

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2004

1. GENERAL

The Company is incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The principal activities of the Group are the research and development, manufacture and sales of rechargeable batteries and battery related accessories.

The Company acts as an investment holding company and the principal activities of its subsidiaries are set out in note 16.

The financial statements have been prepared in Renminbi, the currency in which the majority of the Group's transactions are denominated.

2. POTENTIAL IMPACT ARISING FROM THE RECENTLY ISSUED ACCOUNTING STANDARDS

In 2004, the Hong Kong Institute of Certified Public Accountants issued a number of new or revised Hong Kong Accounting Standards and Hong Kong Financial Reporting Standards ("HKFRSs") (herein collectively referred to as "new HKFRSs") which are effective for accounting periods beginning on or after 1st January, 2005. The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31st December, 2004.

The Company has commenced considering the potential impact of these new HKFRSs but is not yet in a position to determine whether these new HKFRSs would have a significant impact on how its results of operations and financial position are presented. These new HKFRSs may result in changes in the future as to how the results and financial position are presented.

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention, as modified for the revaluation of certain property, plant and equipment and other investment.

The financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are as follows:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31st December each year.

The results of subsidiaries 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.

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FOR THE YEAR ENDED 31ST DECEMBER, 2004

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)***Goodwill***

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition.

Goodwill arising on acquisition is capitalised and amortised on a straight line basis over its useful economic life. Goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet.

Negative goodwill

Negative goodwill represents the excess of the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition over the cost of acquisition.

Negative goodwill arising on the acquisition of subsidiaries is presented separately on the balance sheet as a deduction from assets. To the extent that such negative goodwill is attributable to losses or expenses anticipated at the date of acquisition, it is released to income in the period in which those losses or expenses arise. The remaining negative goodwill is recognised as income on a straight line basis over the remaining average useful life of the identifiable acquired depreciable assets. To the extent that such negative goodwill exceeds the aggregate fair value of the acquired identifiable non-monetary assets, it is recognised in income immediately.

Investments in subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable during the year.

Interests in associates

The consolidated income statement includes the Group's share of the post-acquisition results of its associates for the year. In the consolidated balance sheet, interests in associates are stated at the Group's share of the net assets of the associates, less any identified impairment loss.

Revenue recognition

Sales of goods are recognised when the goods are delivered and title has passed.

Interest income is accrued on a time basis by reference to the principal outstanding and at the interest rate applicable.

Rental income, including rentals invoiced in advance for properties under operating leases, is recognised on a straight line basis over the period of the relevant leases.

Government grants in respect of specific costs to be incurred by the Group are recognised as income over the periods necessary to match them with the related costs and are reported separately as other operating income.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2004

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment

Property, plant and equipment other than construction in progress are stated at cost or valuation less depreciation and amortisation and accumulated impairment losses.

Buildings and land use rights, plant and machinery, furniture, fixtures and equipment, and motor vehicles are stated in the balance sheet at their revalued amounts, being the fair value at the date of revaluation less any subsequent accumulated depreciation and amortisation and any subsequent impairment losses. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially for that which would be determined using fair values at the balance sheet date.

Any revaluation increase arising on revaluation of buildings and land use rights, plant and machinery, furniture, fixtures and equipment, and motor vehicles is credited to the revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised as an expense, in which case the increase is credited to the income statement to the extent of the decrease previously charged. A decrease in net carrying amount arising on revaluation of an asset is dealt with as an expense to the extent that it exceeds the balance, if any, on the revaluation reserve relating to a previous revaluation of that asset. On the subsequent sale or retirement of a revalued asset, the attributable revaluation surplus is transferred to retained profits.

Construction in progress represents buildings and machinery under construction and is stated at cost less any identified impairment loss. Cost comprises direct and indirect costs of acquisition or construction. No depreciation or amortisation is provided on construction in progress until the relevant asset is ready for its intended use. When the assets concerned are brought into use, the carrying amounts is transferred from construction in progress to the appropriate category of property, plant and equipment.

Leasehold improvements are stated at cost less depreciation and accumulated impairment losses.

Depreciation and amortisation are provided to write off the cost or valuation of items of property, plant and equipment, other than construction in progress, over their estimated useful lives, using the straight line method, on the following basis:

Leasehold improvements	Over the terms of the lease
Buildings and land use rights	20 to 50 years or over the remaining term of the relevant land use rights, if shorter
Plant and machinery	10 years
Furniture, fixtures and equipment	10 years
Motor vehicles	5 years

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the income statement.

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FOR THE YEAR ENDED 31ST DECEMBER, 2004

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)***Research and development expenditure***

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

An internally-generated intangible asset arising from development expenditure is recognised only if it is anticipated that the development costs incurred on a clearly-defined project will be recovered through future commercial activity. The resultant asset is amortised on a straight line basis over its useful life, which is usually not more than 5 years.

Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

Patents, trademarks and licensing rights

Patents, trademarks and licensing rights are measured initially at purchase cost and amortised on a straight line basis over their estimated useful lives, which is 5 to 20 years.

Impairment

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, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

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 income immediately, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Investments in securities

Investments in securities are recognised on a trade date basis and are initially measured at cost.

Investments other than held-to-maturity debt securities are classified as investment securities and other investments.

Investment securities, which are securities held for an identified long-term strategic purpose, are measured at subsequent reporting dates at cost, as reduced by any impairment loss that is other than temporary.

Other investments are measured at fair value, with unrealised gains and losses included in net profit or loss for the year.

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FOR THE YEAR ENDED 31ST DECEMBER, 2004

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies

Transactions in foreign currencies are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rates prevailing on the balance sheet date. Gains and losses arising on exchange are included in net profit or loss for the period.

