and cash and cash equivalents	**103,906**	82,946
	273,959	409,804
Monetary liabilities		
Trade payables	**128,085**	254,112

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank and other loans. All the Group's other financial liabilities (including trade and bills payables, other payables and accruals, amounts due to intermediate holding company, fellow subsidiaries and associates, financial guarantee contracts and bank and other loans) would mature in less than one year as at 31 December 2008. The contractual undiscounted cash flows of these other financial liabilities equal their carrying balances, as the impact of discounting is not significant.

Equity price risk

Equity price risk is the risk that the fair values of equity securities decrease as a result of changes in the value of individual securities. The Group is exposed to equity price risk arising from individual equity investments classified as available-for-sale investments as at 31 December 2007 and 2008. The Group's listed investments are listed on the Stock Exchange and are valued at quoted market prices at the 31 December 2007 and 2008.

6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Equity price risk (Continued)

The sensitivity analyses below have been determined based on the exposure to equity price risk at the reporting date. As a result of the volatile financial market, the management adjusted the sensitivity rate from 10% to 30% in the current year for the purpose of analysing the equity price risk.

If the prices of the respective equity instruments had been 30% (2007: 10%) higher/lower, with all other variables held constant and based on their carrying amounts at the balance sheet date, the equity as at 31 December 2008 increase/decrease by approximately RMB132,283,000 (2007: RMB107,036,000) as a result of the changes in fair value of available-for-sale investments.

Fair value estimation

The directors consider the fair values of trade and bills receivables; deposits and other receivables; amounts due from (to) fellow subsidiaries and associates; pledged and term deposits; cash and cash equivalents; trade and bills payables; other payables and accruals reported in the consolidated balance sheet approximate their carrying amounts due to their immediate or short-term maturities.

The fair value of financial guarantee contracts is determined using option pricing models where the main assumptions are the probability of default by the specified counterparty extrapolated from the market-based credit information and the amount of loss given the default.

The directors consider that the carrying amounts of bank and other loans recorded at amortised cost in the consolidated financial statements approximate their fair values because of the loan rate currently available for loans with similar terms and maturities.

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 shareholders 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 two years ended 31 December 2008.

7. TURNOVER, OTHER INCOME AND GAINS

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 turnover, other income and gains is as follows:

	2008 RMB'000	2007 RMB'000
Turnover		
Sale of goods	**22,140,898**	23,487,554
Rendering of services	**83,000**	94,552
Gross rental income (Note)	**118,455**	100,349
	22,342,353	23,682,455
Other income		
Royalty income	**–**	20,799
Bank interest income	**65,285**	65,873
Interest income from loans to associates	**778**	4,068
Dividend income from listed available-for-sale investments	**39,796**	–
Dividend income from unlisted available-for-sale investments	**42,617**	57,521
Government grant (Note 33)	**36,575**	–
Refund of value added tax	**88**	632
Sale of scrap materials	**11,814**	3,639
Reversal of impairment of trade receivables	**19,287**	1,794
Reversal of impairment of other receivables	**49,089**	–
Reversal of allowance for inventories	**–**	14,223
Reversal of provision for products warranties	**22,305**	–
Reversal of accrued staff costs	**13,930**	–
Discount on acquisition of a subsidiary	**4,609**	–
Others	**8,591**	5,941
	314,764	174,490
Gains		
Gain on disposal of property, plant and equipment	**8,477**	–
Gain on disposal of prepaid land lease payments	**6,214**	–
Gain on disposal of equity investments at FVTPL	**10,050**	31,145
Fair value gains on investment properties	**40,053**	91,472
	64,794	122,617
	379,558	297,107

7. TURNOVER, OTHER INCOME AND GAINS (Continued)

Note:

	2008 RMB'000	2007 RMB'000
Gross rental income	**118,455**	100,349
Less: direct expenses	**(37,000)**	(27,015)
Net rental income	**81,455**	73,334

8. COMPENSATION FOR TERMINATION OF CONTRACTS

During the year, the Group entered into a settlement agreement with a customer, pursuant to which both parties agreed to terminate certain agreements in connection with the manufacturing and sale of computer related products and the provision of repairing works (the "Termination") and the sale of certain production assets to this customer. This customer agreed to pay an aggregate amount equivalent to approximately RMB218.5 million as settlement of all the liabilities to the Group for termination of these agreements and an amount equivalent to approximately RMB88.8 million as consideration for the purchase of the production assets from the Group. As a result of the Termination, the Group recognised an income of approximately RMB104,471,000 for the year ended 31 December 2008. No concrete plan has been formulated by the Group as at 31 December 2008 in respect of the Termination as the Group is not able to estimate certain transition costs and liabilities to be incurred arising from the Termination as at the balance sheet date.

9. TERMINATION FEE INCOME

On 12 December 2007, the Company entered into an agreement with ExcelStor Group Limited, ExcelStor Holdings Limited and Iomega Corporation (the "Agreement") pursuant to which the Company, ExcelStor Group Limited and ExcelStor Holdings Limited (collectively the "Vendors"), conditionally agreed to sell the entire equity interests in ExcelStor Great Wall Technology Limited and Shenzhen ExcelStor Limited (both are subsidiaries of the Company which the Company held 61.68% equity interests) to Iomega Corporation at a consideration of US$50,000.00 ("Cash Consideration") plus 60% of the issued shares of Iomega Corporation to the Vendors (the "Transaction"). The Transaction constitutes a major and connected transaction for the Company under the Listing Rules.

On 8 April 2008, Iomega Corporation served a notice of termination to the Vendors, by which Iomega Corporation terminated the Agreement with effect from 8 April 2008 pursuant to the terms of the Agreement. No deposit or consideration in respect of the Transaction had been received by the Company and Iomega Corporation has paid to the Vendors the termination fee in the total amount of US$7,500,000 (equivalent to approximately RMB52,235,000). Such termination fee has been recognised as an income for the year accordingly.

10. SEGMENT INFORMATION

Business segments

As at 31 December 2008, the Group has the following main business segments:

(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 related businesses.

The following tables present revenue, profit and certain asset, liability and expenditure information for the Group's business segments for the two years ended 31 December 2008 and 2007.

