1. CORPORATE INFORMATION

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

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

In the opinion of the directors, the parent and the ultimate holding company of the Group is China Great Wall Computer Group Company, a state-owned enterprise and established in the PRC.

2.1 BASIS OF PREPARATION

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

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2005. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

The acquisition of subsidiaries during the year has been accounted for using the purchase method of accounting. This method involves allocating the cost of the business combinations to the fair value of the assets acquired, and liabilities and contingent liabilities assumed at the date of acquisition. The cost of the acquisition is measured at the aggregate of the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

Minority interests represent the interests of outside shareholders in the results and net assets of the Company's subsidiaries.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The following new and revised HKFRSs affect the Group and are adopted for the first time for the current year's financial statements:

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 12	Income Taxes
HKAS 14	Segment Reporting
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 20	Accounting for Government Grants and Disclosure of Government Assistance
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Investments in Associates
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 39 Amendment	Transition and Initial Recognition of Financial Assets and Financial Liabilities
HKAS 40	Investment Property
HKFRS 3	Business Combinations
HK(SIC)-Int 21	Income Taxes – Recovery of Revalued Non-depreciable Assets
HK-Int 4	Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases

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

The adoption of HKASs 2, 7, 8, 10, 12, 14, 16, 18, 19, 20, 21, 23, 27, 28, 32, 33, 37, 38, HKAS 39 Amendment and HK-Int 4 has had no material impact on the accounting policies of the Group and the Company and the methods of computation in the Group's and the Company's financial statements.

HKAS 1 has affected the presentation of minority interests on the face of the consolidated balance sheet, consolidated income statement, consolidated statement of changes in equity and other disclosures. In addition, in prior periods, the Group's share of tax attributable to associates was presented as a component of the Group's total tax charge/(credit) in the consolidated income statement. Upon the adoption of HKAS 1, the Group's share of the post-acquisition results of associates is presented net of the Group's share of tax attributable to associates.

HKAS 24 has expanded the definition of related parties and affected the Group's related party disclosures.

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

The impact of adopting the other HKFRSs is summarised as follows:

(a) HKAS 17 – Leases

In prior years, leasehold land and buildings held for own use were stated at cost or valuation less accumulated depreciation and any impairment losses.

Upon the adoption of HKAS 17, the Group's leasehold interest in land and buildings is separated into leasehold land and buildings. The Group's leasehold land is classified as an operating lease, because the title of the land is not expected to pass to the Group by the end of the lease term, and is reclassified from property, plant and equipment to prepaid land lease payments, while buildings continue to be classified as part of property, plant and equipment. Prepaid land premiums for land lease payments under operating leases are initially stated at cost and subsequently amortised on the straight-line basis over the lease term. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

This change in accounting policy has had no effect on the consolidated income statement and retained profits. The comparative amounts for the year ended 31 December 2004 in the consolidated balance sheet have been restated to reflect the reclassification of the leasehold land.

(b) HKAS 39 – Financial Instruments

Equity securities

In prior years, the Group classified its investments in equity securities as long term investments, which were held for non-trading purposes and were stated at their fair values on an individual basis with gains and losses recognised as movements in the investment revaluation reserve. Upon the adoption of HKAS 39, these securities held by the Group at 1 January 2005 in the amount of RMB53,051,000 are designated as available-for-sale investments under the transitional provisions of HKAS 39 and accordingly are stated at fair value with gains or losses being recognised as a separate component of equity until subsequent derecognition or impairment.

The adoption of HKAS 39 has not resulted in any change in the measurement of these equity securities. Comparative amounts have been reclassified for presentation purposes.

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

(c) HKAS 40 – Investment Property

In prior years, changes in the fair values of investment properties were dealt with as movements in the investment property revaluation reserve. If the total of this reserve was insufficient to cover a deficit, on a portfolio basis, the excess of the deficit was charged to the income statement. Any subsequent revaluation surplus was credited to the income statement to the extent of the deficit previously charged.

Upon the adoption of HKAS 40, gains or losses arising from changes in the fair values of investment properties are included in the income statement in the year in which they arise. In accordance with the transitional provisions of HKAS 40, the opening balance of retained profits and the results for the comparative period have been restated to reflect this change retrospectively. The effects of the above change are summarised in note 2.4 to the financial statements.

(d) HKFRS 3 – Business Combinations and HKAS 36 – Impairment of Assets

In prior years, goodwill arising on acquisitions prior to 1 January 2001 were eliminated against the consolidated reserves in the year of acquisition and were not recognised in the income statement until disposal or impairment of the acquired businesses.

Goodwill arising on acquisitions on or after 1 January 2001 was capitalised and amortised on the straight-line basis over its estimated useful life and was subject to impairment testing when there was any indication of impairment.

The adoption of HKFRS 3 and HKAS 36 has resulted in the Group ceasing annual goodwill amortisation and commencing testing for impairment at the cash-generating unit level annually (or more frequently if events or changes in circumstances indicate that the carrying value may be impaired).

The transitional provisions of HKFRS 3 have required the Group to eliminate at 1 January 2005 the carrying amounts of accumulated amortisation with a corresponding adjustment to the cost of goodwill. Goodwill previously eliminated against the reserves remains eliminated against the reserves and is not recognised in the income statement when all or part of the business to which the goodwill relates is disposed of or when a cash-generating unit to which the goodwill relates becomes impaired.

The effects of the above changes are summarised in note 2.4 to the financial statements. In accordance with the transitional provisions of HKFRS 3, comparative amounts have not been restated.

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

(e) HK(SIC)-Int 21 – Income Taxes – Recovery of Revalued Non-depreciable Assets

In prior periods, deferred tax arising on the revaluation of investment properties was recognised based on the tax rate that would be applicable upon the sale of the investment properties.