On consolidation, the assets and liabilities of the Group's overseas operations denominated in foreign currencies are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

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 net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years, and it further excludes income statement items that are never taxable or deductible.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases 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 negative 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 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 in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

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FOR THE YEAR ENDED 31ST DECEMBER, 2004

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)***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 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 income statement and are reported separately as other operating income.

Inventories

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

Retirement benefits costs

Payments to state-managed retirement benefit schemes and the Mandatory Provident Fund Scheme (the “MPF Scheme”) are charged as an expense as they fall due.

Operating leases

Leases are classified as finance leases when the terms of the leases transfer substantially all the risks and rewards of ownership of the assets concerned to the Group. All other leases are classified as operating leases. Rentals payable under operating leases are charged to the income statement on a straight line basis over the terms of the relevant leases.

4. BUSINESS AND GEOGRAPHICAL SEGMENTS***Business segments***

For management purposes, the Group is currently organised into four major operating divisions – sealed lead acid batteries and related accessories, lithium ion batteries, electricity control devices and online game. These divisions are the basis on which the Group reports its primary segment information.

Principal activities are as follows:

Sealed lead acid batteries and related accessories	– manufacture and sale of sealed lead acid batteries and related accessories.
Lithium ion batteries	– manufacture and sale of lithium ion batteries.
Electricity control devices	– manufacture and sale of electricity control devices.
Online games	– sales and distribution of online game products.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2004

4. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

Business segments (Continued)

Segment information about these businesses is presented below.

2004

	Sealed lead acid batteries and related accessories RMB'000	Lithium ion batteries RMB'000	Electricity control devices RMB'000	Online games RMB'000	Others RMB'000	Elimination RMB'000	Consolidated RMB'000
TURNOVER							
External sales	698,172	309,364	29,843	-	87,977	-	1,125,356
Inter-segment sales	42,086	-	2,898	-	1,480	(46,464)	-
Total turnover	740,258	309,364	32,741	-	89,457	(46,464)	1,125,356
RESULT							
Segment result	143,454	30,341	2,803	-	(803)	-	175,795
Unallocated corporate income							3,897
Unallocated corporate expenses							(8,859)
Profit from operations							170,833
Finance costs							(34,488)
Gain on disposal of a subsidiary	-	-	-	-	778	-	778
Gain on disposal of an associate	-	-	-	-	25	-	25
Profit before taxation							137,148
Taxation							(10,990)
Profit before minority interests							126,158

Inter-segment sales transactions are charged at cost plus a percentage of profit mark-up.

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FOR THE YEAR ENDED 31ST DECEMBER, 2004

4. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

*Business segments (Continued)***BALANCE SHEET**

	Sealed lead acid batteries and related accessories RMB'000	Lithium ion batteries RMB'000	Electricity control devices RMB'000	Online games RMB'000	Others RMB'000	Consolidated RMB'000
ASSETS						
Segment assets	1,111,840	498,958	53,729	42,832	140,537	1,847,896
Unallocated corporate assets						291,296
Consolidated total assets						2,139,192
LIABILITIES						
Segment liabilities	260,463	146,267	22,647	976	47,148	477,501
Unallocated corporate liabilities						629,560
Consolidated total liabilities						1,107,061

OTHER INFORMATION

	Sealed lead acid batteries and related accessories RMB'000	Lithium ion batteries RMB'000	Electricity control devices RMB'000	Online games RMB'000	Others RMB'000	Consolidated RMB'000
Capital additions	9,441	63,784	510	39,778	53,014	166,527
Depreciation and amortisation	22,881	12,845	564	410	2,411	39,111

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2004

4. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

Business segments (Continued)

2003

	Sealed lead acid batteries and related accessories RMB'000	Lithium ion batteries RMB'000	Electricity control devices RMB'000	Others RMB'000	Elimination RMB'000	Consolidated RMB'000
TURNOVER						
External sales	667,491	251,197	341	55,068	–	974,097
Inter-segment sales	1,742	–	–	15,423	(17,165)	–
Total turnover	669,233	251,197	341	70,491	(17,165)	974,097
RESULT						
Segment result	170,750	15,019	(1,573)	7,584	–	191,780
Unallocated corporate income						3,361
Unallocated corporate expenses						(6,620)
Profit from operations						188,521
Finance costs						(26,220)
Share of result of an associate	–	–	–	(34)	–	(34)
Gain on deemed disposal of a partial interest in a subsidiary	–	–	–	3,447	–	3,447
Profit before taxation						165,714
Taxation						(11,542)
Profit before minority interests						154,172

Inter-segment sales transactions are charged at cost plus a percentage of profit mark-up.

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FOR THE YEAR ENDED 31ST DECEMBER, 2004

4. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)*Business segments (Continued)*

	Sealed lead acid batteries and related accessories RMB'000	Lithium ion batteries RMB'000	Electricity control devices RMB'000	Others RMB'000	Consolidated RMB'000
ASSETS					
Segment assets	1,000,876	377,141	821	86,979	1,465,817
Interest in an associate	–	–	–	375	375
Unallocated corporate assets					260,318
Consolidated total assets					1,726,510
LIABILITIES					
Segment liabilities	244,950	79,114	363	28,030	352,457
Unallocated corporate liabilities					456,991
Consolidated total liabilities					809,448

OTHER INFORMATION

	Sealed lead acid batteries and related accessories RMB'000	Lithium ion batteries RMB'000	Electricity control devices RMB'000	Others RMB'000	Consolidated RMB'000
Capital additions	44,407	43,481	5	13,340	101,233
Depreciation and amortisation	18,669	9,211	126	944	28,950

Geographical segments

The Group is principally engaged in the sale of sealed lead acid batteries and related accessories, lithium ion batteries, electricity control devices and online game products in, and substantially all of its activities are based in, the People's Republic of China (the "PRC") including Hong Kong. Accordingly, no geographical analysis of financial information is provided.