Year ended 31 December 2008	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	20,146,744	1,306,684	118,455	770,470	–	22,342,353
Other income and gains	260,365	11,870	–	34,533	–	306,768
Intersegment sales	5,309,745	–	8,657	–	(5,318,402)	–
Total	25,716,854	1,318,554	127,112	805,003	(5,318,402)	22,649,121
Segment results before increase in fair value of investment properties	576,524	37,929	101,340	(45,898)	(48,949)	620,946
Fair value gains on investment properties	–	–	40,053	–	–	40,053
Segment results after increase in fair value of investment properties	576,524	37,929	141,393	(45,898)	(48,949)	660,999
Unallocated gains						189,443
Corporate and other unallocated expenses						(87,292)
Finance costs						(74,134)
Share of results of associates	(11,871)	(1,129)	–	(53,712)	–	(66,712)
Profit before tax						622,304
Income tax expense						(7,576)
Profit for the year						614,728

For the year ended 31 December 2008

10. SEGMENT INFORMATION (Continued)

Business segments (Continued)

Year ended 31 December 2008	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	304,341	54,472	–	2,189	–	361,002
Corporate and other unallocated amounts						9,520
						370,522
Capital expenditure	507,593	37,514	–	370	–	545,477
Corporate and other unallocated amounts						1,490
						546,967
Impairment losses and allowance recognised in the consolidated income statement	37,085	15,528	–	23,291	–	75,904
Corporate and other unallocated amounts						58,851
						134,755
Impairment losses and allowance reversed in the consolidated income statement	(6,601)	(47,775)	–	(14,000)	–	(68,376)
Corporate and other unallocated amounts						–
						(68,376)
Loss on disposal of an associate	2,792	–	–	–	–	2,792
Change in fair value of financial guarantee contracts	8,254	–	–	–	–	8,254
Provision for product warranties	29,057	–	–	–	–	29,057
At 31 December 2008						
Assets and liabilities						
Segment assets	3,742,399	675,139	875,130	268,907	–	5,561,575
Interests in associates	288,851	12,661	–	2,387	–	303,899
Corporate and other unallocated assets						3,842,083
Total assets						9,707,557
Segment liabilities	1,075,176	675,630	–	192,000	–	1,942,806
Corporate and other unallocated liabilities						1,393,574
Total liabilities						3,336,380

10. SEGMENT INFORMATION (Continued)

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
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
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 results of associates	24,471	5,287	–	(41,342)	–	(11,584)
Profit before tax						1,062,040
Income tax expense						(221,437)
Profit for the year						840,603

10. SEGMENT INFORMATION (Continued)

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 and allowance recognised in the consolidated income statement	44,938	–	–	16,109	–	61,047
Corporate and other unallocated amounts						140,389
						201,436
Impairment losses and allowance reversed in the consolidated income statement	(8,709)	(7,308)	–	–	–	(16,107)
Corporate and other unallocated amounts						–
						(16,107)
Change in fair value of financial guarantee contracts	11,557	–	–	–	–	11,557
Loss on disposal of property, plant and equipment	20,792	–	–	–	–	20,792
Loss on disposal of subsidiaries	6,349	–	–	–	–	6,349
Provision for product warranties	26,209	–	–	–	–	26,209
At 31 December 2007						
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

10. SEGMENT INFORMATION (Continued)

(b) Geographical segments

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

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	
	2008	2007
	RMB'000	RMB'000
The PRC (including Hong Kong)	**7,794,314**	9,380,048
Asia Pacific (excluding the PRC)	**6,633,597**	4,861,049
North America	**7,695,279**	8,710,371
Others	**219,163**	730,987
	22,342,353	23,682,455

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.

11. FINANCE COSTS

	2008	2007
	RMB'000	RMB'000
Interest on bank and other loans, wholly repayable within five years	**70,980**	44,624
Interest to a fellow subsidiary	**126**	402
Interest on discounted bills without recourse	**3,430**	9,425
Total borrowing costs	**74,536**	54,451
Less: amounts capitalised	**(402)**	–
	74,134	54,451

Borrowing costs capitalised at rate of 7.20% during the year arose on bank loans to finance expenditure on qualifying assets.

12. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging:

	2008 RMB'000	2007 RMB'000
Staff costs (including directors' remuneration (Note 11)):		
Wages and salaries	494,526	444,162
Compensation for loss of office	56,617	–
Contributions to retirement benefits schemes	43,186	27,566
	594,329	471,728
Cost of inventories sold	21,199,848	22,316,740
Cost of services provided	62,976	13,402
Depreciation of property, plant and equipment	366,643	304,789
Amortisation of prepaid land lease payments (included in administrative expense)	2,846	2,802
Amortisation of intangible assets (included in administrative expense)	1,033	1,080
Auditors' remuneration	7,102	7,535
Research and development costs	40,583	95,091
Minimum lease payment under operating leases of land and buildings	9,788	6,025
Foreign exchange differences, net	48,895	42,561
Impairment of property, plant and equipment (included in administrative expense)	6,046	8,113
Impairment of loans to associates (included in administrative expense)	32,073	161,798
Impairment of trade receivables (included in administrative expense)	33,734	–
Impairment of other receivables (included in administrative expense)	31,950	19,772
Allowance for inventories (included in cost of sales)	30,952	11,753
Additional provision for product warranties	29,057	26,209
Change in fair value of financial guarantee contracts	8,254	11,557
Loss on disposal of property, plant and equipment	–	20,792
Loss on disposal of an associate	2,792	–
Loss on disposal of subsidiaries	–	6,349
Share of tax of associates	3,692	3,310

13. EMOLUMENTS OF DIRECTORS AND SUPERVISORS

Details of emoluments of directors and supervisors for the year are analysed as follows:

For the year ended 31 December 2008	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Bonuses RMB'000	Retirement benefits scheme contributions RMB'000	Total RMB'000
Executive directors					
Mr. Lu Ming	–	–	–	–	–
Mr. Tam Man Chi	**100**	**2,928**	**2,214**	**217**	**5,459**
Mr. Wang jincheng	**100**	–	–	–	**100**
Mr. Yang Jun	–	–	–	–	–
Mr. Su Duan	**100**	–	–	–	**100**
Mr. Fu Qiang	**58**	–	–	–	**58**
	358	**2,928**	**2,214**	**217**	**5,717**
Independent non-executive directors					
Mr. Li Sanli	**100**	–	–	–	**100**
Ms. Wang Qinfang	**100**	–	–	–	**100**
Mr. Kennedy Ying Ho Wong	**100**	–	–	–	**100**
	300	–	–	–	**300**
Supervisors					
Ms. Kong Xueping	**50**	–	–	–	**50**
Mr. Song Jianhua	**50**	–	–	–	**50**
Mr. Lang Jia	–	–	–	–	–
	100	–	–	–	**100**
Total	**758**	**2,928**	**2,214**	**217**	**6,117**

13. EMOLUMENTS OF DIRECTORS AND SUPERVISORS (Continued)

For the year ended 31 December 2007	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Bonuses RMB'000	Retirement benefits scheme contributions RMB'000	Total RMB'000
Executive directors					
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
Independent non-executive directors					
Mr. Li Sanli	100	–	–	–	100
Ms. Wang Qinfang	100	–	–	–	100
Mr. Kennedy Ying Ho Wong	100	–	–	–	100
	300	–	–	–	300
Supervisors					
Ms. Kong Xueping					
(Appointed on 29 June 2007)	29	–	–	–	29
Mr. 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
Total	728	3,102	3,320	227	7,377

13. EMOLUMENTS OF DIRECTORS AND SUPERVISORS (Continued)

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.