Upon the adoption of HK(SIC)-Int 21, deferred tax arising on the revaluation of the Group's investment properties is determined depending on whether the properties will be recovered through use or through sale. The Group has determined that its investment properties will be recovered through use, and accordingly the profits tax rate has been applied to the calculation of deferred tax.

The effects of the above changes are summarised in note 2.4 to the financial statements. The change has been adopted retrospectively from the earliest period presented and comparative amounts have been restated.

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

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements. Unless otherwise stated, these HKFRSs are effective for annual periods beginning on or after 1 January 2006:

HKAS 1 Amendment	Capital Disclosures
HKAS 39 & HKFRS 4 Amendments	Financial Guarantee Contracts
HKFRS 7	Financial Instruments: Disclosures

The HKAS 1 Amendment shall be applied for annual periods beginning on or after 1 January 2007. The revised standard will affect the disclosures about qualitative information about the Group's objective, policies and processes for managing capital; quantitative data about what the Company regards as capital; and compliance with any capital requirements and the consequences of any non-compliance.

HKFRS 7 will replace HKAS 32 and has modified the disclosure requirements of HKAS 32 relating to financial instruments. This HKFRS shall be applied for annual periods beginning on or after 1 January 2007.

In accordance with the amendments to HKAS 39 regarding financial guarantee contracts, financial guarantee contracts are initially recognised at fair value and are subsequently measured at the higher of (i) the amount determined in accordance with HKAS 37 and (ii) the amount initially recognised, less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18.

2.4 SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES

(a) Effect on the consolidated balance sheet

At 1 January 2005 Effect of new policies (Increase/(decrease))	Effect of adopting HKAS 17# Prepaid land lease payments RMB'000	HKAS 39* Changes in classification of equity investments RMB'000	HKAS 40# Surplus on revaluation of investment properties RMB'000	Total RMB'000
Assets				
Property, plant and equipment	(76,783)	–	–	(76,783)
Prepaid land lease payments	74,662	–	–	74,662
Available-for-sale equity investments	–	53,051	–	53,051
Long term investments	–	(53,051)	–	(53,051)
Prepayments, deposits and other receivables	2,121	–	–	2,121
				–
Liabilities/equity				
Investment property revaluation reserve	–	–	(2,263)	(2,263)
Retained profits	–	–	2,263	2,263
				–

* Adjustments taken effect prospectively from 1 January 2005

\# Adjustments/presentation taken effect retrospectively

2.4 SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES (Continued)

(a) Effect on the consolidated balance sheet (Continued)

At 31 December 2005 Effect of new policies (Increase/(decrease))	Effect of adopting HKAS 17 Prepaid land lease payments RMB'000	HKAS 39 Changes in classification of equity investments RMB'000	HKAS 40 Surplus on revaluation of investment properties RMB'000	Total RMB'000
Assets				
Property, plant and equipment	(74,662)	–	–	(74,662)
Prepaid land lease payments	72,541	–	–	72,541
Available-for-sale equity investments	–	69,200	–	69,200
Long term investments	–	(69,200)	–	(69,200)
Prepayments, deposits and other receivables	2,121	–	–	2,121
				–
Liabilities/equity				
Investment property revaluation reserve	–	–	(197)	(197)
Retained profits	–	–	197	197
				–

2.4 SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES (Continued)

(b) Effect on the balances of equity at 1 January 2005

Effect of new policies (Increase/(decrease))	Effect of adopting HKAS 40 Surplus on revaluation of investment properties RMB'000
1 January 2005	
Investment property revaluation reserve	(2,263)
Retained profits	2,263
	–

2.4 SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES (Continued)

(c) Effect on the consolidated income statement for the years ended 31 December 2005 and 2004

Effect of new policies	Effect of adopting HKAS 1 Share of post-tax profits and losses of associates RMB'000	Effect of adopting HKAS 40 Surplus on revaluation of investment properties RMB'000	Total RMB'000
Year ended 31 December 2005			
Increase in other income and gains	–	26,821	26,821
Decrease in share of profits and losses of associates	(12,600)	–	(12,600)
(Increase)/decrease in tax	12,600	(4,023)	8,577
Total increase in profit	–	22,798	22,798
Attributable to:			
Equity holders of the parent	–	(2,066)	(2,066)
Minority interests	–	24,864	24,864
	–	22,798	22,798
Decrease in basic earnings per share attributable to ordinary equity share holders of the parent	–	RMB(0.2 cents)	RMB(0.2 cents)

2.4 SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES (Continued)

(c) Effect on the consolidated income statement for the years ended 31 December 2005 and 2004 (Continued)

Effect of new policies	Effect of adopting HKAS 1 Share of post-tax profits and losses of associates RMB'000	Effect of adopting HKAS 40 Surplus on revaluation of investment properties RMB'000	Total RMB'000
Year ended 31 December 2004			
Increase in other income and gains	–	3,162	3,162
Decrease in share of profits and losses of associates	(25,693)	–	(25,693)
(Increase)/decrease in tax	25,693	(474)	25,219
Total increase in profit	–	2,688	2,688
Attributable to:			
Equity holders of the parent	–	2,263	2,263
Minority interests	–	425	425
	–	2,688	2,688
Increase in basic earnings per share attributable to ordinary equity share holders of the parent	–	RMB0.2 cents	RMB0.2 cents

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

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

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

Associates

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

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated income statement and consolidated reserves, respectively. The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses. Goodwill arising from the acquisition of associates, which was not previously eliminated or recognised in the consolidated reserves, is included as part of the Group's interests in associates.