NOTES TO THE FINANCIAL STATEMENTS

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5. OTHER OPERATING INCOME

	2004 RMB'000	2003 RMB'000
Amortisation of negative goodwill	2,080	1,742
Bank interest income	1,796	868
Exchange gain	1,734	–
Government grants	2,643	400
Other interest income	1,663	539
Rental income	–	240
Sundry income	1,621	440
Surplus arising on revaluation of property, plant and equipment	–	466
Value-added tax refunded	1,101	544
	12,638	5,239

6. PROFIT FROM OPERATIONS

	2004 RMB'000	2003 RMB'000
Profit from operations has been arrived at after charging (crediting):		
Directors' emoluments (note 8)	959	333
Retirement benefit scheme contributions (excluding contributions for directors)	3,213	3,689
Other staff costs	84,412	61,500
Total staff costs	88,584	65,522
(Reversal of) allowances for bad and doubtful debts	(629)	944
Amortisation of intangible assets (included in administrative expenses)	666	665
Amortisation of goodwill (included in administrative expenses)	397	–
Auditors' remuneration	1,338	1,228
Deficit arising on revaluation of property, plant and equipment	614	–
Depreciation and amortisation of property, plant and equipment	38,048	28,285
Loss on disposal of property, plant and equipment	20	58
Research and development costs expensed	463	728
(Reversal of) allowances for slow-moving inventories	(816)	3,131
Unrealised loss on other investment	22	–

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7. FINANCE COSTS

	2004 RMB'000	2003 RMB'000
Interest payable on:		
Bank borrowings wholly repayable within five years	34,482	26,099
Other borrowings wholly repayable within five years	6	121
	34,488	26,220

8. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

Particulars of the emoluments of the directors and the five highest paid employees are as follows:

(a) Directors' emoluments

	2004 RMB'000	2003 RMB'000
Directors' fees	—	42
Other emoluments:		
Salaries and other benefits	955	287
Retirement benefit scheme contributions	4	4
	959	333

During the year ended 31st December, 2004, no emoluments (2003: RMB42,000) were paid to independent non-executive directors.

The aggregate emoluments of each of the directors for the two years ended 31st December, 2004 and 2003 were less than HK\$1,000,000 (approximately RMB1,061,000).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2004

8. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (Continued)**(b) Employees' emoluments**

The five highest paid individuals of the Group included two (2003: two) directors of the Company, details of whose emoluments are set out above. The emoluments of the remaining three (2003: three) individuals are as follows:

	2004 RMB'000	2003 RMB'000
Salaries and other benefits	1,919	1,282
Retirement benefit scheme contributions	16	20
	1,935	1,302

The aggregate emoluments of each of the employees for the two years ended 31st December, 2004 and 2003 were less than HK\$1,000,000 (approximately RMB1,061,000).

During the two years ended 31st December, 2004 and 2003, no emoluments were paid by the Group to any of the directors or the five highest paid individuals (including directors and employees) as an inducement to join or upon joining the Group or as compensation for loss of office. In addition, no directors waived any emoluments for the two years ended 31st December, 2004 and 2003.

9. TAXATION

	2004 RMB'000	2003 RMB'000
The charge comprises:		
PRC enterprise income tax	10,985	10,581
Deferred taxation charge (note 31)	5	961
	10,990	11,542

No provision for Hong Kong Profits Tax has been made in the financial statements as the Group's income neither arises in, nor is derived from, Hong Kong.

Pursuant to the relevant laws and regulations in the PRC, certain of the Group's PRC subsidiaries are entitled to exemption from PRC enterprise income tax for the first two years commencing from their first profit-making year of operation and thereafter, these PRC subsidiaries will be entitled to a 50% relief from PRC enterprise income tax for the following three years ("Tax Holidays").

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9. TAXATION (Continued)

Four (2003: three) of the major operating subsidiaries of the Company are subject to enterprise income tax in the PRC in the current year. These subsidiaries have been established as wholly foreign-owned enterprises under the laws of the PRC and have obtained the approval from the PRC Tax Bureau for the Tax Holidays.

The charge for the year can be reconciled to the profit per consolidated income statement as follows:

	2004 RMB'000	2003 RMB'000
Profit before taxation	137,148	165,714
Tax at the domestic rate at 15% (2003: 15%)	20,572	24,857
Tax effect of income subject to Tax Holidays	(11,249)	(13,434)
Tax effect of expenses that are not deductible in determining taxable profit	–	295
Tax effect of income that are not taxable in determining taxable profit	(3,172)	(1,813)
Tax effect of tax losses not recognised	4,837	1,656
Tax effect of different tax rates of subsidiaries operating in other jurisdictions	2	(19)
Taxation for the year	10,990	11,542

Details of deferred taxation are set out in note 31.

10. DIVIDENDS

	2004 RMB'000	2003 RMB'000
Interim dividend paid – HK\$0.02 and shown as RMB0.02122 (2003: HK\$0.026 and shown as RMB0.02759) per share	9,190	11,947
Final dividend paid – HK\$0.05 per share for 2003 and shown as RMB0.05305 (2003: HK\$0.05 per share for 2002 and shown as RMB0.0531) per share	22,975	21,118
	32,165	33,065

A final dividend of HK\$0.04 (2003: HK\$0.05) per share, shown as RMB0.04244 (2003: RMB0.05305) per share, has been proposed by the directors and is subject to approval by the shareholders in general meeting.

