Notes to the Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER, 2005

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 addresses of the registered office and principal place of business of the Company are disclosed in the corporation information to the annual report.

The principal activities of the Company and its subsidiaries (the "Group") are the research and development, manufacture and sales of rechargeable batteries and battery related accessories. During the year, the Group discontinued the sales and distribution of online game products.

The functional currency of the Company is Hong Kong dollars. However, the financial statements have been presented in Renminbi, the currency in which the majority of the Group's transactions are denominated.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARD

In the current year, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants that are effective for accounting periods beginning on or after 1st January, 2005. The application of the new HKFRSs has resulted in a change in the presentation of the consolidated income statement, consolidated balance sheet and consolidated statement of changes in equity. In particular, the presentation of minority interests has been changed. The changes in presentation have been applied retrospectively. The adoption of the new HKFRSs has resulted in changes to the Group's accounting policies in the following areas that have an effect on how the results for the current and/or prior accounting years are prepared and presented:

A. Business Combinations

In the current year, the Group has applied HKFRS 3 "Business combinations" which is effective for business combinations for which the agreement date is on or after 1st January, 2005. The principal effects of the application of HKFRS 3 to the Group are summarised below:

Goodwill

In previous years, goodwill arising on acquisitions was capitalised and amortised over its estimated useful life. The Group has applied the relevant transitional provisions in HKFRS 3. With respect to goodwill previously capitalised on the balance sheet, the Group has discontinued amortising such goodwill from 1st January, 2005 onwards and such goodwill will be tested for impairment at least annually. Goodwill arising on acquisitions after 1st January, 2005 is measured at cost less accumulated impairment losses (if any) after initial recognition. As a result of this change in accounting policy, no amortisation of goodwill has been charged in the current year. Comparative figures for 2004 have not been restated (See Note 3 for financial impact).

Notes to the Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER, 2005

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARD (Continued)

A. *Business Combinations (Continued)*

Excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost (previously known as "negative goodwill")

In accordance with HKFRS 3, any excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over the cost of acquisition ("discount on acquisition") is recognised immediately in profit or loss in the period in which the acquisition takes place. In previous years, negative goodwill arising on acquisitions was presented as a deduction from assets and released to income based on an analysis of the circumstances from which the balance resulted. In accordance with the relevant transitional provisions in HKFRS 3, the Group derecognised all negative goodwill of RMB16,502,000 at 1st January, 2005, which was previously presented as a deduction from assets, with a corresponding increase to accumulated profits at 1st January, 2005 (See Note 3 for financial impact).

B. *Owner-occupied leasehold interest in land*

In previous years, owner-occupied leasehold land and buildings were included in property, plant and equipment and measured using the revaluation model. In the current year, the Group has applied HKAS 17 "Leases". Under HKAS 17, the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land are reclassified to prepaid lease payments under operating leases, which are carried at cost and amortised over the lease term on a straight-line basis. This change in accounting policy has been applied retrospectively (See Note 3 for financial impact).

C. *Financial instruments*

HKAS 32 "Financial instruments: Disclosure and presentation" requires retrospective application whereas HKAS 39 "Financial instruments: Recognition and measurement", which is effective for annual periods beginning on or after 1st January, 2005, generally does not permit the recognition, derecognition or measurement of financial assets and liabilities on a retrospective basis. The application of HKAS 32 has had no material impact on how financial instruments of the Group are presented for current and prior accounting periods. The principal effects resulting from the implementation of HKAS 39 are summarised below:

Classification and measurement of financial assets and financial liabilities

The Group has applied the relevant transitional provisions in HKAS 39 with respect to the classification and measurement of financial assets and financial liabilities that are within the scope of HKAS 39.

Notes to the Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER, 2005

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARD (Continued)

C. *Financial instruments (Continued)*

Debt and equity securities previously accounted for under the benchmark treatment of SSAP 24

By 31st December, 2004, the Group classified and measured its debt and equity securities in accordance with the benchmark treatment of Statement of Standard Accounting Practice 24 ("SSAP 24"). Under SSAP 24, investments in debt or equity securities are classified as "investment securities", "other investments" or "held-to-maturity investments" as appropriate. "Investment securities" are carried at cost less impairment losses (if any) while "other investments" are measured at fair value, with unrealised gains or losses included in the profit or loss. Held-to-maturity investments are carried at amortised cost less impairment losses (if any). From 1st January, 2005 onwards, the Group has classified and measured its debt and equity securities in accordance with HKAS 39. Under HKAS 39, financial assets are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables" or "held-to-maturity financial assets". "Financial assets at fair value through profit or loss" and "available-for-sale financial assets" are carried at fair value, with changes in fair values recognised in profit or loss and equity respectively. Available-for-sale equity investments that do not have quoted market prices 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 are measured at cost less impairment after initial recognition. "Loans and receivables" and "held-to-maturity financial assets" are measured at amortised cost using the effective interest method after initial recognition. On 1st January, 2005, the Group classified and measured its debts and equity securities in accordance with the transitional provision of HKAS39. Other investment of RMB378,000 was reclassified as investment held for trading at 1st January, 2005. This change in accounting policy has had no material effect on results for the current year.

Financial assets and financial liabilities other than debt and equity securities

From 1st January, 2005 onwards, the Group has classified and measured its financial assets and financial liabilities other than debt and equity securities (which were previously outside the scope of SSAP 24) in accordance with the requirements of HKAS 39. As mentioned above, financial assets under HKAS 39 are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables" or "held-to-maturity financial assets". Financial liabilities are generally classified as "financial liabilities at fair value through profit or loss" or "other financial liabilities". Financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value being recognised in profit or loss directly. Other financial liabilities are carried at amortised cost using the effective interest method after initial recognition. This change in accounting policy has had no material effect on results for the current year.

Notes to the Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER, 2005

3. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES

The effects of the changes in the accounting policies described above on the results for the current and prior year are as follows:

	Effect of adopting	2005 RMB'000	2004 RMB'000
Decrease in amortisation of goodwill	HKFRS 3	700	–
Decrease in release of negative goodwill	HKFRS 3	(2,080)	–
Discount on acquisition of a subsidiary released to income	HKFRS 3	5,061	–
Increase in profit for the year		3,681	–

Analysis of increase in profit for the year by line items presented according to their function:

	2005 RMB'000	2004 RMB'000
Decrease in administrative expenses	700	–
Increase in other income	2,981	–
Increase in profit for the year	3,681	–

The cumulative effects of the application of the new HKFRSs as at 31st December, 2004 and 1st January, 2005 are summarised below:

	Effect of adopting	As at 31.12.2004 (originally stated) RMB'000	Adjustments RMB'000	As at 31.12.2004 (restated) RMB'000	Adjustments RMB'000	As at 1.1.2005 (restated) RMB'000
Balance sheet items						
Property, plant and equipment	HKAS 17	595,928	(92,493)	503,435	–	503,435
Prepaid lease payments	HKAS 17	–	30,483	30,483	–	30,483
Deferred taxation liabilities	HKAS 17	(12,921)	9,302	(3,619)	–	(3,619)
Negative goodwill	HKFRS 3	(16,502)	–	(16,502)	16,502	–
Investment held for trading	HKAS 39	–	–	–	378	378
Other investment	HKAS 39	378	–	378	(378)	–
Net effects on assets and liabilities		566,883	(52,708)	514,175	16,502	530,677
Accumulated profits	HKFRS 3	(418,548)	–	(418,548)	(16,502)	(435,050)
Revaluation reserve	HKAS 17	(81,368)	52,708	(28,660)	–	(28,660)
Net effects on equity		(499,916)	52,708	(447,208)	(16,502)	(463,710)

Notes to the Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER, 2005

3. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES (Continued)

The financial effects of the application of the new HKFRSs to the Group's equity on 1st January, 2004 are summarised below:

	As originally stated RMB'000	**Adjustments** RMB'000	**As restated** RMB'000
Revaluation reserve	(66,220)	46,106	(20,114)

The Group has commenced considering the potential impact of the following new standards, amendments and interpretations that have been issued but not yet effective. The management anticipates the application of these new standards, amendments and interpretations will have no material impact on the Group's financial statements except for HKFRS 6, which will be applied by a subsidiary acquired subsequent to the balance sheet date. The Group is still not yet in a position to reasonably estimate the financial impact that may arise from HKFRS 6.