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

Goodwill

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Goodwill (Continued)

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

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

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

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

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and

- is not larger than a segment based on either the Group's primary or the Group's secondary reporting format determined in accordance with HKAS 14 "Segment Reporting".

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised.

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

An impairment loss recognised for goodwill is not reversed in a subsequent period.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Goodwill (Continued)

Goodwill previously eliminated against the consolidated reserves

Prior to the adoption of SSAP 30 "Business Combinations" in 2001, goodwill arising on acquisition of subsidiaries and associates was eliminated against the consolidated reserves in the year of acquisition. On the adoption of HKFRS 3, such goodwill remains eliminated against the consolidated reserves and is not recognised in profit or loss when all or part of the business to which the goodwill relates is disposed of or when a cash-generating unit to which the goodwill relates becomes impaired.

Impairment of assets

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

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, in which case the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Related parties

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

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

(b) the party is an associate;

(c) the party is a jointly-controlled entity;

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

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

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

Property, plant and equipment and depreciation

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment and depreciation (Continued)

Valuations are performed frequently enough to ensure that the fair value of buildings (other than staff quarters) does not differ materially from their carrying amounts. Changes in the values of buildings (other than staff quarters) are dealt with as movements in the asset revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to the income statement. Any subsequent revaluation surplus is credited to the income statement to the extent of the deficit previously charged. On disposal of buildings (other than staff quarters) the relevant portion of the asset revaluation reserve realised in respect of previous valuations is transferred to retained profits as a movement in reserves.

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

Land and buildings	Over the terms of the respective leases
Plant, machinery and equipment	2 to 11 years
Motor vehicles	5 to 6 years

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

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

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investment properties

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

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

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

For a transfer from investment properties to owner-occupied properties or inventories, the deemed cost of property for subsequent accounting is its fair value at the date of change in use. If a property occupied by the Group as an owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under "Property, plant and equipment and depreciation" up to the date of change in use, and any difference at that date between the carrying amount and the fair value of the property is accounted for as a revaluation in accordance with the policy stated under "Property, plant and equipment and depreciation" above. When the Group completes the construction or development of a self-constructed investment property, any difference between the fair value of the property at the completion date and its previous carrying amount is recognised in the income statement.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Intangible assets (other than goodwill)

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

Patents and licences

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

Technology acquired

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

Research and development costs

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

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

Leases

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leases (Continued)

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

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

Investments and other financial assets

Applicable to the year ended 31 December 2004:
The Group classified its equity investments, other than subsidiaries, associates and jointly-controlled entities, as long term investments and short term investment.

Long term investments

Long term investments are non-trading investments in listed and unlisted equity securities intended to be held on a long term basis.

Listed securities are stated at their fair values on the basis of their quoted market prices at the balance sheet date, on an individual investment basis. Unlisted securities are stated at their estimated fair values, on an individual basis. The estimated fair values of unlisted investments are determined by the directors having regard to, inter alia, the prices of the most recent reported sales or purchases of the securities, or comparison of price/earnings ratios and dividend yields of the securities with those of similar listed securities, with allowance made for the lower liquidity of the unlisted securities.

The gains or losses arising from changes in the fair value of a security are dealt with as movements in the investment revaluation reserve, until the security is sold, collected, or otherwise disposed of, or until the security is determined to be impaired, when the cumulative gain or loss derived from the security recognised in the investment revaluation reserve, together with the amount of any further impairment, is charged to the income statement in the period in which the impairment arises.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and other financial assets (Continued)

Applicable to the year ended 31 December 2005:

Financial assets in the scope of HKAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, and available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

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

Financial assets at fair value through profit or loss

Financial assets classified as held for trading are included in the category "financial assets at fair value through profit or loss". Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Gains or losses on investments held for trading are recognised in the income statement.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets in unlisted equity securities that are designated as available for sale or are not classified in any of the other two categories. After initial recognition, available-for-sale financial assets are measured at fair value, with gains or losses recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement.

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and other financial assets (Continued)

Fair value

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

Impairment of financial assets (applicable to the year ended 31 December 2005)

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

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognised in the income statement.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of financial assets (applicable to the year ended 31 December 2005) (Continued)

Assets carried at cost

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

Derecognition of financial assets (applicable to the year ended 31 December 2005)

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

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

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

Gains and losses are recognised in net profit or loss when the liabilities are derecognised as well as through the amortisation process.

Derecognition of financial liabilities (applicable to the year ended 31 December 2005)

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

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

Inventories

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

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Provisions

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

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

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

Income tax

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

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

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

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

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income tax (Continued)

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

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

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

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

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

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

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the income statement over the expected useful life of the relevant asset.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition

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

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

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

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

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

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

Employee benefits

Pension scheme and other retirement benefits

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Borrowing costs

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

Dividend

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

Foreign currencies

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies (Continued)

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS

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

Operating lease commitments – Group as lessor

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

Classification between investment properties and owner-occupied properties

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

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

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

4. SEGMENT INFORMATION

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

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

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

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

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

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

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

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

4. SEGMENT INFORMATION (Continued)

(a) Business segments

The following tables present revenue, profit/(loss) and certain asset, liability and expenditure information for the Group's business segments for the years ended 31 December 2005 and 2004.