There was no arrangement under which a director or supervisor waived or agreed to waive any emoluments during the two years ended 31 December 2008.

During the two years ended 31 December 2007 and 2008, no emoluments were paid by the Group to the directors and supervisors as an inducement to join or upon joining the Group or as compensation for loss of office.

14. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year ended 31 December 2008 included one (2007: one) director details of whose emoluments are set out in note 13 above. Details of the remuneration of the remaining four (2007: four) non-director, highest paid employees for the year are as follows:

	2008	2007
	RMB'000	RMB'000
Salaries, allowances and benefits in kind	**8,865**	13,149
Compensation for loss of office	**16,178**	–
Retirement benefits scheme contributions	**–**	–
	25,043	13,149

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

	Number of employees	
	2008	2007
RMB2,000,001 to RMB3,000,000	**–**	2
RMB3,000,001 to RMB4,000,000	**1**	1
RMB4,000,001 to RMB5,000,000	**1**	–
RMB5,000,001 to RMB6,000,000	**1**	1
RMB10,000,001 to RMB11,000,000	**1**	–
	4	4

During the year ended 31 December 2008, emoluments amounting to RMB16,178,000 (2007: Nil) were paid by the Group to the five highest paid employees as compensation for loss of office.

15. INCOME TAX EXPENSE

	2008	2007
	RMB'000	RMB'000
Current tax		
Hong Kong	**6,352**	6,202
PRC Enterprise Income Tax (the "PRC EIT")		
– Charge for the year	**54,533**	178,862
– Over-provision in prior years	**(53,404)**	(8,546)
	1,129	170,316
Deferred tax (Note 32)		
– Charge for the year	**939**	51,856
– Effect of change in tax rate	**(844)**	(6,937)
	95	44,919
Total tax charge for the year	**7,576**	221,437

(a) Hong Kong profits tax

On 26 June 2008, the Hong Kong Legislative Council passed the Revenue Bill 2008 which reduced corporate profits tax rate from 17.5% to 16.5% effective from the year of assessment 2008/2009. Therefore, Hong Kong Profits Tax is calculated at 16.5% (2007: 17.5%) of the estimated assessable profit for the year.

(b) PRC EIT

The subsidiaries established in the PRC are subject to the PRC EIT at rate of 25%. Certain of the subsidiaries of the Group are approved to be high technology enterprises and income tax is calculated at a rate of 18% of the estimated assessable profit for the year. In accordance with the relevant income tax regulations of the PRC, certain subsidiaries are entitled to exemptions from income tax for the two years commencing from their first profit-making year of operation after offsetting prior year tax losses, followed by a 50% reduction in the PRC EIT for the next three years.

On 16 March 2007, the PRC Government promulgated the Law of the PRC on PRC EIT (the "New Law") by Order No. 63 of the President of the PRC. On 6 December 2007, the State Council of the PRC issued Implementation Regulation of the New Law. Under the New Law and Implementation Regulation, the PRC EIT rate of the Group's subsidiaries in the PRC was increased from 15% to 25% progressively from 1 January 2008 onwards (2008:18%, 2009:20%, 2010:22%, 2011:24%, 2012:25%). The relevant tax rates for the Group's subsidiaries in the PRC ranged from 15% to 25% (2007: 15% to 33%).

15. INCOME TAX EXPENSE (Continued)

(c) Overseas income tax

Taxation arising in other jurisdications is calculated at the rates prevailing in the relevant jurisdictions.

The charge for the year can be reconciled to the profit before tax per the consolidated income statement, based on the income tax rate of most of the Group's profit under assessments as follows:

	2008 **RMB'000**	2007 RMB'000
Profit before tax	**622,304**	1,062,040
Tax at the applicable tax rate at 18% (2007: 15%)	**112,015**	159,306
Over-provision in prior years	**(53,404)**	(8,546)
Effect of different tax rate of subsidiaries' operations in other jurisdictions and tax on concessionary rate	**(33,661)**	(23,366)
Effect on opening deferred tax of increase in tax rates	**844**	6,937
Tax effect of share of results of associates	**12,008**	2,085
Tax effect of income not taxable for tax purpose	**(50,455)**	(11,468)
Tax effect of expenses not deductible for tax purpose	**5,999**	91,517
Tax effect of unrecognised tax losses utilised	**(24,518)**	–
Tax effect of tax losses and temporary differences not recognised	**38,748**	4,972
Tax charge for the year	**7,576**	221,437

16. DIVIDENDS

	2008 **RMB'000**	2007 RMB'000
Proposed final dividend of RMB5.50 cents per ordinary share	**65,876**	–

The proposed final dividend for the year ended 31 December 2008 is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

17. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit for the year attributable to equity holders of the Company of approximately RMB355,639,000 (2007: RMB308,768,000) and on the weighted average number of 1,197,742,000 (2007: 1,197,742,000) ordinary shares in issue during the year.

Diluted earnings per share for the two years ended 31 December 2008 and 2007 have not been disclosed as there are no diluting events existed during both years.

18. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings in the PRC	**Plant, machinery and equipment**	**Motor vehicles**	**Construction in progress**	**Total**
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
COST					
At 1 January 2007	1,114,793	2,634,395	28,939	224,914	4,003,041
Additions	41,461	337,367	5,038	246,444	630,310
Transfers	35,083	121,624	–	(156,707)	–
Disposals	(51,021)	(11,071)	(3,766)	–	(65,858)
Transfer from investment properties (Note 20)	15,491	–	–	–	15,491
Transfer to investment properties (Note 20)	(67,787)	–	–	(116,508)	(184,295)
Disposal of subsidiaries (Note 36)	–	(44,993)	–	–	(44,993)
Exchange realignment	–	(53,816)	–	(5,252)	(59,068)
At 31 December 2007 and 1 January 2008	1,088,020	2,983,506	30,211	192,891	4,294,628
Additions	–	312,701	5,143	216,868	534,712
Additions of a subsidiary	–	2,453	–	–	2,453
Transfers	42,733	175,942	–	(218,675)	–
Disposals	(9,707)	(1,209,386)	(5,118)	–	(1,224,211)
Transfer from investment properties (Note 20)	77,193	–	–	–	77,193
Transfer to investment properties (Note 20)	(16,289)	–	–	–	(16,289)
Exchange realignment	(126)	(26,439)	(111)	(735)	(27,411)
At 31 December 2008	**1,181,824**	**2,238,777**	**30,125**	**190,349**	**3,641,075**

18. PROPERTY, PLANT AND EQUIPMENT (Continued)

	Leasehold land and buildings in the PRC RMB'000	Plant, machinery and equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
DEPRECIATION AND IMPAIRMENT					
At 1 January 2007	191,453	1,648,003	17,857	–	1,857,313
Impairment	–	8,113	–	–	8,113
Depreciation provided during the year	28,379	273,004	3,406	–	304,789
Disposals	(16,264)	–	(3,410)	–	(19,674)
Disposal of subsidiaries (Note 36)	–	(44,561)	–	–	(44,561)
Transfer to investment properties (Note 20)	(9,350)	–	–	–	(9,350)
Exchange realignment	382	–	–	–	382
At 31 December 2007 and 1 January 2008	194,600	1,884,559	17,853	–	2,097,012
Impairment	–	6,027	19	–	6,046
Depreciation provided during the year	40,441	322,243	3,959	–	366,643
Disposals	(9,454)	(906,908)	(4,619)	–	(920,981)
Transfer to investment properties (Note 20)	(4,174)	–	–	–	(4,174)
Exchange realignment	(255)	(18,854)	(34)	–	(19,143)
At 31 December 2008	**221,158**	**1,287,067**	**17,178**	**–**	**1,525,403**
CARRYING VALUES					
At 31 December 2008	**960,666**	**951,710**	**12,947**	**190,349**	**2,115,672**
At 31 December 2007	893,420	1,098,947	12,358	192,891	2,197,616

18. PROPERTY, PLANT AND EQUIPMENT (Continued)

The above items of property, plant and equipment are depreciated at the following rates per annum on a straight-line basis:

Leasehold land and buildings	Over the terms of the respective leases
Plant, machinery and equipment	9% – 18%
Motor vehicles	12.86% – 20%

All leasehold land and buildings are situated in the PRC under medium-term lease.

During the two years ended 31 December 2008, the Group carried out a review on the recoverable amount of certain production facilities. The Group recognised an impairment loss of RMB6,046,000 and RMB8,113,000 in the consolidated income statements for the two years ended 31 December 2008 and 2007 respectively as the relevant assets were left vacant.

At 31 December 2008, certain of the Group's leasehold land and buildings were pledged to obtain bank loans granted to the Group, details of which are set out in note 29.

19. PREPAID LAND LEASE PAYMENTS

The Group's prepaid lease payments are situated in the PRC and comprise:

	2008 **RMB'000**	2007 RMB'000
Long lease	**14,765**	–
Medium term lease	**104,279**	91,242
	119,044	91,242

Analysed for reporting purposes as:

	2008 **RMB'000**	2007 RMB'000
Current asset	**3,763**	2,846
Non-current asset	**115,281**	88,396
	119,044	91,242

As at 31 December 2007, prepaid land lease payments with an amount of RMB4,787,000 which was in the process of getting land use right certificates of the respective parcel of land (2008: Nil).

20. INVESTMENT PROPERTIES

	2008	2007
	RMB'000	RMB'000
FAIR VALUES		
At 1 January	**883,920**	560,540
Transfer from property, plant and equipment (Note 18)	**12,115**	174,945
Additions from acquisition	**–**	37,885
Transfer to property, plant and equipment (Note 18)	**(77,193)**	(15,491)
Revaluation surplus at transfer date from transferred owner-occupied properties	**16,235**	34,569
Fair value gains recognised in consolidated income statement	**40,053**	91,472
At 31 December	**875,130**	883,920

The Group's investment properties are situated in the PRC and comprise:

	2008	2007
	RMB'000	RMB'000
Long lease	**104,070**	115,030
Medium-term lease	**771,060**	768,890
	875,130	883,920

The Group's investment properties were revalued on 31 December 2008 by Dudley Surveyors Limited, an independent professionally qualified valuer, at RMB875,130,000 (2007: RMB883,920,000) on an open market basis. The investment properties are leased to third parties under operating leases, further details of which are included in note 37.

At 31 December 2008, certain of the Group's investment properties were pledged to secure banking facilities granted to the Group, details of which are set out in note 29.

As at 31 December 2008, certain Group's investment properties with an amount of RMB69,350,000 (2007: RMB77,420,000) are in the process of getting land use right certificates.

21. INTANGIBLE ASSETS

	Patents and licences RMB'000	Technology acquired RMB'000	Software RMB'000	Total RMB'000
COST				
At 1 January 2007	48,122	85,771	–	133,893
Additions	–	842	1,173	2,015
Disposal of subsidiaries (Note 36)	(739)	–	–	(739)
At 31 December 2007 and 1 January 2008	47,383	86,613	1,173	135,169
Additions	–	–	947	947
Exchange realignment	–	1,082	562	1,644
At 31 December 2008	**47,383**	**87,695**	**2,682**	**137,760**
AMORTISATION				
At 1 January 2007	47,634	83,469	–	131,103
Amortisation provided during the year	138	612	330	1,080
Disposal of subsidiaries (Note 36)	(389)	–	–	(389)
At 31 December 2007 and 1 January 2008	47,383	84,081	330	131,794
Amortisation provided during the year	–	551	482	1,033
Exchange realignment	–	180	94	274
At 31 December 2008	**47,383**	**84,812**	**906**	**133,101**
CARRYING VALUES				
At 31 December 2008	**–**	**2,883**	**1,776**	**4,659**
At 31 December 2007	–	2,532	843	3,375

The above intangible assets have definite useful lives and are amortised on a straight-line basis over 5 to 10 years.

22. INTERESTS IN ASSOCIATES

	2008	2007
	RMB'000	RMB'000
Cost of investment in associates, unlisted (Note (a))	**830,668**	690,776
Share of post-acquisition losses, net of dividends received	**(604,317)**	(511,674)
Share of net assets (Note (a))	**226,351**	179,102
Loans to associates (Note (b))	**416,213**	575,673
Less: impairment	**(338,665)**	(306,592)
	303,899	448,183

Notes:

(a) Movements in the Group's share of net assets of associates during the year are summarised below:

(i) On 3 April 2008, the registered capital of Great Wall Broadband Network Service Co., Ltd. ("Great Wall Broadband") was increased from RMB600,000,000 to RMB900,000,000. Pursuant to a capital verification report dated 8 April 2008, the increased amount of RMB300,000,000 has been fully paid up as to RMB150,000,000, representing 50% of the increased amount by the Group on 8 April 2008 and the remaining balance of RMB150,000,000 by the other shareholders of Great Wall Broadband on 8 April 2008.