HKAS 1 (Amendment)	Capital disclosures[1]
HKAS 19 (Amendment)	Actuarial gains and losses, group plans and disclosures[2]
HKAS 21 (Amendment)	Net investment in a foreign operation[2]
HKAS 39 (Amendment)	Cash flow hedge accounting of forecast intragroup transactions[2]
HKAS 39 (Amendment)	The fair value option[2]
HKAS 39 & HKFRS 4 (Amendments)	Financial guarantee contracts[2]
HKFRS 6	Exploration for and evaluation of mineral resources[2]
HKFRS 7	Financial instruments: Disclosures[1]
HK(IFRIC)-INT 4	Determining whether an arrangement contains a lease[2]
HK(IFRIC)-INT 5	Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds[2]
HK(IFRIC)-INT 6	Liabilities arising from participating in a specific market – waste electrical and electronic equipment[3]
HK(IFRIC)-INT 7	Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economies[4]

1 Effective for annual periods beginning on or after 1st January, 2007.
2 Effective for annual periods beginning on or after 1st January, 2006.
3 Effective for annual periods beginning on or after 1st December, 2005.
4 Effective for annual periods beginning on or after 1st March, 2006.

Notes to the Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER, 2005

4. SIGNIFICANT ACCOUNTING POLICIES

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

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries.

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.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in 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 combination. 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.

Goodwill

Goodwill arising on an acquisition of a subsidiary for which the agreement date is before 1st January, 2005 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of the relevant subsidiary at the date of acquisition.

For previously capitalised goodwill, the Group has discontinued amortisation from 1st January, 2005 onwards, and such goodwill is tested for impairment annually, and whenever there is an indication that the cash generating unit to which the goodwill relates may be impaired.

Notes to the Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER, 2005

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Goodwill (Continued)

Goodwill arising on an acquisition of a subsidiary for which the agreement date is on or after 1st January, 2005 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the relevant subsidiary or associate at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses.

Capitalised goodwill arising on an acquisition of a subsidiary is presented separately in the balance sheet.

For the purposes of impairment testing, goodwill arising from an acquisition of a subsidiary is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the income statement. An impairment loss for goodwill is not reversed in subsequent periods.

On subsequent disposal of a subsidiary, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

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 arose for which an agreement date is on or after 1st January, 2005 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.

As explained in note 2, all negative goodwill as at 1st January, 2005 has been derecognised with a corresponding adjustment to the Group's accumulated profits.

Notes to the Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER, 2005

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investment in associates

The results and assets and liabilities of associates are incorporated in these 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 the profit or loss and of changes in equity 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 (which includes any long-term interests that, in substance, form part of the Group's net investment in the 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.

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

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

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

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.

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.

Property, plant and equipment

Buildings, 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 any subsequent impairment losses. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the balance sheet date.

Notes to the Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER, 2005

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment (Continued)

Any revaluation increase arising on revaluation of buildings, 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 accumulated 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 available for 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 is provided to write off the cost or fair value of items of property, plant and equipment, other than construction in progress, over their estimated useful lives, using the straight line method.

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 income statement in the year in which the item is derecognised.

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, and carried at cost less subsequent accumulated amortisation and any accumulated impairment losses.

Where no internally-generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred.

Notes to the Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER, 2005

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 and carried at cost less subsequent accumulated amortisation and any accumulated impairment losses.

An item of intangible asset 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 income statement in the year in which the item is derecognised.

Impairment (other than goodwill)

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.

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 and financial liabilities at fair value through profit or loss) 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 fair value through profit or loss are recognised immediately in profit or loss.

Notes to the Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER, 2005

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets

The Group's financial assets are classified as financial assets at fair value through profit or loss and loans and receivables. 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.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss has two subcategories, including financial assets held for trading and those designated at fair value through profit or loss on initial recognition. The Group classified certain financial assets as investment held for trading. At each balance sheet date subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise.

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 receivables, amounts due from directors/related companies and an associate, pledged bank deposits and bank balances) are carried at amortised cost using the effective interest method, less any identified impairment losses. 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. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction 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.

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.

Financial liabilities

The Group's financial liabilities including bank and other borrowings, trade payables, amounts due to related companies, and amount due to an associate are subsequently measured at amortised cost, using the effective interest method.

Notes to the Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER, 2005

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial liabilities and equity (Continued)

Equity investments

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

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 its 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 translation of monetary items, are recognised in profit or loss in the period in which they arise, except for exchange differences arising on a monetary item that forms part of the Company's net investment in a foreign operation, in which case, such exchange differences are recognised in equity in the consolidated financials statements. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which cases, the exchange differences are also recognised directly in equity.

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. Renminbi) 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, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the exchange reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation on or after 1st January, 2005 are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the balance sheet date. Exchange differences arising are recognised in the exchange reserve.

Notes to the Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER, 2005

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 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 amount of assets and liabilities in the consolidated 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 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.

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.

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 income statement and are reported separately as other income.

Inventories

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

Notes to the Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER, 2005

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Leasing

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.

The Group as lessor

Rental income from operating leases is recognised in the income statement on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight-line basis over the lease term.

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.

5. KEY SOURCES OF ESTIMATION UNCERTAINTY

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

Impairment loss on trade receivables

The assessment of the impairment loss on trade receivables of the Group is based on the evaluation of collectability and aging analysis of accounts and on management's estimate. In determining whether impairment is required, the Group takes into consideration the aging status, creditworthiness and the past collection history of each customer. Specific allowance is only made for receivables that are unlikely to be collected and is recognised on the difference between the estimated future cash flow expected to receive discounted using the original effective interest rate and the carrying value. If the financial conditions of customers of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. As at 31st December, 2005, the carrying value of trade receivables (net of impairment loss) is approximately RMB1,121,411,000.

Notes to the Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER, 2005

5. KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

Estimated impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. As at 31st December 2005, the carrying amount of goodwill was HK$4,193,000. Details of the recoverable amount calculation are disclosed in note 18.

Income taxes

As at 31st December 2005, a deferred tax liability of HK$2,006,000 in relation to revaluation of property, plant and equipment has been recognised in the Group's balance sheet and no deferred tax assets have been recognised for the tax losses of RMB96,173,000. The realisability of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where the actual future profits generated are less or more than expected, a material reversal or recognition of deferred tax assets may arise, which would be recognised in the income statement for the period in which such a reversal or recognition takes place.

Allowances for inventories

The management of the Group reviews inventories on a product-by-product basis at each balance sheet date, and makes allowance for obsolete and slow-moving inventory items identified that are no longer suitable for use in production. The management estimates the net realisable value for such finished goods and work-in progress based primarily on the latest invoice prices and current market conditions.

Intangible assets

The management reviews intangible assets at each balance sheet date, and makes allowance for impairment losses where there is an indication that an asset may be impaired. The management estimates the recoverable amounts are higher than the carrying values of the intangible assets.

6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include trade receivables, pledged bank deposits, bank balances, trade payables, bank and other borrowings and amounts due from/to related parties. Details of these financial instruments are disclosed in respective notes. The risks associated with certain of these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Interest rate risk

The Group is exposed to fair value and cash flow interest rate risks through fixed and variable interest rates borrowings. The Group currently does not have an interest rate hedging policy. However, management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

Notes to the Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER, 2005

6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31st December, 2005 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. 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. In addition, the Group reviews the recoverable amount of each individual trade debt 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.