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11. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share for the year is based on the following data:

	2004 RMB'000	2003 RMB'000
Earnings:		
Profit for the year and earnings for the purposes of basic and diluted earnings per share	122,024	150,454
	'000	'000
Number of shares:		
Weighted average number of ordinary shares for the purpose of basic earnings per share	433,080	407,992
Effect of dilutive potential ordinary shares in respect of share options	N/A	175
Weighted average number of ordinary shares for the purpose of diluted earnings per share	N/A	408,167

Diluted earnings per share has not been presented for the year ended 31st December, 2004 because there were no potential ordinary shares in issue.

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12. PROPERTY, PLANT AND EQUIPMENT

	Buildings and medium-term land use rights	Leasehold improvements	situated in the PRC	Plant and machinery	Furniture, fixtures and equipment	Motor vehicles	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
THE GROUP								
COST OR VALUATION								
At 1st January, 2004	60	215,613	218,309	7,096	10,309	50,993		502,380
Additions	431	20,987	39,980	15,624	2,706	44,996		124,724
Acquired on acquisition of a subsidiary	–	–	–	20	–	–		20
Transfers	986	58,891	1,727	–	–	(61,604)		–
Upon disposal of a subsidiary	–	–	(1,042)	(73)	(114)	–		(1,229)
Disposals	–	–	(159)	(6)	(753)	–		(918)
Adjustment arising on revaluation	–	–	–	(106)	–	–		(106)
At 31st December, 2004	1,477	295,491	258,815	22,555	12,148	34,385		624,871
Comprising:								
At cost	1,477	–	–	–	–	34,385		35,862
At valuation – 2004	–	295,491	258,815	22,555	12,148	–		589,009
	1,477	295,491	258,815	22,555	12,148	34,385		624,871
DEPRECIATION AND AMORTISATION								
At 1st January, 2004	6	1,785	6,244	1,541	1,029	–		10,605
Provided for the year	47	9,297	25,034	2,053	1,617	–		38,048
Eliminated on disposal of a subsidiary	–	–	(49)	(7)	(5)	–		(61)
Eliminated on disposals	–	–	(11)	(1)	(569)	–		(581)
Eliminated on revaluation	–	(6,338)	(12,356)	–	(374)	–		(19,068)
At 31st December, 2004	53	4,744	18,862	3,586	1,698	–		28,943
NET BOOK VALUES								
At 31st December, 2004	1,424	290,747	239,953	18,969	10,450	34,385		595,928
At 31st December, 2003	54	213,828	212,065	5,555	9,280	50,993		491,775

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12. PROPERTY, PLANT AND EQUIPMENT (Continued)

Property, plant and equipment other than leasehold improvements and construction in progress were revalued at 31st December, 2004 by Sallmanns (Far East) Limited, Chartered Surveyors, using the fair market value. Sallmanns (Far East) Limited is not connected with the Group. The surplus arising on revaluation was approximately RMB18,962,000 (2003: RMB16,464,000), out of which approximately RMB18,379,000 (2003: RMB15,317,000) (net of approximately RMB1,197,000 (2003: RMB681,000) shared by the minority interests) was credited to the revaluation reserve and approximately RMB614,000 (2003: credited of RMB466,000) was debited to the consolidated income statement for the year ended 31st December, 2004.

For the year ended 31st December, 2004, no land and buildings held for use under operating leases (2003: RMB65,000 at valuation).

If the Group's property, plant and equipment were stated at cost less accumulated depreciation and amortisation, the net book values thereof as at 31st December, 2004 would be as follows:

	Buildings and medium- term land use rights situated in the PRC	Plant and machinery	Furniture, fixture and equipment	Motor vehicles
	RMB'000	RMB'000	RMB'000	RMB'000
Cost	248,445	289,786	24,668	16,490
Accumulated depreciation, amortisation and impairment losses	(26,795)	(83,650)	(5,482)	(6,056)
	221,650	206,136	19,186	10,434

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THE GROUP

All of the Group's intangible assets were acquired from independent third parties. Intangible assets are amortised on a straight line basis over the following periods:

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14. GOODWILL

	THE GROUP RMB'000
COST	
Arising on acquisition during the year and at 31st December, 2004	4,590
AMORTISATION	
Provided for the year and at 31st December, 2004	397
NET BOOK VALUE	
At 31st December, 2004	4,193
At 31st December, 2003	–

The goodwill arose on the Group's acquisition of Shenzhen Kdcoms Technology Co., Ltd. ("Kdcoms") 深圳市中科典科技有限公司 during the year ended 31st December, 2004. The goodwill of RMB4,590,000 is amortised on a straight line basis over the remaining operation period of 7 years.

15. NEGATIVE GOODWILL

	THE GROUP RMB'000
GROSS AMOUNT	
At 1st January, 2004 and 31st December, 2004	20,800
RELEASED TO INCOME	
At 1st January, 2004	2,218
Released during the year	2,080
At 31st December, 2004	4,298
CARRYING AMOUNTS	
At 31st December, 2004	16,502
At 31st December, 2003	18,582

The negative goodwill arose on the Group's acquisition of Dongbei Storage Battery Company Limited ("DSB") during the year ended 31st December, 2002 and further increase in the Group's shareholding in DSB for the year ended 31st December, 2003. The negative goodwill of RMB20,800,000 is released to income on a straight line basis over a period of 10 years, being the remaining weighted average useful lives of the depreciable assets acquired.