(ii) 桂林長海科技有限責任公司 ("桂林長海") was established under the law of the PRC with limited liability on 28 April 2008 with an operating period of 30 years. The registered capital of 桂林長海 was RMB40,000,000 which is owned as to 39% by the Group and 61% by other independent third party. Pursuant to a capital verification report dated 25 April 2008, the registered capital has been fully paid up as to RMB24,400,000 by an independent third party and RMB15,600,000 by the Group respectively on 25 April 2008.

(iii) 深圳市長城科美科技有限公司 ("長城科美") was established under the law of the PRC with limited liability on 15 December 2008 with an operating period of 30 years. The registered capital of 長城科美 was RMB100,000,000 which is owned as to 35% by the Group and 65% by other independent third party. Pursuant to a capital verification report dated 19 November 2008, the registered capital has been paid up as to RMB7,000,000 by the Group and RMB13,000,000 by the other shareholders respectively on 19 November 2008. The remaining unpaid registered capital is required to be paid within 6 months from the date of establishment.

(iv) On 31 March 2008, the Group has signed a disposal agreement to dispose of all its equity interests in an associate, IBM Leasing Company Limited ("IBM Leasing") to an independent third party at a consideration of approximately RMB31,796,000, resulted in a loss on disposal of RMB2,792,000. The transaction has been approved and completed on 25 July 2008. The results of IBM Leasing have been accounted for into the Group's consolidated financial statement by equity accounting method, and are derived from the unaudited financial statements of IBM Leasing from 1 January 2008 to 25 July 2008 (date of disposal).

(b) Loans to associates are unsecured, interest-bearing at fixed rates ranging from 5.58% to 7.02% (2007: 5.05% to 6.12%) per annum and is repayable after twelve months from the balance date.

The directors reviewed certain associates' operations and financial positions as at the balance sheet date and considered that the recovery of the loans to these associates are uncertain. Accordingly, an impairment of approximately RMB32,073,000 (2007: RMB161,798,000) has been recognsied.

22. INTERESTS IN ASSOCIATES (Continued)

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

	2008 **RMB'000**	2007 RMB'000
Total assets	**3,991,182**	5,048,732
Total liabilities	**(3,000,373)**	(3,947,742)
Net assets	**990,809**	1,100,990
Group's share of net assets of associates	**226,351**	179,102
Revenue	**8,762,296**	6,497,519
(Loss) profit for the year	**(23,702)**	82,393
Group's share of results of associates for the year	**(66,712)**	(11,584)

Particulars of the principal associates are as follows:

Name	**Place of incorporation/ registration and operations**	**Nominal value of issued ordinary/ registered share capital**	**Percentage of equity attributable to the Group**	**Principal activities**
Great Wall Broadband	PRC	RMB900,000,000	50%	Provision of broadband network services
ExcelStor Group Limited	Cayman Islands	US$15,000,000	33.33%	Trading of HDD
G&W Technologies, Co., Ltd.	Republic of Korea	US$2,577,320	27.82%	Manufacture of HDD spindle motors

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22. INTERESTS IN ASSOCIATES (Continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Group	Principal activities
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.	PRC	RMB99,609,465	30%	Manufacture of motherboards
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
桂林長海	PRC	RMB40,000,000	39%	Research and development of safe computers and special computers
長城科美	PRC	RMB100,000,000	35%	Research and development of ammeters

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.

23. AVAILABLE-FOR-SALE INVESTMENTS

	2008	2007
	RMB'000	RMB'000
Listed equity investment, at fair value	**440,945**	1,070,360
Unlisted equity investments, at cost	**79,662**	75,800
Club debenture, at fair value	**1,704**	2,047
	522,311	1,148,207

During the year, the change in fair values of the Group's available-for-sale investments recognised directly in equity was RMB629,415,000 (2007: loss of RMB105,927,000).

The above investments consist of investments in equity securities which were designated as available-for-sale financial assets.

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.

24. INVENTORIES

	2008	2007
	RMB'000	RMB'000
Raw materials	**169,591**	463,053
Work in progress	**6,114**	45,791
Finished goods	**699,291**	391,956
Consumables	**12,586**	12,570
	887,582	913,370

During the year ended 31 December 2007, there was an increase in the net realisable values of inventories due to change in the market situtation. As a result, a reversal of allowance for inventories of approximately RMB14,223,000 has been recognised and included in other income in that year.

25. TRADE AND BILLS RECEIVABLES

	2008 RMB'000	2007 RMB'000
Trade and bills receivables	**1,510,005**	3,227,519
Impairment	**(170,059)**	(328,917)
	1,339,946	2,898,602

The credit period is generally for a period of three months for the Group's customers.

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:

	2008 RMB'000	2007 RMB'000
Within 90 days	**1,237,340**	2,853,824
91 to 180 days	**94,202**	19,718
181 to 365 days	**8,404**	4,304
Over 365 days	**–**	20,756
	1,339,946	2,898,602

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

	2008 RMB'000	2007 RMB'000
At 1 January	**328,917**	315,062
Transfer from financial guarantee contracts	**1,258**	23,845
Amount written off as uncollectible	**(174,563)**	(5,240)
Impairment losses reversed	**(19,287)**	(1,794)
Impairment losses recognised	**33,734**	–
Foreign exchange gain	**–**	(2,956)
	170,059	328,917

25. TRADE AND BILLS RECEIVABLES (Continued)

The Group has individually assessed all receivables and provided in full for all receivables that are considered not recoverable. Impairment loss of RMB33,734,000 (2007: Nil) has been made during the year ended 31 December 2008 accordingly. The aged analysis of the trade and bills receivables that are not considered to be impaired is as follows:

	2008 **RMB'000**	2007 RMB'000
Neither past due nor impaired	**1,237,340**	2,630,127
Less than one month past due	**31,401**	100,343
One to three months past due	**62,801**	92,869
Over three months past due	**8,404**	75,263
	1,339,946	2,898,602

Receivables that were neither past due nor impaired relate to 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 31 December 2007, certain trade receivables with a carrying amount of approximately RMB131,799,000 were pledged to secure a guarantee given by an independent third party, Beijing Zhongguancun Science Technology Guarantee Co., Ltd. for the bank and other loans. Such pledged of trade receivables had been released during the year ended 31 December 2008.