The Group has no significant concentration of credit risk, with exposure spread over a number of counterparties and customers.

The credit risk on bank deposits is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

7. 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, nickel batteries and electricity control devices. 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
Nickel batteries	–	manufacture and sale of nickel batteries
Electricity control devices	–	manufacture and sale of electricity control devices

The Group was also involved in the sales and distribution of online game products. That operation was discontinued in June 2005.

Notes to the Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER, 2005

7. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

Business segments (Continued)

Segment information about these businesses is presented below.

2005

	Continuing operations							Discontinued operation	
	Sealed lead acid batteries and related accessories RMB'000	Lithium ion batteries RMB'000	Nickel batteries RMB'000	Electricity control devices RMB'000	Others RMB'000	Elimination RMB'000	Total RMB'000	Online games RMB'000	Consolidated RMB'000
TURNOVER									
External sales	893,063	250,534	80,538	29,555	53,759	–	1,307,449	3,518	1,310,967
Inter-segment sales	1,409	799	134	–	25,788	(28,130)	–	–	–
Total turnover	894,472	251,333	80,672	29,555	79,547	(28,130)	1,307,449	3,518	1,310,967
RESULT									
Segment result	153,324	18,223	7,306	3,109	393	–	182,355	(21,940)	160,415
Unallocated corporate income							335	–	335
Unallocated corporate expenses							(15,617)	–	(15,617)
Share of result of an associate							(3,906)	–	(3,906)
Finance costs							(38,576)	–	(38,576)
Profit before taxation							124,591	(21,940)	102,651
Income tax expense							(8,642)	–	(8,642)
Gain on deemed disposal of a subsidiary							–	22,087	22,087
Profit for the year							115,949	147	116,096

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

Notes to the Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER, 2005

7. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

Business segments (Continued)

BALANCE SHEET

	Sealed lead acid batteries and related accessories RMB'000	Lithium ion batteries RMB'000	Nickel batteries RMB'000	Electricity control devices RMB'000	Others RMB'000	Consolidated RMB'000
ASSETS						
Segment assets	1,328,145	434,190	119,446	50,045	156,106	2,087,932
Unallocated corporate assets						268,273
Consolidated total assets						2,356,205
LIABILITIES						
Segment liabilities	325,004	178,667	71,501	18,984	45,929	640,085
Unallocated corporate liabilities						604,351
Consolidated total liabilities						1,244,436

OTHER INFORMATION

	Continuing operations						Discontinued operation	
	Sealed lead acid batteries and related accessories RMB'000	Lithium ion batteries RMB'000	Nickel batteries RMB'000	Electricity control devices RMB'000	Others RMB'000	Total RMB'000	Online games RMB'000	Consolidated RMB'000
Capital additions	10,708	14,057	17,159	593	13,968	56,485	3,670	60,155
Depreciation and amortisation	22,133	15,866	1,010	1,037	7,162	47,208	5,048	52,256

Notes to the Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER, 2005

7. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

Business segments (Continued)

2004

	Continuing operations						Discontinued operation	
	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	Total RMB'000	Online games RMB'000	Consolidated RMB'000
TURNOVER								
External sales	698,172	309,364	29,843	87,667	–	1,125,046	310	1,125,356
Inter-segment sales	42,086	–	2,898	1,480	(46,464)	–	–	–
Total turnover	740,258	309,364	32,741	89,147	(46,464)	1,125,046	310	1,125,356
RESULT								
Segment result	143,454	30,341	2,803	6,130	–	182,728	(6,933)	175,795
Unallocated corporate income						3,897	–	3,897
Unallocated corporate expenses						(8,859)	–	(8,859)
Gain on disposal of a subsidiary	–	–	–	778	–	778	–	778
Gain on disposal of an associate	–	–	–	25	–	25	–	25
Finance costs						(34,488)	–	(34,488)
Profit before taxation						144,081	(6,933)	137,148
Income tax expense						(10,990)	–	(10,990)
Profit for the year						133,091	(6,933)	126,158

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

Notes to the Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER, 2005

7. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

Business segments (Continued)

BALANCE SHEET

	Continuing operations					Discontinued operation	
	Sealed lead acid batteries and related accessories	Lithium ion batteries	Electricity control devices	Others	Total	Online games	Consolidated
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
ASSETS							
Segment assets	1,055,803	492,383	53,729	141,139	1,743,054	42,832	1,785,886
Unallocated corporate assets							291,296
Consolidated total assets							2,077,182
LIABILITIES							
Segment liabilities	260,463	146,267	22,647	47,148	476,525	976	477,501
Unallocated corporate liabilities							620,258
Consolidated total liabilities							1,097,759

OTHER INFORMATION

	Continuing operations					Discontinued operation	
	Sealed lead acid batteries and related accessories	Lithium ion batteries	Electricity control devices	Others	Total	Online games	Consolidated
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Capital additions	6,958	63,784	510	53,014	124,266	39,778	164,044
Depreciation and amortisation	22,550	12,845	564	2,411	38,370	410	38,780

Geographical segments

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

Notes to the Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER, 2005

8. OTHER INCOME

	Continuing operations		Discontinued operation		Consolidated	
	2005	2004	2005	2004	2005	2004
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Amortisation of negative goodwill	–	2,080	–	–	–	2,080
Bank interest income	1,182	1,787	5	9	1,187	1,796
Discount on acquisition of a subsidiary	5,061	–	–	–	5,061	–
Exchange gain	–	1,734	–	–	–	1,734
Government grants	9,120	2,643	–	–	9,120	2,643
Other interest income	242	1,663	–	–	242	1,663
Sundry income	4,492	1,621	7	–	4,499	1,621
Value-added tax refunded	1,940	1,101	–	–	1,940	1,101
	22,037	12,629	12	9	22,049	12,638

9. FINANCE COSTS

	Continuing operations		Discontinued operation		Consolidated	
	2005	2004	2005	2004	2005	2004
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Interest payable on:						
Bank borrowings wholly repayable within five years	38,416	34,482	–	–	38,416	34,482
Other borrowings wholly repayable within five years	160	6	–	–	160	6
	38,576	34,488	–	–	38,576	34,488

Notes to the Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER, 2005

10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' emoluments

The emoluments paid or payable to each of the 9 (2004: 9) directors were as follows:

	Mr. Song Dian Quan RMB'000	Ms. Luo Ming Hua RMB'000	Mr. Li Ke Xue RMB'000	Mr. Xing Kai RMB'000	Mr. Zhang Li Ming RMB'000	Mr. Liu Xing Quan RMB'000	Mr. Li Zeng Lin RMB'000	Dr. Jiang Zhao Hua RMB'000	Mr. Xiao Jian Min RMB'000	Total RMB'000
2005										
Fees										
Other emoluments:										
Salaries and other benefits	67	65	65	60	367	60	21	–	–	705
Retirement benefit scheme contributions	2	2	–	1	–	–	–	–	–	5
Total emoluments	69	67	65	61	367	60	21	–	–	710

	Mr. Song Dian Quan RMB'000	Ms. Luo Ming Hua RMB'000	Mr. Li Ke Xue RMB'000	Mr. Xing Kai RMB'000	Mr. Zhang Li Ming RMB'000	Mr. Liu Xing Quan RMB'000	Mr. Li Zeng Lin RMB'000	Dr. Jiang Zhao Hua RMB'000	Mr. Xiao Jian Min RMB'000	Total RMB'000
2004										
Fees										
Other emoluments:										
Salaries and other benefits	60	58	59	54	670	54	–	–	–	955
Retirement benefit scheme contributions	2	1	–	1	–	–	–	–	–	4
Total emoluments	62	59	59	55	670	54	–	–	–	959

Notes to the Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER, 2005

10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (Continued)

(b) ***Employees' emoluments***

The five highest paid individuals of the Group included one (2004: two) directors of the Company, details of whose emoluments are set out above. The emoluments of the remaining four (2004: three) individuals are as follows:

	2005 RMB'000	2004 RMB'000
Salaries and other benefits	1,433	1,919
Retirement benefit scheme contributions	33	16
	1,466	1,935

The aggregate emoluments of each of the employees for the two years ended 31st December, 2005 and 2004 were less than HK$1,000,000 (approximately RMB1,040,000).