Year ended 31 December 2005	Electronic parts and components RMB'000	Computer RMB'000	Property investment RMB'000	Others RMB'000	Eliminations RMB'000	Consolidated RMB'000
Segment revenue:						
Sales to external customers	12,738,932	1,517,175	85,585	583,082	–	14,924,774
Other income and gains	61,069	34,109	–	7,887	–	103,065
Intersegment sales	286,570	1,255	22,441	1,456	(311,722)	–
Total	13,086,571	1,552,539	108,026	592,425	(311,722)	15,027,839
Segment results before increase in fair value of investment properties	426,330	(83,164)	62,390	(16,440)	(325)	388,791
Increase in fair value of investment properties	–	–	26,821	–	–	26,821
Segment results after increase in fair value of investment properties	426,330	(83,164)	89,211	(16,440)	(325)	415,612
Interest and dividend income and unallocated gains						48,868
Corporate and other unallocated expenses						(98,053)
Finance costs						(27,921)
Share of profits and losses of associates	(16,183)	76,483	–	(8,755)	–	51,545
Gain on disposal of associates	7,960	330,234	–	–	–	338,194
Profit before tax						728,245
Tax						(103,254)
Profit for the year						624,991

4. SEGMENT INFORMATION (Continued)

(a) Business segments (Continued)

Year ended 31 December 2005	Electronic parts and components RMB'000	Computer RMB'000	Property investment RMB'000	Others RMB'000	Eliminations RMB'000	Consolidated RMB'000
Assets and liabilities						
Segment assets	4,013,040	1,324,728	559,070	548,791	–	6,445,629
Interests in associates	206,292	160,414	–	221,446	–	588,152
Corporate and other unallocated assets						2,390,662
Total assets						9,424,443
Segment liabilities	2,130,150	524,346	–	401,852	–	3,056,348
Corporate and other unallocated liabilities						582,944
Total liabilities						3,639,292
Other segment information:						
Depreciation and amortisation	202,064	24,028	–	4,238	–	230,330
Corporate and other unallocated amounts	–	–	–	–	–	2,331
						232,661
Provision for bad and doubtful debts	20,918	24,201	–	3,049	–	48,168
Corporate and other unallocated amounts						58,003
						106,171
Capital expenditure	275,795	122,953	–	59,263	–	458,011
Corporate and other unallocated amounts						53,588
						511,599
Impairment losses recognised in the income statement	21,144	1,361	–	12,451	–	34,956
Changes in fair value of investment properties	–	–	26,821	–	–	26,821
Product warranty provision	11,625	–	–	–	–	11,625

4. SEGMENT INFORMATION (Continued)

(a) Business segments (Continued)

Year ended 31 December 2004	Electronic parts and components RMB'000	Computer RMB'000	Property investment RMB'000	Others RMB'000	Eliminations RMB'000	Consolidated RMB'000
Segment revenue:						
Sales to external customers	9,998,190	995,744	25,254	399,998	–	11,419,186
Other income and gains	66,175	68,045	–	28,195	–	162,415
Intersegment sales	183,980	202	–	–	(184,182)	–
Total	10,248,345	1,063,991	25,254	428,193	(184,182)	11,581,601
Segment results before increase in fair value of investment properties	201,886	(105,563)	23,550	1,871	(6,778)	114,966
Increase in fair value of investment properties	–	–	3,810	–	–	3,810
Segment results after increase in fair value of investment properties	201,886	(105,563)	27,360	1,871	(6,778)	118,776
Interest and dividend income and unallocated gains						42,744
Corporate and other unallocated expenses						(19,035)
Finance costs						(50,188)
Share of profits and losses of associates	(29,180)	405,690	–	(65,140)	–	311,370
Gain on disposal of an associate	–	8,240	–	–	–	8,240
Profit before tax						411,907
Tax						(35,893)
Profit for the year						376,014

4. SEGMENT INFORMATION (Continued)

(a) Business segments (Continued)

Year ended 31 December 2004	Electronic parts and components RMB'000	Computer RMB'000	Property investment RMB'000	Others RMB'000	Eliminations RMB'000	Consolidated RMB'000
Assets and liabilities						
Segment assets	3,648,639	1,637,666	276,618	212,471	–	5,775,394
Interests in associates	454,137	552,408	–	16,801	–	1,023,346
Corporate and other unallocated assets						2,180,523
Total assets						8,979,263
Segment liabilities	1,909,940	683,322	–	164,242	–	2,757,504
Corporate and other unallocated liabilities						969,543
Total liabilities						3,727,047
Other segment information:						
Depreciation and amortisation	247,655	28,754	–	3,152	–	279,561
Corporate and other unallocated amounts						2,807
						282,368
Provision for bad and doubtful debts	55,105	73,392	–	220	–	128,717
Capital expenditure	279,786	51,567	–	–	–	331,353
Corporate and other unallocated amounts						8,307
						339,660
Impairment losses recognised in the income statement	98,761	–	–	2,897	–	101,658
Changes in fair value of investment properties	–	–	3,810	–	–	3,810

4. SEGMENT INFORMATION (Continued)

(b) Geographical segments

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

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

	Turnover by geographical market	
	2005	2004
	RMB'000	RMB'000
The Mainland China (including Hong Kong)	**3,198,049**	2,095,532
Asia Pacific (excluding the Mainland China)	**8,361,525**	7,465,512
North America	**2,962,742**	1,669,837
Others	**402,458**	188,305
	14,924,774	11,419,186

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

5. REVENUE, OTHER INCOME AND GAINS

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

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

	Note	2005 RMB'000	2004 RMB'000 (Restated)
Revenue			
Sale of goods		**14,813,249**	11,371,052
Gross rental income		**85,585**	25,254
Others		**25,940**	22,880
		14,924,774	11,419,186
Other income			
Rental income		–	55,365
Cafeteria income		**9,653**	–
Royalty income		**46,129**	47,105
Interest income		**48,038**	40,432
Dividend income from unlisted investments		**750**	2,312
Refund to value added tax		**4,338**	4,987
Government grants		**2,176**	3,009
Sale of scrap materials		**25,407**	12,720
Others		**15,442**	5,895
		151,933	171,825
Gains			
Fair value gains on investment properties	15	**26,821**	3,810
Gain on capital contribution from a shareholder of an associate		–	33,334
		26,821	37,144
		178,754	208,969