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FOR THE YEAR ENDED 31ST DECEMBER, 2004

16. INTERESTS IN SUBSIDIARIES

	THE COMPANY	
	2004 RMB'000	2003 RMB'000
Unlisted investments, at cost	239,244	232,567
Amounts due from subsidiaries	210,944	179,049
	450,188	411,616

Amounts due from subsidiaries are unsecured and interest free. In the opinion of the directors, the amounts will not be repayable within twelve months from the balance sheet date and, accordingly the balances are classified as non-current.

Details of the Company's principal subsidiaries at 31st December, 2004 are as follows:

Name of subsidiary	Place of incorporation or registration/ operations	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued capital/ registered capital held by the Company		Forms of legal entity	Principal activities
			Directly %	Indirectly %		
Coslight International (B.V.I.) Company Limited	British Virgin Islands/ Hong Kong	US\$50,000	100	–	Private limited company	Investment holding
China Gold Profits Limited 金利投資有限公司	Hong Kong	HK\$2	–	100	Private limited company	Provision of management services for the Group
哈爾濱光宇電源股份有限公司 Harbin Coslight Power Company Limited	PRC	RMB200,930,000	–	91.45	Joint stock limited company	Manufacture and sale of lithium ion batteries and sealed lead acid batteries and its accessories
哈爾濱科斯特實業有限公司 Harbin Coslight Industrial Company Limited	PRC	US\$1,400,000	71.4	28.6	Wholly-owned foreign enterprise	Manufacture and sale of sealed lead acid batteries and its accessories

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2004

16. INTERESTS IN SUBSIDIARIES (Continued)

Name of subsidiary	Place of incorporation or registration/ operations	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued capital/ registered capital held by the Company		Forms of legal entity	Principal activities
			Directly %	Indirectly %		
哈爾濱光宇蓄電池有限公司 Harbin Guangyu Storage Battery Manufacturing Company Limited ("HGSB")	PRC	HK\$83,500,000	–	100	Wholly-owned foreign enterprise	Manufacture and sale of sealed lead acid batteries
沈陽東北蓄電池有限公司 DSB	PRC	RMB60,000,000	66.7	–	Sino-foreign equity joint venture	Manufacture and sale of sealed lead acid batteries
哈爾濱光宇電氣自動化有限公司 Harbin Coslight Electric Automation Company Limited ("HCEA")	PRC	RMB20,000,000	16.2	63.8	Sino-foreign equity joint venture	Manufacture of electricity control devices
北京光宇華夏科技有限責任公司 Beijing Guangyu Huaxia Technology Corporation Limited	PRC	RMB1,200,000	–	77	Private limited company	Operation of online games
西藏昌都光宇利民藥業有限公司 Tibet Changdu Guangyu Limin Pharmaceutical Company Limited ("TCGY")	PRC	RMB6,600,000	–	80	Domestic equity joint venture	Manufacture of pharmaceutical products
哈爾濱光宇開關有限公司 Harbin Coslight Switch Company Limited	PRC	RMB2,000,000	–	100	Wholly-owned foreign enterprise	Manufacture of high and low voltage switch

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results or 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 outstanding at the end of the year.

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FOR THE YEAR ENDED 31ST DECEMBER, 2004

17. INTEREST IN AN ASSOCIATE

	THE GROUP	
	2004 RMB'000	2003 RMB'000
Share of net assets	–	375

At 31st December, 2003, the Group held 40% interest in Hangzhou Coslight Power Supply Company Limited, a company established in the PRC and its principal activities were manufacture and trading of electrical products. The associate was disposed of during the year with a gain of RMB25,000.

18. LOANS RECEIVABLE**THE GROUP**

The loans represent advance to an independent third party. The advances are unsecured, interest bearing at 10% per annum and repayable within one year.

19. INVENTORIES

	THE GROUP	
	2004 RMB'000	2003 RMB'000
Raw materials	76,273	60,937
Work in progress	54,158	62,631
Finished goods	90,859	56,079
	221,290	179,647

Included above are raw material of approximately RMB509,000 (2003: RMB925,000) which are carried at net realisable values.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2004

20. TRADE AND OTHER RECEIVABLES

The credit terms given to the customers vary from 3 months to 9 months from the final inspection acceptance and are generally based on the financial strength of individual customers. The following is an aged analysis of trade receivables at the balance sheet date:

	THE GROUP	
	2004 RMB'000	2003 RMB'000
Within 90 days	415,614	333,735
More than 90 days, but not exceeding 180 days	213,203	190,715
More than 180 days, but not exceeding 270 days	140,833	72,981
More than 270 days, but not exceeding 360 days	45,955	40,816
More than 360 days, but not exceeding 540 days	59,274	42,110
More than 540 days, but not exceeding 720 days	21,559	17,213
Trade receivables	896,438	697,570
Other receivables	80,450	66,161
	976,888	763,731

21. AMOUNTS DUE FROM DIRECTORS

Particulars of the amounts due from directors disclosed under Section 161B of the Hong Kong Companies Ordinance are as follows:

Name of director	THE GROUP		
	Balance at 31.12.2004 RMB'000	Balance at 1.1.2004 RMB'000	Maximum amount outstanding during the year RMB'000
Song Dian Quan ("Mr. Song")	583	—	598
Li Ke Xue	253	276	280
Xing Kai	5	—	5
Zhang Li Ming	6	15	15
Liu Xing Quan	85	—	85
	932	291	

The amounts are unsecured, interest free and have no fixed repayment terms.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2004

22. AMOUNT DUE FROM AN ASSOCIATE

The amount represented trade receivables from an associate and was fully settled during the year.

23. OTHER INVESTMENT**The Group**

The other investment of the Group represents investment in equity securities listed in the PRC with a market value of RMB378,000 as at 31st December, 2004.