During the two years ended 31st December, 2005 and 2004, 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, 2005 and 2004.

11. INCOME TAX EXPENSE

	Continuing operations		Discontinued operation		Consolidated	
	2005 RMB'000	2004 RMB'000	2005 RMB'000	2004 RMB'000	2005 RMB'000	2004 RMB'000
The charge comprises:						
PRC enterprise income tax	(11,667)	(10,985)	–	–	(11,667)	(10,985)
Deferred taxation credit (charge) (note 36)	3,025	(5)	–	–	3,025	(5)
	(8,642)	(10,990)	–	–	(8,642)	(10,990)

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 Company'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").

Notes to the Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER, 2005

11. INCOME TAX EXPENSE (Continued)

In accordance with the regulations of the PRC, the major subsidiaries of the Company are qualified as production-oriented entities and they are entitled to PRC enterprise income tax rate of 15%.

Seven (2004: four) 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:

	2005 RMB'000	2004 RMB'000
Profit before taxation from continuing and discontinued operations	124,738	137,148
Tax at the domestic income tax rate at 15%	18,711	20,572
Tax effect of share of result of an associate	586	–
Tax effect of income subject to Tax Holidays	(11,424)	(11,249)
Tax effect of income not taxable for tax purpose	(5,142)	(3,172)
Tax effect of tax losses not recognised	5,911	4,837
Effect of different tax rates of subsidiaries operating in other jurisdictions	–	2
Tax charge for the year	8,642	10,990

Details of deferred taxation are set out in note 36.

12. DISCONTINUED OPERATION

During the year, the Group entered into an agreement under which the Company's 35.57% equity interest in a subsidiary, 北京光宇華夏科技有限責任公司Beijing Guangyu Huaxia Technology Corporation Limited, was deemed to be disposed by way of capital injection by the Group amounting to RMB18,800,000 and an independent third party amounting to RMB27,608,000. As the capital injected by the independent third party was more than the Group's capital contribution, the Group's interest in this subsidiary was then decreased from 77% to 41.43% and this subsidiary became an associate of the Group. The subsidiary disposed of was engaged in the business of sales and distribution of online games.

Notes to the Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER, 2005

12. DISCONTINUED OPERATION (Continued)

The profit for the year from the discontinued operation is analysed as follows:

	2005 RMB'000	2004 RMB'000
Loss of online games operation for the year	(21,940)	(6,933)
Gain on deemed disposal of online games operation (see Note 38)	22,087	–
	147	(6,933)

The results of the online games operations for the period from 1st January, 2005 to 28th June, 2005, which have been included in the consolidated income statement, were as follows:

	Period ended 28.6.2005 RMB'000	Year ended 31.12.2004 RMB'000
Revenue	3,518	310
Cost of sales	(4,180)	(374)
Other income	12	9
Distribution costs	(21,249)	(3,851)
Administrative expenses	(41)	(3,027)
Loss for the period/year	(21,940)	(6,933)

During the year, the subsidiary contributed RMB3,267,995 (2004: RMB40,149,270) to the Group's net operating cash flows and paid RMB3,665,031 (2004: RMB39,769,574) in respect of investing activities.

Notes to the Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER, 2005

13. PROFIT FOR THE YEAR

	Continuing operations		Discontinued operation		Consolidated	
	2005 RMB'000	2004 RMB'000 (restated)	2005 RMB'000	2004 RMB'000	2005 RMB'000	2004 RMB'000 (restated)
Profit for the year has been arrived at after charging:						
Directors' emoluments (note 10)	710	959	–	–	710	959
Retirement benefit scheme contributions (excluding contributions for directors)	4,116	3,188	–	25	4,116	3,213
Other staff costs	114,432	82,188	6,555	2,224	120,987	84,412
Total employees benefits expense	119,258	86,335	6,555	2,249	125,813	88,584
Recognition (reversal) of impairment for bad and doubtful debts	31,583	(629)	–	–	31,583	(629)
Amortisation of intangible assets (included in administrative expenses and cost of sales)	2,792	666	4,170	–	6,962	666
Amortisation of goodwill (included in administrative expenses)	–	397	–	–	–	397
Auditors' remuneration	1,539	1,338	–	–	1,539	1,338
Deficit arising on revaluation of property, plant and equipment (note 16)	215	614	–	–	215	614
Depreciation of property, plant and equipment	44,416	37,307	878	410	45,294	37,717
Release of prepaid lease payments	1,348	797	–	–	1,348	797
Research and development costs expensed	1,507	463	–	–	1,507	463
Decrease in fair value of investment held for trading	28	–	–	–	28	–
Unrealised loss on other investment	–	22	–	–	–	22
after crediting:						
Reversal of impairment for slow-moving inventories	(878)	(816)	–	–	(878)	(816)
(Gain) loss on disposal of property, plant and equipment	(266)	20	–	–	(266)	20

Notes to the Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER, 2005

14. DIVIDENDS

	2005 RMB'000	2004 RMB'000
Dividends declared to equity holders of the Company:		
2003 final dividend of HK$0.05 (shown as RMB0.05305)	–	22,975
2004 interim dividend of HK$0.02 (shown as RMB0.02122)	–	9,190
2004 final dividend of HK$0.04 (shown as RMB0.04244)	18,380	–
2005 interim dividend of HK$0.01 (shown as RMB0.0104)	4,504	–
Total dividends declared during the year	22,884	32,165

The directors have determined that a final dividend of HK$0.05 (shown as RMB0.05200) (2004: HK$0.04 (shown as RMB0.04244)) per share amounting to approximately RMB22,520,000 (2004: RMB18,380,000) should be paid to the shareholders of the Company whose names appear in the register of members on 26th May, 2006.

15. EARNINGS PER SHARE

For continuing and discontinued operations

The calculation of the basic and diluted earnings per share attributable to the ordinary equity holders of the Company is based on the following data:

	2005 RMB'000	2004 RMB'000
Earnings:		
Profit for the year and earnings for the purposes of basic earnings per share	110,927	122,024

	'000	'000
Number of shares:		
Weighted average number of ordinary shares for the purposes of basic earnings per share	433,080	433,080

Diluted earnings per share has not been presented for the years ended 31st December, 2005 and 2004 because there were no potential ordinary shares in issue.

Notes to the Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER, 2005

15. EARNINGS PER SHARE (Continued)

From continuing operations

The calculation of the basic earnings per share from continuing operations attributable to the ordinary equity holders of the Company is based on the following data:

Earnings figures are calculated as follows:

	2005 RMB'000	2004 RMB'000
Profit for the year attributable to equity holders of the Company	110,927	122,024
Less: (Profit) loss for the year from discontinued operation	(147)	6,933
Earnings for the purposes of basic earnings per share from continuing operations	110,780	128,957

The denominators used are the same as those detailed above for basic earnings per share.

From discontinued operation

Basic earnings per share for the discontinued operation is RMB0.00034 (2004: basic losses per share of RMB0.01601) per share based on the profit for the year from the discontinued operation of RMB147,000 (2004: loss of RMB6,933,000) and the denominators detailed above for basic earnings per share.