6. PROFIT BEFORE TAX

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

	Note	2005 RMB'000	2004 RMB'000 (Restated)
Cost of inventories sold		**13,873,078**	10,594,027
Cost of services provided		**14,274**	6,406
Depreciation	14	**232,054**	243,313
Amortisation of other intangible assets*	18	**607**	32,982
Research and development costs		**74,834**	24,283
Minimum lease payment under operating lease of land and buildings		**11,542**	17,784
Goodwill:			
Amortisation for the year	17	**–**	2,836
Impairment during the year	17	**13,447**	–
Auditors' remuneration		**5,880**	3,724
Employee benefits expense (including directors' remuneration (note 8)):			
Wages and salaries		**416,252**	360,073
Pension scheme contributions		**20,238**	14,866
Less: Forfeited contributions		**–**	–
Net pension scheme contributions***		**20,238**	14,866
		436,490	374,939

6. PROFIT BEFORE TAX (Continued)

	Note	2005 RMB'000	2004 RMB'000 (Restated)
Foreign exchange differences, net		**12,830**	(1,267)
Impairment of property, plant and equipment	14	**8,178**	20,052
Impairment of goodwill arising from acquisition of associates**	20	**13,331**	24,904
Impairment of intangible asset **	18	**–**	53,805
Impairment of long term investments	21	**–**	2,897
Provision for bad and doubtful debts		**106,171**	128,717
Write-down of inventories to net realisable value		**38,894**	10,136
Reversal of inventories provision		**(48,551)**	(24,910)
Direct operating expenses (including repairs and maintenance) arising on rental-earning investment properties		**30,470**	29,717
Additional product warranty provision	29	**11,625**	–
Changes in fair value of investment properties	15	**(26,821)**	(3,810)
Interest income –			
Bank interest income	5	**(30,900)**	(37,152)
Interest income arising from loans to associates	5	**(17,138)**	(3,280)
Dividend income from unlisted investments		**(750)**	(2,312)
Loss on disposal of property, plant and equipment		**74**	1,868
Loss on disposal of a subsidiary	35	**705**	–

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

** The impairment of intangible assets and goodwill arising from acquisition of associates are included in "Other expenses" on the face of the consolidated income statement.

*** At 31 December 2005, the Group had no forfeited contributions available to reduce its contributions to the pension schemes in the future years (2004: Nil).

7. FINANCE COSTS

	Group 2005 RMB'000	2004 RMB'000
Interest on bank loans, wholly repayable within five years	**28,348**	49,432
Interest on finance leases	**–**	756
Total interest	**28,348**	50,188
Less: Interest capitalised	**(427)**	–
	27,921	50,188

8. DIRECTORS' REMUNERATION

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

	Group 2005 RMB'000	2004 RMB'000
Fees	**770**	960
Other emoluments:		
Salaries, allowances and benefits in kind	**3,697**	4,861
Performance related bonuses	**2,842**	3,055
Pension scheme contributions	**214**	217
	6,753	8,133
	7,523	9,093

8. DIRECTORS' REMUNERATION (Continued)

(a) Independent non-executive directors

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

	2005	2004
	RMB'000	RMB'000
Mr. Li Sanli	**100**	100
Mr. Li Xiaoru	**100**	100
Ms. Wang Qinfang (appointed on 17 January 2005)	**100**	–
Mr. Chang Zhenming (resigned on 17 January 2005)	–	100
	300	300

There were no other emoluments payable to the independent non-executive directors during the year (2004: Nil).

8. DIRECTORS' REMUNERATION (Continued)

(b) Executive directors

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Performance related bonuses RMB'000	Pension contributions RMB'000	Total remuneration RMB'000
2005					
Mr. Chen Zhaoxiong	–	–	–	–	–
Mr. Lu Ming	–	–	–	–	–
Mr. Tam Man Chi	170	3,376	2,842	214	6,602
Mr. Wang Jincheng (appointed on 17 January 2005)	100	–	–	–	100
Mr. Yang Jun (appointed on 20 June 2005)	–	–	–	–	–
Mr. Li Weisheng (appointed on 20 June 2005)	–	102	–	–	102
Mr. Gao Keqin (resigned on 20 June 2005)	100	219	–	–	319
Ms. Huang Rongfang (resigned on 20 June 2005)	100	–	–	–	100
Mr. Qiao Zhongtao (resigned on 17 January 2005)	–	–	–	–	–
	470	3,697	2,842	214	7,223
2004					
Mr. Chen Zhaoxiong (appointed on 21 January 2004)	–	–	–	–	–
Mr. Lu Ming	120	298	–	–	418
Mr. Tam Man Chi	120	3,001	1,932	217	5,270
Mr. Gao Keqin	100	192	–	–	292
Ms. Huang Rongfang	120	–	–	–	120
Mr. Qiao Zhongtao	100	870	1,123	–	2,093
Mr. Wang Zhi (resigned on 21 June 2004)	100	500	–	–	600
	660	4,861	3,055	217	8,793

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

8. DIRECTORS' REMUNERATION (Continued)

(c) Supervisors

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Performance related bonuses RMB'000	Pension contributions RMB'000	Total remuneration RMB'000
2005					
Mr. Diao Guoxing	50	287	–	–	337
Mr. Li Ruiyue	50	–	–	–	50
Mr. Qin Maojun	50	–	–	–	50
	150	287	–	–	437
2004					
Mr. Diao Guoxing	50	–	–	–	50
Mr. Li Ruiyue	50	–	–	–	50
Mr. Qin Maojun	50	–	–	–	50
Mr. Di Xiaofeng (resigned on 21 June 2005)	–	–	–	–	–
	150	–	–	–	150