24. PLEDGED BANK DEPOSITS

At 31st December, 2004 and 2003, the pledged bank deposits represent bank deposits for securing sales tender.

25. TRADE AND OTHER PAYABLES

The following is an aged analysis of trade payables at the balance sheet date:

	THE GROUP	
	2004	2003
	RMB'000	RMB'000
Within 30 days	111,940	72,988
More than 30 days, but not exceeding 60 days	32,015	18,364
More than 60 days, but not exceeding 90 days	5,344	45,240
More than 90 days, but not exceeding 180 days	24,690	13,314
Over 180 days	43,060	21,703
Trade payables	217,049	171,609
Other payables	249,289	175,627
	466,338	347,236

26. OTHER BORROWINGS

The other borrowings are unsecured, bear interest at 5% (2003: 5%) per annum and are repayable on demand.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2004

27. BANK BORROWINGS

	THE GROUP	
	2004 RMB'000	2003 RMB'000
The bank borrowings are repayable as follows:		
Within one year or on demand	558,808	362,393
More than one year, but not exceeding two years	24,194	60,131
More than two years, but not exceeding five years	26,003	14,217
	609,005	436,741
Less: Amounts due within one year shown under current liabilities	(558,808)	(362,393)
Amounts due after one year	50,197	74,348
Analysed as:		
secured	214,550	231,400
unsecured	394,455	205,341
	609,005	436,741

The bank borrowings carry interest ranging from 1.69% to 7.91% (2003: from 4.02% to 7.91%) per annum.

28. SHARE CAPITAL

	Share capital		
	Number of shares 2003 and 2004 '000	Amount in original currency 2003 and 2004 HK\$'000	Shown in the financial statements as 2003 and 2004 RMB'000
Ordinary shares of HK\$0.10 each			
Authorised	1,000,000	100,000	107,000
Issued and fully paid	433,080	43,308	46,308

On 28th May, 2003, 1,000,000 share options had been exercised at a price of HK\$1.12 to convert to 1,000,000 ordinary shares of HK\$0.10 of the Company. The shares issued rank pari passu with the then existing shares in all respects.

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FOR THE YEAR ENDED 31ST DECEMBER, 2004

28. SHARE CAPITAL (Continued)

On 23rd September, 2003, Mr. Song, the controlling shareholder of the Company had entered into a placement agreement with a placing agent for the placing of up to 34 million existing ordinary shares of the Company at HK\$2.975 per share ("Placing Price") to independent investors.

In addition, Mr. Song had also entered into a subscription agreement with the Company on 23rd September, 2003. The Company issued and allotted, and Mr. Song had subscribed for up to 34 million ordinary shares of the Company at HK\$2.975 per share ("Subscription Price"). The net proceeds from the subscription will be used for the expansion of the production facilities and working capital of the Group. The transactions were completed on 3rd October, 2003. All the shares issued rank pari passu with the then existing shares in all respects.

The Placing Price and the Subscription Price represented a discount of approximately 6.3% to the closing price of HK\$3.175 as quoted on the Stock Exchange on 23rd September, 2003, and a discount of approximately 9.6% to the average closing price of HK\$3.29 as quoted on the Stock Exchange for the ten consecutive trading days ended on 22nd September, 2003.

Details of movements in the issued share capital of the Company during the year ended 31st December, 2003 are set out in the statements of changes in equity.

None of the Company's subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the year.

NOTES TO THE FINANCIAL STATEMENTS

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29. RESERVES

	Share premium RMB'000	Contributed surplus RMB'000	Retained profits RMB'000	Total RMB'000
THE COMPANY				
At 31st December, 2002				
and 1st January, 2003	142,504	169,764	2,624	314,892
Exercise of share options	1,082	–	–	1,082
Issue of shares	103,713	–	–	103,713
Expenses incurred in connection with the issue of shares	(2,188)	–	–	(2,188)
Profit for the year	–	–	35,833	35,833
Dividends	–	–	(33,065)	(33,065)
At 31st December, 2003	245,111	169,764	5,392	420,267
Profit for the year	–	–	33,216	33,216
Dividends	–	–	(32,165)	(32,165)
At 31st December, 2004	245,111	169,764	6,443	421,318

The contributed surplus represents the difference between the consolidated shareholders' funds of the subsidiaries and the nominal value of the Company's shares issued less the amount applied to pay up nil paid shares.

In the opinion of the directors, the Company's reserves available for distribution to shareholders as at 31st December, 2004 comprised contributed surplus and retained profits in aggregate amounting to approximately RMB176,207,000 (2003: RMB175,156,000).

30. SHARE OPTION SCHEME

The Company's new share option scheme (the "New Scheme") was adopted pursuant to a resolution passed on 27th May, 2004 for the primary purpose of providing incentives to directors and eligible employees and will expire on 26th May, 2014. Under the New Scheme, the Board of Directors of the Company may grant options to eligible employees, including directors of the Company and its subsidiaries, to subscribe for shares in the Company.

The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. The number of shares in respect of which options may be granted to any individual at the grant date is not permitted to exceed 1% of the number of shares issued and issuable under the Scheme.

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FOR THE YEAR ENDED 31ST DECEMBER, 2004

30. SHARE OPTION SCHEME (Continued)

Options granted must be taken up within 28 days of the date of grant, upon payment of HK\$1 per option. Options may be exercised at any time from the date of grant of the share option to the 2nd anniversary of the date of grant. The exercise price shall be at least the highest of:

- (i) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the day when the offer is made;
- (ii) the average of the closing prices of shares on the Stock Exchange's daily quotations sheets for the five trading days immediately preceding the date when an offer is made;
- (iii) the nominal value of the shares.