Notes to the Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER, 2005

16. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements RMB'000	Buildings situated in the PRC RMB'000	Plant and machinery RMB'000	Furniture, fixtures and equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
COST OR VALUATION							
At 1st January, 2004							
– as originally stated	60	215,613	218,309	7,096	10,309	50,993	502,380
– effect of changes in accounting policies	–	(80,530)	–	–	–	(1,961)	(82,491)
– as restated	60	135,083	218,309	7,096	10,309	49,032	419,889
Additions	431	20,987	39,980	15,624	2,706	42,513	122,241
Acquisition of a subsidiary	–	–	–	20	–	–	20
Transfers	986	56,408	1,727	–	–	(59,121)	–
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	212,478	258,815	22,555	12,148	32,424	539,897
Exchange realignment	(6)	–	–	(5)	–	–	(11)
Additions	126	1,063	24,279	6,163	2,870	2,329	36,830
Acquisition of a subsidiary	–	–	12,474	354	1,204	896	14,928
Transfers	–	5,051	828	–	–	(5,879)	–
Deemed disposal of a subsidiary	–	–	–	(9,172)	(143)	–	(9,315)
Disposals	–	–	(263)	(23)	(555)	–	(841)
At 31st December, 2005	1,597	218,592	296,133	19,872	15,524	29,770	581,488
Comprising:							
At cost	1,597	–	–	–	–	29,770	31,367
At valuation – 2005	–	218,592	296,133	19,872	15,524	–	550,121
	1,597	218,592	296,133	19,872	15,524	29,770	581,488
DEPRECIATION							
At 1st January, 2004	6	1,785	6,244	1,541	1,029	–	10,605
Provided for the year	47	8,966	25,034	2,053	1,617	–	37,717
Eliminated on disposal of a subsidiary	–	–	(49)	(7)	(5)	–	(61)
Eliminated on disposals	–	–	(11)	(1)	(569)	–	(581)
Eliminated on revaluation	–	1,512	(12,356)	–	(374)	–	(11,218)
At 31st December, 2004	53	12,263	18,862	3,586	1,698	–	36,462
Exchange realignment	–	–	–	(3)	–	–	(3)
Provided for the year	341	11,006	28,497	3,726	1,724	–	45,294
Eliminated on deemed disposal of a subsidiary	–	–	–	(854)	(24)	–	(878)
Eliminated on disposals	–	–	(55)	(4)	(308)	–	(367)
Eliminated on revaluation	–	(2,720)	(2,121)	(332)	(230)	–	(5,403)
At 31st December, 2005	394	20,549	45,183	6,119	2,860	–	75,105
CARRYING VALUES							
At 31st December, 2005	1,203	198,043	250,950	13,753	12,664	29,770	506,383
At 31st December, 2004	1,424	200,215	239,953	18,969	10,450	32,424	503,435

Notes to the Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER, 2005

16. PROPERTY, PLANT AND EQUIPMENT (Continued)

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

Leasehold improvements	Over the terms of the lease
Buildings	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

Property, plant and equipment other than leasehold improvements and construction in progress were revalued at 31st December, 2005 by Sallmanns (Far East) Limited, Chartered Surveyors, using the market value for existing use. Sallmanns (Far East) Limited is the member of Hong Kong Institute of Surveyors ("HKIS"), and has appropriate qualifications and recent experiences in the valuation of similar properties in the relevant locations. The valuation, which conforms to HKIS Valuation Standard on Properties, was arrived at by reference to market evidence of transaction prices for similar properties.

The surplus arising on revaluation was approximately RMB5,403,000 (2004: RMB11,112,000), out of which approximately RMB5,043,000 (2004: RMB10,529,000) (net of approximately RMB575,000 (2004: RMB1,197,000) shared by the minority interests) was credited to the revaluation reserve and approximately RMB215,000 (2004: RMB614,000) was debited to the consolidated income statement for the year ended 31st December, 2005 and 2004.

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

As at 31st December, 2005:

	Buildings situated in the PRC RMB'000	Plant and machinery RMB'000	Furniture, fixtures and equipment RMB'000	Motor vehicles RMB'000
Cost	222,790	334,995	20,837	20,295
Accumulated depreciation and impairment losses	(34,397)	(119,931)	(8,148)	(7,830)
	188,393	215,064	12,689	12,465

Notes to the Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER, 2005

16. PROPERTY, PLANT AND EQUIPMENT (Continued)

As at 31st December, 2004:

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

17. INTANGIBLE ASSETS

	Licensing costs RMB'000	**Patents and trademarks** RMB'000	**Total** RMB'000
COST			
At 1st January, 2004	–	5,682	5,682
Additions	33,093	8,690	41,783
At 31st December, 2004	33,093	14,372	47,465
Additions	265	8,132	8,397
Deemed disposal of a subsidiary	(33,358)	–	(33,358)
At 31st December, 2005	–	22,504	22,504
AMORTISATION			
At 1st January, 2004	–	1,441	1,441
Charged for the year	–	666	666
At 31st December, 2004	–	2,107	2,107
Charged for the year	4,170	2,792	6,962
Eliminated on deemed disposal of a subsidiary	(4,170)	–	(4,170)
At 31st December, 2005	–	4,899	4,899
CARRYING VALUES			
At 31st December, 2005	–	17,605	17,605
At 31st December, 2004	33,093	12,265	45,358

Notes to the Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER, 2005

17. INTANGIBLE ASSETS (Continued)

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:

- Licensing costs — 2 years since the license put into commercial use
- Patents and trademarks — 5 to 20 years

18. GOODWILL

	RMB'000
COST	
Arising on acquisition during the year and at 31st December, 2004	4,590
Elimination of accumulated amortisation upon the application of HKFRS 3	(397)
At 31st December, 2005	4,193
AMORTISATION	
Provided for the year and at 31st December, 2004	397
Elimination of accumulated amortisation upon the application of HKFRS 3	(397)
At 31st December, 2005	–
CARRYING VALUES	
At 31st December, 2005	4,193
At 31st December, 2004	4,193

The goodwill arose on the Group's acquisition of Shenzhen Kdcoms Technology Co., Ltd. 深圳市中科典科技有限公司 during the year ended 31st December, 2004. Before 1st January, 2005, the goodwill of RMB4,590,000 was amortised on a straight-line basis over the remaining operation period of 7 years.

The recoverable amount of the cash generating unit containing goodwill has been determined based on a value in use calculation. That cash flow projections are based on the financial budgets approved by management cover a 5-year period that applied the discount rate of 4.68% per annum and assumed a zero growth rate. According to that calculation, the discounted recoverable amount is higher than the carrying value of the goodwill. The management determines that there is no impairment of the cash generating unit containing goodwill during the year ended 31st December, 2005.

19. NEGATIVE GOODWILL

	RMB'000
GROSS AMOUNT	
At 1st January, 2004, 31st December, 2004	20,800
RELEASED TO INCOME	
At 1st January, 2004	(2,218)
Released during the year	(2,080)
At 31st December, 2004	16,502
Derecognised upon the application of HKFRS 3	(16,502)
At 1st January, 2005	–

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. Before 1st January, 2005, the negative goodwill of RMB20,800,000 was 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.

As explained in Note 2, all negative goodwill arising on acquisitions prior to 1st January, 2005 was derecognised as a result of application of HKFRS 3.

20. PREPAID LEASE PAYMENTS

	2005	2004
	RMB'000	RMB'000
		(Restated)
The Group's prepaid lease payments comprise:		
Medium-term land use right in the PRC	**35,142**	30,483
Analysed for reporting purposes as:		
Current asset	**917**	796
Non-current asset	**34,225**	29,687
	35,142	30,483

Notes to the Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER, 2005

21. INTEREST IN AN ASSOCIATE

	2005 RMB'000	2004 RMB'000
Cost of investment in unlisted associate	19,724	–
Share of post-acquisition loss	(19,724)	–
	–	–

As at 31st December, 2005, the Group had interest in the following associate:

Name of entity	Form of business structure	Place of incorporation or registration	Proportion of registered capital held by the Company	Proportion of voting power held	Principal activity
北京光宇華夏科技有限責任公司 Beijing Guangyu Huaxia Technology Corporation Limited	Incorporated	PRC	41.43%	41.43%	Sales and distribution of online game

The summarised financial information in respect of the Group's associate which is accounted for using the equity method is set out below:

	2005 RMB'000	2004 RMB'000
Total assets	33,215	–
Total liabilities	(59,850)	–
Net liabilities	(26,635)	–
Group's share of net assets of an associate	–	–
Turnover	5,507	–
Loss for the period since acquisition	(38,843)	–
Group's share of result of an associate for the year	(3,906)	–

The details of the deemed disposal of Beijing Guangyu Huaxia Technology Corporation Limited are set out in note 38.