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included one (2004: two) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining four (2004: three) non-director, highest paid employees for the year are as follows:

	Group	
	2005	2004
	RMB'000	RMB'000
Salaries, allowances and benefits in kind	**1,337**	3,340
Performance related bonuses	**608**	5,752
Pension scheme contributions	**–**	196
	1,945	9,288

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

	Number of employees	
	2005	2004
RMB 0 to RMB500,000	**2**	–
RMB500,001 to RMB1,000,000	**2**	–
RMB1,500,001 to RMB2,000,000	**–**	1
RMB3,000,001 to RMB3,500,000	**–**	1
RMB4,000,001 to RMB4,500,000	**–**	1
	4	3

10. TAX

	2005 RMB'000	2004 RMB'000 (Restated)
Group:		
Current – Hong Kong		
Charge for the year	**13,108**	6,876
Current – Mainland China		
Charge for the year	**95,088**	32,440
Overprovision in prior years	**(9,141)**	(6,500)
Deferred (note 30)	**4,199**	3,077
Total tax charge for the year	**103,254**	35,893

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

	2005 RMB'000	%	2004 RMB'000 (Restated)	%
Profit before tax	**728,245**		411,907	
Tax at the applicable tax rate	**109,237**		61,786	
Lower tax rate for specific provinces or local authority	**(5,329)**		(14,165)	
Profit attributable to associates	**(7,651)**		(46,705)	
Income not subject to tax	**(1,189)**		(11,898)	
Expenses not deductible for tax	**11,592**		32,321	
Tax losses utilised from previous periods	**1,020**		–	
Tax losses not recognised	**4,708**		20,439	
Effect of different tax rate of subsidiaries operation in other jurisdictions	**7**		615	
Overprovision in respect of prior year	**(9,141)**		(6,500)	
Tax charge at the Group's effective rate	**103,254**	**14.18**	35,893	8.71

10. TAX (Continued)

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

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

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

Details of deferred taxation are set out in note 30.

11. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

The net profit from ordinary activities attributable to equity holders of the parent for the year ended 31 December 2005 dealt with in the financial statements of the Company, was RMB60,064,000 (2004: RMB63,793,000) (note 33(b)).

12. DIVIDEND

	2005 **RMB'000**	2004 RMB'000
Proposed final – RMB2 cents (2004: RMB4.2 cents) per ordinary share	**23,955**	50,305
	23,955	50,305

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

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

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

A diluted earnings per share amounts for the years ended 31 December 2005 and 2004 have not been disclosed as no diluting events existed during the year.

The calculation of basic earnings per share is based on:

	2005	2004
	RMB'000	RMB'000
		(Restated)
Earnings		
Net profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	**321,936**	202,036

	Number of shares	
	2005	2004
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**1,197,742,000**	1,197,742,000

14. PROPERTY, PLANT AND EQUIPMENT

Group

	Land and buildings in the Mainland China under medium term leases RMB'000	Staff quarters in the Mainland China under medium term leases RMB'000	Plant, machinery and equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2005						
At 31 December 2004 and at 1 January 2005:						
Cost or valuation as restated	1,054,397	152,890	1,990,883	19,278	28,330	3,245,778
Accumulated depreciation and impairment as restated	(133,628)	(18,639)	(1,144,726)	(13,353)	–	(1,310,346)
Net carrying amount	920,769	134,251	846,157	5,925	28,330	1,935,432
At 1 January 2005, net of accumulated depreciation and impairment	920,769	134,251	846,157	5,925	28,330	1,935,432
Additions	118	–	120,887	2,300	368,173	491,478
Acquisition of subsidiaries (note 34)	13,411	–	2,603	525	–	16,539
Transfer from investment properties (note 15)	7,147	–	–	–	–	7,147
Transfers	945	–	31,452	–	(32,397)	–
Disposals	–	–	(8,083)	(260)	–	(8,343)
Transfer to investment properties (note 15)	(262,778)	–	–	–	–	(262,778)
Disposal of subsidiaries (note 35)	–	–	(202)	–	–	(202)
Impairment	–	–	(8,175)	(3)	–	(8,178)
Depreciation provided during the year	(12,290)	(7,736)	(209,814)	(2,214)	–	(232,054)
Exchange realignment	(83)	–	(10,669)	(5)	(4,359)	(15,116)
At 31 December 2005, net of accumulated depreciation and impairment	667,239	126,515	764,156	6,268	359,747	1,923,925

14. PROPERTY, PLANT AND EQUIPMENT (Continued)

Group (Continued)

	Land and buildings in the Mainland China under medium term leases RMB'000	Staff quarters in the Mainland China under medium term leases RMB'000	Plant, machinery and equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
At 31 December 2005:						
Cost or valuation	813,240	152,890	2,137,540	21,843	364,106	3,489,619
Accumulated depreciation and impairment	(145,918)	(26,375)	(1,362,715)	(15,570)	–	(1,550,578)
Exchange realignment	(83)	–	(10,669)	(5)	(4,359)	(15,116)
Net carrying amount	667,239	126,515	764,156	6,268	359,747	1,923,925
Analysis of cost or valuation:						
At cost	–	152,890	2,137,540	21,843	364,106	2,676,379
At directors' 31 December 2004 valuation	813,240	–	–	–	–	813,240
	813,240	152,890	2,137,540	21,843	364,106	3,489,619