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26. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2008 RMB'000	2007 RMB'000
Other receivables	**188,856**	297,001
Less: impairment	**(83,951)**	(118,484)
	104,905	178,517
Prepayments and deposits	**124,444**	190,522
Compensation receivables	**71,647**	–
	300,996	369,039

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

	2008 RMB'000	2007 RMB'000
At 1 January	**118,484**	99,963
Impairment losses reversed	**(49,089)**	–
Impairment losses recognised	**31,950**	19,772
Amounts written off as uncollectible	**(17,394)**	(1,251)
At 31 December	**83,951**	118,484

The Group has individually assessed all other receivables and provided in full for those receivables that are considered not recoverable.

27. PLEDGED DEPOSITS AND CASH AND CASH EQUIVALENTS

	2008	2007
	RMB'000	RMB'000
Cash and bank balances	**1,388,989**	1,372,296
Term deposits	**1,584,027**	1,386,480
	2,973,016	2,758,776
Less: Current deposits		
Pledged for bank facilities	**13,202**	8,933
Pledged for performance bonds	**20,206**	15,004
	33,408	23,937
Less: Term deposits with terms over three months	**440,000**	155,000
	473,408	178,937
Less: Non-current deposits		
Pledged for bank facilities	**–**	15,602
Pledged for performance bonds	**3,948**	–
	3,948	15,602
Less: Term deposits with terms over one year	**65,008**	160,000
	68,956	175,602
Cash and cash equivalents	**2,430,652**	2,404,237

As at 31 December 2008, term deposits, pledged deposits, cash and cash equivalents of approximately RMB2,242,243,000 (2007: RMB2,121,092,000) were denominated in RMB, which is not freely convertible currency in the international market and its exchange rate is determined by the government of the PRC. The pledged deposits and bank balances carry interest at 0.36% (2007: 0.72%) per annum.

As at 31 December 2008, the effective interest rates on term deposits with terms over three months ranged from 2.88% to 4.68% (2007: 2.70% to 3.60%) per annum; and these deposits have an average maturity of 245 days.

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

As at 31 December 2008, term deposits of approximately RMB24,154,000 (2007: RMB15,004,000) were pledged in respect of performance bonds in favour of performance of obligation under contracts by its customers.

Term deposits, pledged deposits, cash and cash equivalents in the consolidated balance sheet are mainly the following amounts denominated in currencies other than the functional currency of the Group to which they relate:

	2008	2007
	'000	'000
US$	**103,906**	82,946

28. TRADE AND BILLS PAYABLES

The trade and bills payables are normally settled on terms of 30 to 90 days. An aged analysis of the trade and bills payables as at the balance sheet date, based on the invoice date, is as follows:

	2008	2007
	RMB'000	RMB'000
Within 90 days	**1,714,695**	2,786,141
91 to 180 days	**9,874**	78,763
181 to 365 days	**7,789**	128,298
Over 365 days	**22,078**	34,022
	1,754,436	3,027,224

29. BANK AND OTHER LOANS

	2008 RMB'000	2007 RMB'000
Bank loans	**805,980**	845,000
Other loans	**–**	20,000
	805,980	865,000
All bank and other loans are repayable with one year and are analysed as follows:		
Unsecured	**665,980**	825,000
Secured	**140,000**	–
Guaranteed	**–**	40,000
	805,980	865,000

Bank and other loans are at fixed interest rates ranging from 4.40% to 7.20% (2007: 5.04% to 7.20%) per annum during the year and expose the Group to fair value interest rate risk.

All bank and other loans as at 31 December 2008 and 2007 are denominated in RMB.

Bank loans of RMB20,000,000 and other loans of RMB20,000,000 as at 31 December 2007 were guaranteed by an independent third party, Beijing Zhongguancun Science Technology Guarantee Co., Ltd.. Certain of the Group's leasehold land and buildings with a carrying value of approximately RMB47,096,000 and trade receivables with a carrying amount of RMB131,799,000 as at 31 December 2007 were pledged to secure the guarantee given by Beijing Zhongguancun Science Technology Guarantee Co., Ltd. for the bank and other loans. Such pledged of leasehold land and buildings and trade receivables had been released during the year ended 31 December 2008.

Certain of the Group's term deposits with a carrying value of approximately RMB37,356,000 (2007: RMB39,539,000) were pledged to the banks to secure the bank facilities and performance bonds.

Certain of the Group's leasehold land and buildings with a carrying value of approximately RMB43,080,000 (2007: Nil) were pledged to a fellow subsidiary of the Company to secure the bank loans of RMB20,000,000 (2007: Nil).

Certain of the Group's leasehold land and buildings with a carrying value of approximately RMB30,303,000 (2007: approximately RMB213,042,000) and investment properties with a carrying amount of approximately RMB110,780,000 (2007: Nil) were pledged to secure the bank loan of RMB120,000,000.

30. PROVISIONS FOR PRODUCTS WARRANTIES

	2008 RMB'000	2007 RMB'000
At 1 January	**59,773**	53,002
Additional provision	**29,057**	26,209
Amounts utilised during the year	**(17,505)**	(16,948)
Amounts reversed during the year	**(22,305)**	–
Exchange realignment	**(2,781)**	(2,490)
At 31 December	**46,239**	59,773

The Group provides 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.

31. FINANCIAL GUARANTEE CONTRACTS

As at 31 December 2008, the Group provided financial guarantees to banks in respect of banking facilities granted to an associate and certain third-party customers. The financial guarantees provided are analysed as follow:

	2008 RMB'000	2007 RMB'000
Guarantees given to banks in connection with facilities granted to:		
An associate	**550,000**	450,000
Third parties	**83,280**	56,680
	633,280	506,680

As at 31 December 2008, the banking facilities guaranteed by the Group to an associate were utilised to the extend of approximately RMB550,000,000 (2007: RMB450,000,000).

As at 31 December 2008, an amount of RMB21,140,000 (2007: RMB12,886,000) has been recognised in the consolidated balance sheet as non-current liabilities for the above guarantees as such guarantees were not to be expired within the next twelve months from the balance sheet date.