No share options was granted under the New Scheme since adoption.

The Company's old share option scheme was adopted pursuant to a resolution passed on 26th October, 1999 for the primary purpose of providing incentives to directors and eligible employees and was expired on 25th October, 2003.

The following table discloses details of the Company's share options held by directors and employees and movements in such holdings for the year ended 31st December, 2003:

Type	Category	Date of grant	No. of share options	Exercisable period	Exercise price HK\$	Outstanding at 1.1.2003	Exercised during the year	Outstanding at 31.12.2003
2001 option	Directors	4th July, 2001	400,000	3.1.2002 – 3.7.2003	1.12	400,000	(400,000)	–
2001 option	Employees (excluding directors)	4th July, 2001	600,000	3.1.2002 – 3.7.2003	1.12	600,000	(600,000)	–
			<u>1,000,000</u>			<u>1,000,000</u>	<u>(1,000,000)</u>	<u>–</u>

The weighted average closing price of the Company's shares immediately before the dates on which the options were exercised was HK\$1.98.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2004

31. DEFERRED TAXATION

The following are the major deferred taxation liabilities and assets recognised by the Group and movements thereon during the current and prior years:

	Revaluation of property, plant and equipment	Others	Total
	RMB'000	RMB'000	RMB'000
At 1st January, 2003	8,927	(102)	8,825
Charge to income for the year (note 9)	38	923	961
Credit to revaluation reserve for the year	(600)	–	(600)
At 31st December, 2003	8,365	821	9,186
Charge to income for the year (note 9)	–	5	5
Charge to revaluation reserve for the year	3,231	–	3,231
At 31st December, 2004	11,596	826	12,422

At the balance sheet date, the Group has unused tax losses of RMB56,773,000 (2003: RMB22,040,000) available for offset against future profits. No deferred tax asset has been recognised in respect of such tax losses due to the unpredictability of future profit streams. Tax losses will be expired within 10 years from the balance sheet date.

Deferred taxation assets and liabilities have not been offset for the purpose of balance sheet presentation as they relate to different taxation authorities. The following is the analysis of the deferred taxation balance for financial reporting purposes:

	2004	2003
	RMB'000	RMB'000
Deferred taxation liabilities	12,921	9,968
Deferred taxation assets	(499)	(782)
	12,422	9,186

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32. ACQUISITION OF A SUBSIDIARY

In June 2004, the Group acquired 60% of a subsidiary which manufactures and sells signal strength system, Kdcoms, for a consideration of RMB4,900,000. This acquisition has been accounted for by the purchase method of accounting. The amount of goodwill arising as a result of the acquisition was RMB4,590,000.

	2004 RMB'000	2003 RMB'000
NET ASSETS ACQUIRED		
Property, plant and equipment	20	—
Trade and other receivables	1,720	—
Bank balances and cash	316	—
Trade and other payables	(1,541)	—
Minority interests	(205)	—
	310	—
Goodwill	4,590	—
Total consideration	4,900	—
SATISFIED BY		
Cash	4,900	—
	2004 RMB'000	2003 RMB'000
Net cashflow arising on acquisition		
Cash consideration	4,900	—
Bank balances and cash acquired	(316)	—
	4,584	—

The subsidiary acquired did not have significant financial impact on the Group's cash flows or operating results for the year ended 31st December, 2004.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2004

33. DISPOSAL OF A SUBSIDIARY

	2004 RMB'000	2003 RMB'000
NET LIABILITIES DISPOSED OF		
Property, plant and equipment	1,168	—
Inventories	2,921	—
Trade and other receivables	2,934	—
Bank balances and cash	396	—
Trade and other payables	(7,697)	—
	(278)	—
Gain on disposal of interest in a subsidiary	778	—
Total consideration received	500	—
SATISFIED BY		
Cash	500	—
	2004 RMB'000	2003 RMB'000
Net cashflow arising on disposal		
Cash consideration received	500	—
Bank balances and cash disposed of	(396)	—
	104	—

The subsidiary disposed of did not have significant financial impact on the Group's cash flows or operating results for the year ended 31st December, 2004.

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FOR THE YEAR ENDED 31ST DECEMBER, 2004

34. RELATED PARTY TRANSACTIONS AND BALANCES

During the year, the Group had certain transactions with related parties. Details of transactions and balances with these related parties are as follows:

(a) Transactions

Name of related party	Nature of transactions	2004 RMB'000	2003 RMB'000
北京兆唐科技有限公司 Beijing Zhaotang Science and Technology Company Limited ("BJ Zhaotang") (note i)	Sales of finished goods	–	6
光宇延邊蓄電池有限公司 Guangyu Yanbian Storage Battery Manufacturing Co. Ltd ("GYSB") (note i)	Sales of raw materials Purchase of finished goods	4,364 –	2,043 978
哈爾濱光宇電綫電纜有限公司 Harbin Guangyu Electric Wire and Cable Co. Ltd ("HGEWC") (note i)	Purchase of raw materials	1,728	896
哈爾濱開關有限責任公司 Harbin Switch Company Limited ("HBS") (note i)	Sales of finished goods	2,143	2,605
深圳力可興電池有限公司 Shenzhen Like Xing Battery Co. Ltd. ("SZ Li Ke Xing") (note i)	Purchase of raw materials	5,004	–
石家莊光宇高能電池材料 有限公司 Shijia Zhuang Guangyu Battery Material Co. Ltd. ("SZGBM") (note i)	Purchase of raw materials Sales of finished goods	2,962 –	3,965 467
杭州光宇電源有限公司 Hangzhou Coslight Power Supply Company Limited (note ii)	Sales of finished goods	–	23,232

The transactions were carried out in accordance with terms determined and agreed by both parties.