14. PROPERTY, PLANT AND EQUIPMENT (Continued)

Group (Continued)

	Land and buildings in Hong Kong under medium term leases RMB'000	Land and buildings in the Mainland China under medium term leases RMB'000	Staff quarters in the Mainland China under medium term leases RMB'000	Plant, machinery and equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000 (Restated)
31 December 2004							
At 1 January 2004:							
Cost or valuation							
As originally stated	6,302	1,093,266	152,890	1,742,366	19,630	14,998	3,029,452
Reclassified to prepaid land lease payments (note 16)	(6,302)	(84,881)	–	–	–	–	(91,183)
Cost or valuation as restated	–	1,008,385	152,890	1,742,366	19,630	14,998	2,938,269
Accumulated depreciation and impairment							
As originally stated	(3,003)	(114,921)	(15,874)	(929,876)	(12,464)	–	(1,076,138)
Reclassified to prepaid land lease payments (note 16)	3,003	8,487	–	–	–	–	11,490
Accumulated depreciation and impairment as restated	–	(106,434)	(15,874)	(929,876)	(12,464)	–	(1,064,648)
Net carrying amount	–	901,951	137,016	812,490	7,166	14,998	1,873,621

14. PROPERTY, PLANT AND EQUIPMENT (Continued)

Group (Continued)

	Land and buildings in Hong Kong under medium term leases RMB'000	Land and buildings in the Mainland China under medium term leases RMB'000	Staff quarters in the Mainland China under medium term leases RMB'000	Plant, machinery and equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000 (Restated)
At 1 January 2004, net of accumulated depreciation and impairment	–	901,951	137,016	812,490	7,166	14,998	1,873,621
Acquisition of a subsidiary	–	–	–	46	–	–	46
Additions	–	3,441	–	269,093	2,166	64,914	339,614
Disposals	–	(298)	–	(13,233)	(953)	–	(14,484)
Impairment	–	–	–	(19,859)	(193)	–	(20,052)
Depreciation provided during the year	–	(27,194)	(2,765)	(211,093)	(2,261)	–	(243,313)
Transfers	–	42,869	–	8,713	–	(51,582)	–
At 31 December 2004, net of accumulated depreciation and impairment	–	920,769	134,251	846,157	5,925	28,330	1,935,432
At 31 December 2004:							
Cost or valuation	–	1,054,397	152,890	1,990,883	19,278	28,330	3,245,778
Accumulated depreciation and impairment	–	(133,628)	(18,639)	(1,144,726)	(13,353)	–	(1,310,346)
Net carrying amount	–	920,769	134,251	846,157	5,925	28,330	1,935,432
Analysis of cost or valuation:							
At cost	–	–	152,890	1,990,883	19,278	28,330	2,191,381
At directors' 31 December 2004 valuation	–	1,054,397	–	–	–	–	1,054,397
	–	1,054,397	152,890	1,990,883	19,278	28,330	3,245,778

14. PROPERTY, PLANT AND EQUIPMENT (Continued)

Company

	Land and buildings in the Mainland China under medium term leases RMB'000	Plant, machinery and equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2005					
At 1 January 2005:					
Cost or valuation as restated	53,169	5,999	1,664	1,288	62,120
Accumulated depreciation and impairment as restated	(2,573)	(1,396)	(1,343)	–	(5,312)
Net carrying amount	50,596	4,603	321	1,288	56,808
At 1 January 2005, net of accumulated depreciation and impairment	50,596	4,603	321	1,288	56,808
Additions	–	117	–	53,471	53,588
Transfer from investment properties	596	–	–	–	596
Transfers	228	–	–	(228)	–
Disposals	–	(28)	(157)	–	(185)
Depreciation provided during the year	–	(2,233)	(99)	–	(2,332)
At 31 December 2005, net of accumulated depreciation and impairment	51,420	2,459	65	54,531	108,475
At 31 December 2005:					
Cost or Valuation	53,993	6,088	1,507	54,531	116,119
Accumulated depreciation and impairment	(2,573)	(3,629)	(1,442)	–	(7,644)
Net carrying amount	51,420	2,459	65	54,531	108,475
Analysis of cost or valuation:					
At cost	–	6,088	1,507	54,531	62,126
At directors' 31 December 2004 valuation	53,993	–	–	–	53,993
	53,993	6,088	1,507	54,531	116,119

14. PROPERTY, PLANT AND EQUIPMENT (Continued)

Company (Continued)

	Land and buildings in the Mainland China under medium term leases RMB'000	Plant, machinery and equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000 (Restated)
31 December 2004					
At 1 January 2004:					
Cost or valuation					
As originally stated	52,029	5,863	1,376	7,862	67,130
Reclassified to prepaid land lease prepayments (note 16)	(4,654)	–	–	–	(4,654)
Cost or valuation as restated	47,375	5,863	1,376	7,862	62,476
Accumulated depreciation and impairment					
As originally stated	(861)	(886)	(937)	–	(2,684)
Reclassified to prepaid land lease prepayments (note 16)	59	–	–	–	59
Accumulated depreciation and impairment as restated	(802)	(886)	(937)	–	(2,625)
Net carrying amount	46,573	4,977	439	7,862	59,851

14. PROPERTY, PLANT AND EQUIPMENT (Continued)

Company (Continued)