32. DEFERRED TAX

The movements in deferred tax liabilities (assets) recognized and movements thereon during the current and prior reporting periods:

	Depreciation allowance in excess of related depreciation and amortisation RMB'000	Impairment and provisions RMB'000	Revaluation of properties RMB'000	Revaluation of available-for-sale investments RMB'000	Capitalisation of interest RMB'000	Equity of associates RMB'000	Loss on share reforms of subsidiaries RMB'000	Depreciation of fixed assets RMB'000	Total RMB'000
At 1 January 2007	2,897	–	839	53,048	7,605	–	(63,995)	–	394
Deferred tax charges (credited) to the consolidated income statement (note 15)	11,953	(6,290)	29,697	–	(905)	764	43,340	(26,703)	51,856
Effect of change in tax rate (note 15)	1,925	–	2,373	–	2,535	–	(13,770)	–	(6,937)
Deferred tax credited to equity during the year	–	–	–	(53,048)	–	–	–	–	(53,048)
Exchange difference	20	18	–	–	–	–	–	95	133
At 31 December 2007 and at 1 January 2008	16,795	(6,272)	32,909	–	9,235	764	(34,425)	(26,608)	(7,602)
Deferred tax charges (credited) to the consolidated income statement (note 15)	10,000	(75,548)	8,010	–	(905)	829	38,250	20,303	939
Effect of change in tax rate (note 15)	1,864	(697)	3,657	–	1,026	85	(3,825)	(2,954)	(844)
Deferred tax credited (debited) to equity during the year	–	–	3,247	(102,344)	–	–	–	–	(99,097)
	28,659	(82,517)	47,823	(102,344)	9,356	1,678	–	(9,259)	(106,604)

For the purposes of balance sheet presentation, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

	2008 RMB'000	2007 RMB'000
Deferred tax liabilities	**87,516**	59,703
Deferred tax assets	**(194,120)**	(67,305)
	(106,604)	(7,602)

32. DEFERRED TAX (Continued)

At the balance sheet date, the Group has estimated unused tax losses of approximately RMB57,000,000 (2007: RMB402,182,000) available for offset against future profits. No deferred tax asset has been recognised in respect of such losses due to the unpredictability of future profit streams. These unrecognized losses will expire in 2009 to 2014.

At the balance sheet date, the Group has deductible temporary differences of approximately RMB158,266,000 (2007: RMB462,231,000). No deferred tax asset has been recognised in relation to such deductible temporary difference as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilised.

At 31 December 2008, there was no significant unrecognised deferred tax liability (2007: Nil).

33. GOVERNMENT GRANTS

Government grants of RMB36,575,000 (2007: Nil) have been received during the year ended 31 December 2008 which were designated for certain research projects of the Group. All conditions in respect of these grants had been fulfilled and such government grants were recognised in other income for the year.

As at 31 December 2008, government grants of RMB7,653,000 (2007: RMB23,640,000) which were designated for certain research projects of the Group were stated as non-current liabilities in the consolidated balance sheet as the directors of the Company are of the opinion that certain conditions in respect of these grants will not been fulfilled within the next twelve months from 31 December 2008.

34. SHARE CAPITAL

	2008	2007
	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 for both years.

35. ACQUISITION OF A SUBSIDIARY

On 1 January 2008, the Group acquired the entire equity interests in ExcelStor Technology Inc. ("ExcelStor") at a consolidation of US$1 (equivalent to RMB7) from ExcelStor Group Limited. The acquisition has been accounted for using the purchase method.

The net assets acquired in the transaction and the discount on acquisition of a subsidiary arising are as follows:

	2008
	RMB'000
Assets (liabilities) acquired:	
Property, plant and equipment	2,453
Prepayments, deposits and other receivables	527
Cash and cash equivalents	2,605
Trade and bills payables	(976)
Net assets acquired	4,609
Discount on acquisition of a subsidiary	4,609
	–
Satisfied by:	
Cash consideration paid	–

The directors of the Company consider the carrying amounts of the net assets acquired approximately to the respective fair value at the date of acquisition.

An analysis of the net cash outflow of cash and cash equivalents in respect of the acquisition of a subsidiary are as follows:	
Cash consideration paid	–
Cash and cash equivalents acquired	2,605
Net inflow of cash and cash equivalents in respect of the acquisition of a subsidiary	2,605

There is no significant impact on total Group's turnover and profit for the year ended 31 December 2008 as the revenue and results of ExcelStor is not significant during that year.

There was no acquisition of subsidiaries during the year ended 31 December 2007.

36. DISPOSAL OF SUBSIDIARIES

During the year ended 31 December 2007, the Group disposed of its entire interests in Beijing Digipro Information Technology Company Limited, which was engaged in research and development of software technology and trading of network related products at a consideration of approximately RMB5,294,000. The net assets disposed in the transaction are as follows:

	2007 RMB'000
Net assets disposed of:	
Property, plant and equipment	432
Intangible assets	350
Cash and bank balances	3,620
Trade receivables	5,395
Inventories	11,136
Prepayments and other receivables	10,708
Trade payables	(2,084)
Other payables and accruals	(11,989)
Tax payable	27
Minority interests	(5,952)
	11,643
Add: Loss on disposal of subsidiaries	(6,349)
	5,294
Satisfied by:	
Cash	5,294

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

	2007 RMB'000
Cash consideration	5,294
Less: Cash consideration included in other receivables	(4,294)
Cash and bank balances disposed of	(3,620)
Net outflow of cash and cash equivalents in respect of the disposal of subsidiaries	(2,620)

There is no significant impact on total Group's turnover and profit for the year ended 31 December 2007 as the revenue and results of the disposed subsidiaries are not significant during that year. The subsidiaries disposed of had no significant effect on the Group's cashflow for that year.

37. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group lease their investment properties 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. The remaining properties are expected to generate rental yields of 15% (2007: 15%) on an ongoing basis. At 31 December 2008, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	2008	2007
	RMB'000	RMB'000
Within one year	**85,800**	93,155
In the second to fifth years, inclusive	**48,245**	172,283
After five years	**42,699**	–
	176,744	265,438

(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 2008, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2008	2007
	RMB'000	RMB'000
Within one year	**7,732**	3,361
In the second to fifth years, inclusive	**3,535**	3,211
	11,267	6,572

38. CAPITAL COMMITMENTS

The Group had the following capital commitments at the balance sheet date:

	2008	2007
	RMB'000	RMB'000
Contracted, but not provided for:		
Leasehold land and buildings	**25,196**	94,536
Plant and machinery	**6,700**	65,039
	31,896	159,575

As at 31 December 2008, the Group is committed to inject an aggregate amount of approximately RMB28,000,000 to the registered capital of an associate, 長城科美 within 6 months from the date of establishment.

39. RETIREMENT BENEFITS SCHEMES

The employees in the Group, which operates in the PRC are required to participate in a central pension scheme (the "CP Scheme") operated by the local municipal government. The Group are required to contribute 5% to 13% of their payroll costs to the central pension scheme. The contributions are charged to the consolidated 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 consolidated 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.