Notes to the Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER, 2005

22. LOANS RECEIVABLE

The loans represented advance to an independent third party. The advance was unsecured, interest-bearing at 10% per annum and was fully repaid during the year.

23. INVENTORIES

	2005 RMB'000	2004 RMB'000
Raw materials	**95,182**	76,273
Work in progress	**90,621**	54,158
Finished goods	**81,898**	90,859
	267,701	221,290

24. 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:

	2005 RMB'000	2004 RMB'000
Within 90 days	**504,468**	415,614
More than 90 days, but not exceeding 180 days	**354,725**	213,203
More than 180 days, but not exceeding 270 days	**144,985**	140,833
More than 270 days, but not exceeding 360 days	**46,682**	51,036
More than 360 days, but not exceeding 540 days	**48,027**	65,838
More than 540 days, but not exceeding 720 days	**35,594**	24,139
More than 720 days	**25,611**	11,088
Less: Accumulated impairment	**(38,681)**	(25,313)
Trade receivables	**1,121,411**	896,438
Other receivables	**97,468**	80,450
Less: Accumulated impairment	**(20,230)**	–
	77,238	80,450
	1,198,649	976,888

The fair value of the Group's trade and other receivables at 31st December, 2005 approximates to the corresponding carrying amount.

Notes to the Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER, 2005

25. 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	Balance at 31.12.2005	Balance at 1.1.2005	Maximum amount outstanding during the year
	RMB'000	RMB'000	RMB'000
Song Dian Quan ("Mr. Song")	393	583	593
Li Ke Xue	244	253	276
Xing Kai	–	5	30
Zhang Li Ming	18	6	57
Liu Xing Quan	170	85	170
	825	932	

The amounts are unsecured, interest-free and are repayable on demand.

The fair value of the Group's amounts due from directors at 31st December, 2005 approximates to the corresponding carrying amount.

26. AMOUNT DUE FROM (TO) AN ASSOCIATE

The amounts are unsecured, interest-free and are repayable on demand.

The fair values of the Group's amount due from (to) an associate at 31st December, 2005 approximate to the corresponding carrying amounts.

27. INVESTMENT HELD FOR TRADING

Investment held for trading as at 31st December, 2005 represents investment in equity securities listed in the PRC stated at fair value at 31st December, 2005. Fair values of those investments have been determined by reference to bid prices quoted in active markets.

28. OTHER INVESTMENT

Other investment as at 31st December, 2004 represented investment in equity securities listed in the PRC. Upon the application of HKAS 39 on 1st January, 2005, other investment was reclassified to investment held for trading under HKAS 39.

Notes to the Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER, 2005

29. PLEDGED BANK DEPOSITS

At 31st December, 2005 and 2004, the pledged bank deposits represent bank deposits for securing sales tender, which they carry fixed interest rate of 2.07% (2004: 1.89%) per annum.

The fair value of pledged bank deposits at 31st December, 2005 approximates to the corresponding carrying amount.

30. BANK BALANCES AND CASH

Included in the balance of bank balances and cash is an amount of RMB196,240,000 (2004: RMB234,701,000) which bears variable interest at prevailing market rates. The fair value of this balance approximates to the corresponding carrying amount.

31. TRADE AND OTHER PAYABLES

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

	2005 RMB'000	2004 RMB'000
Within 30 days	132,569	111,940
More than 30 days, but not exceeding 60 days	31,696	32,015
More than 60 days, but not exceeding 90 days	38,519	5,344
More than 90 days, but not exceeding 180 days	160,298	24,690
Over 180 days	28,128	43,060
Trade payables	391,210	217,049
Other payables	233,062	249,289
	624,272	466,338

The fair value of the Group's trade and other payables at 31st December, 2005 approximates to the corresponding carrying amount.

32. OTHER BORROWINGS

The other borrowings are unsecured and are repayable on demand. Except for the other borrowings of RMB220,000 (2004: RMB279,000) which bear fixed interest at 5% (2004: 5%) per annum, and of RMB5,720,000 (2004: Nil) which bears fixed interest at 4.5% (2004: Nil) per annum, the remaining amounts are interest-free.

The fair value of the Group's other borrowings at 31st December, 2005 approximates to the corresponding carrying amount.

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FOR THE YEAR ENDED 31ST DECEMBER, 2005

33. BANK BORROWINGS

	2005 RMB'000	2004 RMB'000
The bank borrowings are repayable as follows:		
Within one year or on demand	578,537	558,808
More than one year, but not exceeding two years	–	24,194
More than two years, but not exceeding five years	–	26,003
	578,537	609,005
Less: Amounts due within one year shown under current liabilities	(578,537)	(558,808)
Amounts due after one year	–	50,197
Analysed as:		
secured	265,314	214,550
unsecured	313,223	394,455
	578,537	609,005

The variable-rate bank borrowings carry interest ranging from 2.34% to 7.91% (2004: from 1.69% to 7.91%) per annum. The proceeds were need to finance the operations of the Group. The fair value of the above Group's borrowings estimated by discounting their future cash flows at the prevailing market borrowing rates at the balance sheet date and approximates to the corresponding carrying amount.

The Company's borrowings that are denominated in currencies other than the functional currencies of the relevant group entity are set out below:

	HK$'000
At 31st December, 2005	**108,500**
At 31st December, 2004	112,500

During the year, in respect of bank loans with a carrying amount of RMB34,680,000 as at 31st December, 2005, the Group breached certain of the terms of the bank loans, which are primarily related to the leverage of the Group. On discovery of the breach, the directors of the Company informed the lenders and commenced a renegotiation of the terms of the loans with the relevant bankers. As at 31st December, 2005, those negotiations had not been concluded. Up to the date of the issue of the financial statements, the negotiations are still in progress. The directors of the Company are confident that their negotiations with the lenders will ultimately reach a successful conclusion. In any event, should the lenders call for immediate repayment of the loans, the directors of the Company believe that adequate alternative sources of finance are available to ensure that there is no threat to the continuing operations of the Group.

Notes to the Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER, 2005

34. SHARE CAPITAL OF THE COMPANY

	Number of shares 2004 & 2005	Amount in original currency 2004 & 2005	Shown in the financial statements as 2004 & 2005
	'000	HK$'000	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

35. SHARE-BASED PAYMENT TRANSACTIONS

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.

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.

Notes to the Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER, 2005

36. 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 RMB'000	Others RMB'000	Total RMB'000
At 1st January, 2004 – originally stated	8,365	821	9,186
Effect of changes in accounting policies	(8,054)	–	(8,054)
– as restated	311	821	1,132
Charge to income for the year (note 11)	–	5	5
Charge to revaluation reserve for the year	1,983	–	1,983
At 31st December, 2004	2,294	826	3,120
Credit to income for the year (note 11)	(901)	(2,124)	(3,025)
Charge to revaluation reserve for the year	613	–	613
At 31st December, 2005	2,006	(1,298)	708

At the balance sheet date, the Group has unused tax losses of RMB96,173,000 (2004: RMB56,773,000) 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 5 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:

	2005 RMB'000	2004 RMB'000 (restated)
Deferred taxation liabilities	**3,079**	3,619
Deferred taxation assets	**(2,371)**	(499)
	708	3,120

Notes to the Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER, 2005

37. ACQUISITION OF A SUBSIDIARY

In August 2005, the Group acquired 70% of the paid-up capital of Shenzhen Li Ke Xing Battery Co. Ltd. 深圳市力可興電池有限公司 which manufactures and sells small-sized, sealed rechargeable nickel batteries, for a consideration of RMB17,560,000.