NOTES TO THE FINANCIAL STATEMENTS

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34. RELATED PARTY TRANSACTIONS AND BALANCES (Continued)**(b) Balances**

Name of related party	Amount due from		Amount due to	
	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
HBS	12,556	8,607	—	—
SZGBM	—	—	750	636
GYSB	2,137	1,429	—	—
BJ Zhaotang	336	80	—	—
哈爾濱亞光新型隔板有限公司 Harbin Ya Guang Modern Separators Company Limited ("HB Ya Guang") (note i)	—	—	1,835	1,877
SZ Li Ke Xing	—	—	2,183	655
HGEWC	—	—	1,171	1,885
哈爾濱光宇(集團)股份 有限公司 Harbin Guangyu Group Company Ltd. ("HGCL") (note i)	—	—	1,316	1,575
昌都邦達工貿有限公司 Tibet Bangda Industrial & Trade Co. Ltd. (note iii)	—	—	3,947	—
深圳柏仁塑膠製品有限公司 Shenzhen Boren Plastic Ware Co. Ltd. (note iii)	279	—	—	—
	15,308	10,116	11,202	6,628

The amounts due from/to related companies are unsecured, non-interest bearing and repayable on demand. Details of the amounts due from directors are set out in note 21.

(c) Other arrangements

At 31st December, 2004, none of the Group's bank borrowings were guaranteed by related parties in which certain directors of the Company have beneficial interests (2003: RMB20,050,000). In addition, at 31st December, 2004, RMB51,123,000 (2003: RMB28,710,000) of the Group's bank borrowings were guaranteed by Mr. Song.

Notes:

- (i) Certain directors of the Company have beneficial interests in BJ Zhaotang, GYSB, HB Ya Guang, HBS, HGCL, HGEWC, SZ Li Ke Xing and SZGBM
- (ii) Associate of the Group
- (iii) Minority shareholders of the Group

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35. RETIREMENT BENEFIT PLANS***Defined contribution plan***

The Group operates the MPF Scheme for its qualifying employees. The assets of the MPF schemes are held separately from those of the Group, in funds under the control of trustees. The Group contributes at the lower of HK\$1,000 or 5% of the relevant payroll costs per month to the Scheme, which contribution is matched by employees.

The employees of certain Group's subsidiaries in the PRC are members of a state-managed retirement benefit scheme operated by the government. These subsidiaries are required to contribute 22% of payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit scheme is to make the specified contributions.

The total cost charged to consolidated income statement of approximately RMB3,217,000 (2003: RMB3,693,000) represents contributions payable to these schemes by the Group in respect of the current accounting period. As at 31st December, 2004 and 2003, no contributions in respect of the reporting period had not been paid over to the above schemes.

36. BANKING FACILITIES

At the balance sheet date, the Group's banking facilities were secured by the followings:

- (i) certain of the Group's property, plant and equipment with an aggregate carrying value of approximately RMB228,626,000 (2003: RMB248,786,000).
- (ii) guaranteed by personal and corporate guarantees given by a director and certain related parties as set out in note 34(c).
- (iii) certain of the trade receivables with an aggregate amount of approximately RMB69,935,000 (2003: RMB54,371,000).

The Company has issued guarantees to banks to secure general banking facilities granted to certain subsidiaries to the extent of RMB170,341,000 (2003: RMB46,429,000).

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FOR THE YEAR ENDED 31ST DECEMBER, 2004

37. OPERATING LEASE ARRANGEMENTS**The Group as lessee**

	2004 RMB'000	2003 RMB'000
Minimum lease payments paid under operating leases for premises for the year	1,390	1,106

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases for office premises which fall due as follows:

	2004 RMB'000	2003 RMB'000
Within one year	1,462	889
In the second to fifth year inclusive	763	617
Over five years	—	35
	2,225	1,541

Operating lease payments represent rentals payable by the Group for certain of its office properties. Leases are negotiated for an average term of two years and rentals are fixed during the lease period.

The Group as lessor

During the year ended 31st December, 2004, no property rental income was earned by the Group (2003: RMB240,000).

At the balance sheet date, the Group had contracted with tenants for the following future minimum lease payments:

	2004 RMB'000	2003 RMB'000
Within one year	—	240
In the second to fifth year inclusive	—	200
	—	440

The Company had no significant operating lease arrangements at the balance sheet date.

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38. CAPITAL COMMITMENTS

	THE GROUP	
	2004 RMB'000	2003 RMB'000
Capital expenditure authorised but not contracted for in respect of acquisition of property, plant and equipment	70,754	71,040
Capital expenditure contracted for but not provided in the financial statements in respect of acquisition of property, plant and equipment	10,589	25,408

The Company did not have any significant capital commitment at the balance sheet date.

39. PROFIT GUARANTEE

On 11th August, 2004, the Group has entered into an exclusive online game license and distribution agreement ("Agreement") with an independent third party (the "Licensor") for obtaining exclusive right to distribute and market an online game in the PRC at a consideration of US\$4,000,000 (equivalent to approximately RMB33,093,000). Pursuant to the Agreement, the Group has to pay the Licensor continuing royalties of 30% of the total service-sales amount paid by the users of this online game less any direct costs of the online game generated by the Group. In any event, the Group has to pay the Licensor as a minimum guarantee of royalties for the first two-year term of the Agreement, a total of US\$6,000,000 (equivalent to approximately to RMB49,640,000) in four instalments of US\$1,500,000 each (equivalent to approximately to RMB12,410,000) after the date on which the commercial operation of the Chinese version of the game in the PRC is commenced which is on 12th April, 2005.