At 31 December 2008, the Group had no amount capitalised and forfeited contributions available to reduce its contributions to the CP Scheme and MPF Scheme in future years (2007: Nil).

40. RELATED PARTY TRANSACTIONS

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

	Notes	**2008 RMB'000**	2007 RMB'000
Ultimate holding company			
Sale of products	(i)	**179**	593
Intermediate holding company:			
License fees	(ii)	**2,604**	2,551
Associates:			
Sale of products	(i)	**313,341**	218,882
Rental income	(iii)	**33,056**	29,706
Royalty income	(iv)	**–**	20,799
Interest income	(v)	**778**	4,068
Processing fee income	(vi)	**117**	7,831
Purchases of components and parts	(vii)	**541,222**	529,165
Fellow subsidiaries:			
Sale of products	(i)	**9,028**	30,383
Rental income	(iii)	**1,008**	14,048
Purchases of components and parts	(vii)	**379,615**	449,157
Interest expense	(viii)	**126**	402

Notes:

(i) 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.

(ii) 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 for both years.

(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 products 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 for both years.

(vi) Processing fee from associates was made on terms mutually agreed between both parties.

(vii) 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.

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

40. RELATED PARTY TRANSACTIONS (Continued)

(b) Outstanding balances with related parties:

(i) The balances with intermediate holding company, fellow subsidiaries and associates are unsecured, interest free and repayable on demand.

(ii) The Group had outstanding trade receivables from associates for the year ended 31 December 2007 of approximately RMB4,651,000. Outstanding trade payables to associates was approximately RMB72,000 (2007: RMB13,625,000) 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.

(c) Facilities granted by a fellow subsidiary

On 28 September 2008, the Group's land and buildings with a net carrying value of approximately RMB43,080,000 were pledged to secure a credit facilities amounted to RMB120,000,000 granted by a fellow subsidiary to the Group.

(d) Key management compensation

The remunerations of directors and other members of key management were disclosed in notes 13 and 14 respectively.

(e) The Group operates in an economic environment predominated by enterprises directly or indirectly owned or controlled by the PRC government through its numerous authorities, affiliates or other organisations (collectively "State-owned Enterprises"). During the two years ended 31 December 2008, the Group had transactions with State-owned Enterprises including, but not limited to, sales and purchase of computers, electronic parts and computer-related products. The directors of the Company consider that transactions with other State-owned Enterprises are activities in the ordinary course of business, and that dealings of the Group have not been significantly controlled or owned by the PRC government. The Group has also established pricing policies for products and such pricing policies do not depend on whether or not the customers are State-owned Enterprises. Having due regard to the substance of the relationships, the directors of the Company are of the opinion that none of these transactions is a material related party transaction that requires separate disclosure.

41. BALANCE SHEET OF THE COMPANY

	2008	2007
	RMB'000	RMB'000
Non-current assets		
Property, plant and equipment	**70,009**	44,379
Investment properties	**327,270**	245,843
Prepaid land lease payments	**3,995**	3,995
Interests in subsidiaries	**1,468,842**	1,516,273
Interests in associates	**87,218**	395,295
Available-for-sale investments	**2,500**	2,500
Deferred tax assets	**–**	12,210
	1,959,834	2,220,495
Current assets		
Prepayments, deposits and other receivables	**293,478**	2,157
Amounts due from associates	**–**	33
Cash and cash equivalents	**345,356**	93,509
	638,834	95,699
Current liabilities		
Trade and bills payables	**19**	217
Other payables and accruals	**7,318**	5,371
Amount due to ultimate holding company	**–**	2,490
Tax payable	**41,244**	214
	48,581	8,292
Net current assets	**590,253**	87,407
Total assets less current liabilities	**2,550,087**	2,307,902
Non-current liabilities		
Financial guarantee contracts	**5,840**	11,557
Deferred tax liabilities	**35,132**	7,089
	40,972	18,646
Net assets	**2,509,115**	2,289,256
Capital and Reserves		
Share capital	**1,197,742**	1,197,742
Reserves (Note)	**1,311,373**	1,091,514
Total equity	**2,509,115**	2,289,256

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41 BALANCE SHEET OF THE COMPANY (Continued)

Note: Reserves of the Company

	Share premium RMB'000	Retained profits RMB'000	Capital reserve RMB'000	Total RMB'000
At 1 January 2007	996,660	72,521	–	1,069,181
Profit for the year	–	22,333	–	22,333
At 31 December 2007 and 1 January 2008	996,660	94,854	–	1,091,514
Profit for the year	–	223,593	(3,734)	219,859
At 31 December 2008	996,660	318,447	(3,734)	1,311,373

42. PRINCIPAL SUBSIDIARIES

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		Principal activities
			Direct	Indirect	
China Great Wall Computer (Shenzhen) Co., Ltd. ("CGC") (Note 1)	PRC	RMB550,189,800	47.82%	–	Manufacture and trading of personal computer ("PC") and PC peripheral products
ExcelStor Great Wall Technology Limited	Cayman Islands	US25,000,000	61.68%	–	Trading of hard disk drives ("HDD")
ExcelStor Technology (Shenzhen) Limited (Note 2)	PRC	US26,600,000	61.68%	–	Manufacture of HDD
Great Wall Computer Software and System Incorporation Limited ("GWCSS") (Note 2)	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

42. PRINCIPAL 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	
Shenzhen Kaifa Magnetic Recording Joint-stock Co., Ltd. (Notes 2 and 3)	PRC	RMB251,363,000	43%	57%	Production and development of HDD substrates
Shenzhen Kaifa Technology Co., Ltd. ("S. Kaifa") (Notes 1)	PRC	RMB732,932,000	49.64%	–	Production of HDD heads and related electronic products

Notes:

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

2. Companies incorporated as private limited companies in the PRC

3. On 31 December 2008, the Group acquired additional 15% of the equity interests in Shenzhen Kaifa Magnetic Recording Joint-stock Co., Ltd. from the minority shareholders at a consideration of approximately RMB100,553,000. As the consideration exceeds the Group's acquisition of the additional interests in the net assets amount of Shenzhen Kaifa Magnetic Recording Joint-stock Co., Ltd. by approximately RMB6,347,000, such amount has been recognised and recorded in other reserve for the year ended 31 December 2008.

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.

None of the subsidiaries had any debt securities subsisting at the end of the year or at any time during the year.

43. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with current year's presentation.

Particulars of major investment properties at 31 December 2008

Investment properties held for investment	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

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Great Wall Technology Company Limited