In June 2004, the Group acquired 60% of the paid-up capital of Shenzhen Kdcoms Technology Co., Ltd. 深圳市中科典科技有限公司 which manufactures and sells signal strength systems, for a consideration of RMB4,900,000.

The acquisitions have been accounted for by the purchase method of accounting.

The net assets acquired in the transactions, the goodwill and the discount on acquisition arising, are as follows:

	Acquiree's carrying amount before combination and fair value	
	2005	2004
	RMB'000	RMB'000
NET ASSETS ACQUIRED		
Property, plant and equipment	**14,928**	20
Inventories	**45,255**	–
Trade and other receivables	**62,471**	1,720
Bank balances and cash	**4,665**	316
Trade and other payables	**(74,148)**	(1,541)
Bank and other borrowings	**(20,855)**	–
	32,316	515
Minority interests	**(9,695)**	(205)
(Discount) goodwill arising on acquisition	**(5,061)**	4,590
Total consideration	**17,560**	4,900
SATISFIED BY		
Cash	**17,560**	4,900
Net cashflow arising on acquisition		
Cash consideration	**17,560**	4,900
Bank balances and cash acquired	**(4,665)**	(316)
	12,895	4,584

Notes to the Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER, 2005

37. ACQUISITION OF A SUBSIDIARY (Continued)

The subsidiary acquired contributed RMB69,340,000 (2004: RMB5,651,000) to the Group's turnover and contributed RMB6,098,000 (2004: RMB2,000) to the Group's profit before taxation for the period between the date of acquisition and the balance sheet date.

If the acquisition of Shenzhen Li Ke Xing Battery Co. Ltd. 深圳市力可興電池有限公司 had been completed on 1st January, 2005, the Group's turnover for the year would have been RMB1,447,950,000, and profit for the year would have been RMB126,199,000. The proforma information is for illustrative purposes only and is not necessarily an indication of turnover and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1st January, 2005 nor is it intended to be a projection of future results.

38. DEEMED DISPOSAL/DISPOSAL OF A SUBSIDIARY

During the year, the Group entered into an agreement under which the Company's 35.57% equity interest in a subsidiary, 北京光宇華夏科技有限責任公司 Beijing Guangyu Huaxia Technology Corporation Limited, was deemed to be disposed by way of capital injection by the Group and an independent third party. As the capital injected by the independent third party was more than the Group's capital contribution, the Group's interest in this subsidiary was then decreased from 77% to 41.43% and this subsidiary became an associate of the Group. The subsidiary disposed of was engaged in the business of sales and distribution of online games. The transaction was completed on 28th June, 2005 and a gain on deemed disposal of RMB38,181,000 was resulted for the year ended 31st December, 2005.

On 31st October, 2004, the Group disposed 40% of the paid-up capital of Ningbo Costect Power Supply Co., Ltd. 寧波科斯特電源有限公司, for a consideration of RMB500,000.

Notes to the Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER, 2005

38. DEEMED DISPOSAL/DISPOSAL OF A SUBSIDIARY (Continued)

	2005 RMB'000	2004 RMB'000
NET LIABILITIES DISPOSED OF		
Property, plant and equipment	8,437	1,168
Intangible assets	29,188	–
Inventories	–	2,921
Trade and other receivables	3,053	2,934
Amounts due from related companies	170	–
Bank balances and cash	40	396
Trade and other payables	(77,869)	(7,697)
	(36,981)	(278)
Share of net assets after capital injection reclassified as interest in an associate	(3,906)	–
Gain on deemed disposal/disposal of a subsidiary	22,087	778
Capital injection/total consideration received	(18,800)	500
SATISFIED BY		
Cash (paid) received	(18,800)	500
Net cashflow arising on deemed disposal/disposal		
Cash consideration (paid) received	(18,800)	500
Bank balances and cash disposed of	(40)	(396)
	(18,840)	104

The impact of the deemed disposal of a subsidiary on the Group's results and cash flows in the current and prior years is disclosed in note 12.

Notes to the Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER, 2005

39. 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	2005 RMB'000	2004 RMB'000
Related parties in which certain directors of the Company have beneficial interests:			
光宇延邊蓄電池有限公司 Guangyu Yanbian Storage Battery Manufacturing Co. Ltd ("GYSB")	Sales of raw materials	3,027	4,364
	Sales of finished goods	422	–
	Purchase of finished goods	110	–
	Rental expenses paid	200	–
	Assignment of trade receivables, transferred of inventories and property, plant and equipment for settlement of loan balance	9,393	–
哈爾濱光宇電線電纜有限公司 Harbin Guangyu Electric Wire and Cable Co. Ltd ("HGEWC")	Purchase of raw materials	1,982	1,728
哈爾濱開關有限責任公司 Harbin Switch Company Limited ("HBS")	Sales of finished goods	709	2,143
石家莊光宇高能電池材料有限公司 Shijia Zhuang Guangyu Battery Material Co. Ltd. ("SZGBM")	Purchase of raw materials	–	2,962
深圳市力可興電池有限公司 Shenzhen Li Ke Xing Battery Co. Ltd. ("SZ Li Ke Xing") (note)	Purchase of raw materials	11,332	5,004
	Rental expenses paid	311	–

Notes to the Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER, 2005

39. RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

(b) Balances

Name of related party	Amount due from 2005 RMB'000	Amount due from 2004 RMB'000	Amount due to 2005 RMB'000	Amount due to 2004 RMB'000
Related parties in which certain directors of the Company have beneficial interests:				
HBS	19,468	12,556	40	–
SZGBM	1,200	–	1,700	750
GYSB	1,425	2,137	4,544	–
哈爾濱光宇電源廠 Harbin Guangyu Power Supply Factory	432	–	–	–
北京兆唐科技有限公司 Beijing Zhaotong Science and Technology Company Limited	–	336	54	–
哈爾濱亞光新型隔板有限公司 Harbin Ya Guang Modern Separators Company Limited	268	–	2,001	1,835
SZ Li Ke Xing	–	–	–	2,183
HGEWC	–	–	2,472	1,171
哈爾濱光宇(集團)股份有限公司 Harbin Guangyu Group Company Ltd.	161	–	2,849	1,316
Related parties which are minority shareholders of the Group:				
沈陽東北蓄電池股份有限公司	377	–	–	–
昌都邦達工貿有限公司 Tibet Bangda Industrial &Trade Co. Ltd.	–	–	3,947	3,947
韓國維思股份有限公司 Wizonline Company Limited	–	–	1,011	–
深圳柏仁塑膠製品有限公司 Shenzhen Boren Plastic Ware Co. Ltd.	279	279	–	–
	23,610	15,308	18,618	11,202

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39. RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

(b) Balances (Continued)

The amounts due from/to related companies are unsecured, interest-free and are repayable on demand. Details of the amounts due from (to) directors and an associate are set out in notes 25 and 26.

The fair values of the Group's amounts due from/to related companies at 31st December, 2005 approximate to the corresponding carrying amounts.

(c) Other arrangements

At 31st December, 2005, RMB82,301,000 (2004: RMB51,123,000) of the Group's bank borrowings were guaranteed by Mr. Song, a director of the Company.

In addition, at 31st December, 2005, RMB12,163,000 (2004: Nil) of the Group's bank borrowing was guaranteed by Mr. Gao Xue Feng, who is a minority shareholder of a subsidiary. Such bank borrowing was also secured by a property owned by Mr. Guo Xue Feng with carrying value of approximately RMB330,000 (2004: Nil).

(d) Compensation of key management personnel

The remuneration of directors and other members of key management during the year was follows:

	2005 **RMB'000**	2004 RMB'000
Short-term benefits	**1,570**	1,018
Post-employment benefits	**19**	4
	1,589	1,022

The remuneration of directors and key executive is determined by the remuneration committee having regard to the performance of individuals and market trends.

Note: This company became a subsidiary of the Group since 19th August, 2005.

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40. 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 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 RMB4,121,000 (2004: RMB3,217,000) represents contributions payable to these schemes by the Group in respect of the current accounting period.

41. 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 RMB166,173,000 (2004: RMB228,626,000).

(ii) guaranteed by personal and corporate guarantees given by a director and certain related parties as set out in note 39(c).

(iii) certain of the trade receivables with an aggregate amount of approximately RMB85,951,000 (2004: RMB69,935,000).

42. OPERATING LEASE ARRANGEMENTS

The Group as lessee

	2005 RMB'000	2004 RMB'000
Minimum lease payments paid under operating leases during the year:		
Plant and machinery	103	–
Premises	3,377	1,390
	3,480	1,390

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FOR THE YEAR ENDED 31ST DECEMBER, 2005

42. OPERATING LEASE ARRANGEMENTS (Continued)

The Group as lessee (Continued)

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

	2005 RMB'000	2004 RMB'000
Within one year	4,413	1,462
In the second to fifth year inclusive	4,249	763
	8,662	2,225

Operating lease payments represent rentals payable by the Group for certain of its office properties. Leases are negotiated for an average term of three (2004: two) years and rentals are fixed during the lease period.

The Group as lessor

During the year ended 31st December, 2005, RMB119,000 property rental income was earned by the Group (2004: Nil).

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

	2005 RMB'000	2004 RMB'000
Within one year	24	–
In the second to fifth year inclusive	72	–
	96	–

43. CAPITAL COMMITMENTS

	2005 RMB'000	2004 RMB'000
Capital expenditure authorised but not contracted for in respect of acquisition of property, plant and equipment	70,754	70,754
Capital expenditure contracted for but not provided in the financial statements in respect of acquisition of property, plant and equipment	3,652	10,589

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44. GOVERNMENT GRANTS

Government grants of RMB1,411,000 (2004: RMB2,643,000) have been received in the current year towards technology research and development and foreign trade development. Besides, government grants of RMB7,709,000 (2004: Nil) have been received in the current year towards foreign enterprise income tax subsidy. The amounts have been included in other income for the year.

In 2004, the Group received a government subsidy of RMB13,275,000 towards the cost of its land use rights. The amount has been deducted from the carrying amount of the relevant assets. The amount is transferred to income in the form of reduced amortisation charges over the useful lives of the relevant assets. This policy has resulted in a credit to income in the current period of RMB187,000 (2004: RMB110,000). As at 31st December, 2005, an amount of RMB12,978,000 (2004: RMB13,165,000) remains to be amortised.

45. PROFIT GUARANTEE

On 11th August, 2004, the Group had 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 had 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 had 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 was commenced. During the year, the subsidiary which entered into this agreement was deemed to be disposed of to an independent third party and accordingly, the subsidiary became an associate of the Group. The financial impact of such profit guarantee is limited to the share of result of the associate.

46. POST BALANCE SHEET EVENT

On 27th March, 2006, a subsidiary of the Company acquired 70% equity interest in Russia (Golden Stone) Limited Liability Company 俄羅斯(金石)有限責任公司 ("Russia (Golden Stone)") at a consideration of RMB28,000,000 from Heilongjiang Longxing International Resource Development Group Company Limited 黑龍江龍興國際資源開發集團有限公司. Russia (Golden Stone) then became a subsidiary of the Company.

Russia (Golden Stone) is a joint venture company incorporated in Russia on 27th May 2005 with a registered capital of RUR100,000. It has a permit with a duration which will expire on 30th June, 2030 to mine the lead, zinc and other metal deposits in certain mineral mines located in the Faso Lane, Primorsky Territory of Russia.

Notes to the Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER, 2005

46. POST BALANCE SHEET EVENT (Continued)

Subsequent to the acquisition, the joint venture parties will invest in the proportion of each of their equitable interest to Russia (Golden Stone) to facilitate its development and the investment is expected to be in the range of RMB30,000,000 to RMB77,800,000.

The details of the acquisition were disclosed in the Company's announcement dated 28th March, 2006.

The Group is in the process of assessing the fair values of the identifiable assets and liabilities and contingent liabilities of Russia (Golden) Stone, therefore the financial effects of the acquisition is not presented.

47. PRINCIPAL SUBSIDIARIES OF THE COMPANY

Details of the Company's principal subsidiaries at 31st December, 2005 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
哈爾濱科斯萊特實業有限公司 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, 2005

47. PRINCIPAL SUBSIDIARIES OF THE COMPANY (Continued)

Details of the Company's principal subsidiaries at 31st December, 2005 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 Directly %	Indirectly %	Forms of legal entity	Principal activities
哈爾濱光宇蓄電池有限公司 Harbin Coslight Storage Battery Company Limited	PRC	HK$83,500,000	–	100	Wholly-owned foreign enterprise	Manufacture and sale of sealed lead acid batteries
沈陽東北蓄電池有公司 DSB	PRC	RMB60,000,000	72	–	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	PRC	RMB20,000,000	16.2	63.8	Sino-foreign equity joint venture	Manufacture of electricity control devices
西藏昌都光宇利民藥業有限公司 Tibet Changdu Guangyu Limin Pharmaceutical Company Limited	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
深圳市中科典科技有限公司 Shenzhen Kdcoms Technology Co., Ltd.	PRC	RMB10,500,000	–	60	Sino-foreign equity joint venture	Manufacture and sale of signal strength systems
SZ Li Ke Xing	PRC	RMB10,000,000	–	70	Sino-foreign equity joint venture	Manufacture and sale of small-size and sealed rechargeable Nickel batteries

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.

Notes to the Financial Statements

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48. BALANCE SHEET OF THE COMPANY

	Notes	2005 RMB'000	2004 RMB'000
Non-current assets			
Interests in subsidiaries	a	**244,857**	450,188
Current assets			
Amounts due from subsidiaries	b	**231,508**	–
Other receivables		**9,272**	7,414
Bank balances and cash		**1,758**	11,192
		242,538	18,606
Current liabilities			
Other payables		**1,359**	1,168
Other borrowing		**5,720**	–
		7,079	1,168
Net current assets		**235,459**	17,438
		480,316	467,626
Capital and reserves			
Share capital		**46,308**	46,308
Reserves	c	**434,008**	421,318
		480,316	467,626

Notes:

(a) Interests in subsidiaries

	2005 RMB'000	2004 RMB'000
Unlisted investments, at cost	**244,857**	239,244
Amounts due from subsidiaries	**–**	210,944
	244,857	450,188

At 31st December, 2004, the amounts were unsecured, interest-free and had no fixed repayment terms. In the opinion of the directors, the amounts were unlikely to be repaid within one year from 31st December, 2004 and therefore shown in the balance sheet as non-current asset as at 31st December, 2004.

(b) Amounts due from subsidiaries
At 31st December, 2005, the amounts are unsecured, interest-free and are repayable on demand.

Notes to the Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER, 2005

48. BALANCE SHEET OF THE COMPANY (Continued)

Notes: (Continued)

(c) Reserves

	Share premium RMB'000	Contributed surplus RMB'000	Accumulated profits RMB'000	Total RMB'000
At 1st January, 2004	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
Profit for the year	–	–	35,574	35,574
Dividends	–	–	(22,884)	(22,884)
At 31st December, 2005	**245,111**	**169,764**	**19,133**	**434,008**

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.