	Land and buildings in the Mainland China under medium term lease RMB'000	Plant and machinery RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000 (Restated)
At 1 January 2004, net of accumulated depreciation and impairment	46,573	4,977	439	7,862	59,851
Additions	–	71	288	2,152	2,511
Disposals	–	(2)	–	–	(2)
Transferred to subsidiary	–	–	–	(2,864)	(2,864)
Transfers	5,794	68	–	(5,862)	–
Depreciation provided during the year	(1,771)	(511)	(406)	–	(2,688)
At 31 December 2004, net of accumulated depreciation and impairment	50,596	4,603	321	1,288	56,808
At 31 December 2004 and at 1 January 2005:					
Cost or valuation	53,169	6,000	1,664	1,288	62,121
Accumulated depreciation and impairment	(2,573)	(1,397)	(1,343)	–	(5,313)
Net carrying amount	50,596	4,603	321	1,288	56,808
Analysis of cost or valuation:					
At cost	–	6,000	1,664	1,288	8,952
At directors' 31 December 2004 valuation	53,169	–	–	–	53,169
	53,169	6,000	1,664	1,288	62,121

14. PROPERTY, PLANT AND EQUIPMENT (Continued)

Certain land and buildings in Mainland China were revalued by the directors by reference to current market conditions. In the opinion of the directors, there has been no material change in the value of these land and buildings as at 31 December 2005.

Had these land and buildings been carried at historical cost less accumulated depreciation, their carrying amounts would have been approximately RMB667,701,000 (2004: RMB921,231,000), as compared to their carrying amounts included in property, plant and equipment of approximately RMB667,239,000 (2004: RMB920,769,000).

As at 31 December 2005, the Group are in the progress of obtaining a building ownership certificate for certain land and buildings with net book value of RMB53,751,000 (2004: RMB97,480,000).

At 31 December 2005, certain of the Group's machineries and construction in progress with net book value of approximately RMB34,847,000 and RMB40,539,000, respectively, were pledged to secure the long term bank loans.

15. INVESTMENT PROPERTIES

	Group		Company	
	2005	2004	**2005**	2004
	RMB'000	RMB'000	**RMB'000**	RMB'000
Carrying amount at 1 January	**276,618**	272,808	**182,568**	180,053
Transfer from property, plant and equipment (note 14)	**262,778**	–	–	–
Transfer to property, plant and equipment (note 14)	**(7,147)**	–	**(596)**	–
Net profit from a fair value adjustment	**26,821**	3,810	**(32,259)**	2,515
Carrying amount at 31 December	**559,070**	276,618	**149,713**	182,568

15. INVESTMENT PROPERTIES (Continued)

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

The Group's investment properties were revalued on 31 December 2005 by Dudley Surveyors Limited, independent professionally qualified valuers, at RMB559,070,000 on an open market, existing use basis. The investment properties are leased to third parties under operating leases, further summary details of which are included in note 38(a) to the financial statements.

16. PREPAID LAND LEASE PAYMENTS

	Group		**Company**	
	2005	2004	**2005**	2004
	RMB'000	RMB'000	**RMB'000**	RMB'000
		(Restated)		(Restated)
Carrying amount at 1 January				
As previously reported	–	–	–	–
Effect of adopting HKAS 17 (note 2.2(a))	**76,783**	79,693	**4,475**	4,595
As restated	**76,783**	79,693	**4,475**	4,595
Recognised during the year	**(2,121)**	(2,910)	**(120)**	(120)
Carrying amount at 31 December	**74,662**	76,783	**4,355**	4,475
Current portion included in prepayments, deposits and other receivables	**(2,121)**	(2,121)	**(120)**	(120)
Non-current portion	**72,541**	74,662	**4,235**	4,355

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

17. GOODWILL

Group

	Goodwill RMB'000
31 December 2005	
At 1 January 2005:	
Cost as previously reported	20,043
Effect of adopting HKFRS 3 (note 2.2 (d))	(6,218)
Net carrying amount	13,825
Accumulated amortisation and impairment as previously reported	(6,218)
Effect of adopting HKFRS 3 (note 2.2(d))	6,218
Accumulated amortisation and impairment as restated	–
Net carrying amount	13,825
Cost at 1 January 2005, net of accumulated impairment	13,825
Disposal of a subsidiary	(378)
Impairment provided during the year	(13,447)
Net carrying amount	–
At 31 December 2005:	
Cost	13,447
Accumulated impairment	(13,447)
Net carrying amount	–

17. GOODWILL (Continued)

Group (Continued)

	Goodwill RMB'000
31 December 2004	
At 1 January 2004:	
Cost	19,623
Accumulated amortisation and impairment	(3,382)
Net carrying amount	16,241
Cost at 1 January 2004, net of accumulated amortisation and impairment	16,241
Acquisition of a subsidiary	420
Amortisation provided during the year	(2,836)
At 31 December 2004	13,825
At 31 December 2004:	
Cost	20,043
Accumulated amortisation and impairment	(6,218)
Net carrying amount	13,825

In 2004, goodwill not previously eliminated against the consolidated reserves was amortised on the straight-line basis over its estimate useful life of 10 years.

The transitional provisions of HKFRS 3 have required the Group to eliminate at 1 January 2005 the carrying amounts of accumulated amortisation with a corresponding adjustment to the cost of goodwill. Goodwill previously eliminated against the reserves remains eliminated against the reserves and is not recognised in the income statement when all or part of the business to which the goodwill relates is disposed of or when a cash-generating unit to which the goodwill relates becomes impaired.

18. INTANGIBLE ASSETS

Group

	Patents and licences RMB'000	Technology acquired RMB'000	Total RMB'000
31 December 2005:			
Cost at 1 January 2005, net of accumulated amortisation and impairment	–	–	–
Additions	–	**2,794**	**2,794**
Acquisition of subsidiaries (note 34)	**788**	–	**788**
Amortisation provided during the year	**(150)**	**(457)**	**(607)**
At 31 December 2005	**638**	**2,337**	**2,975**
At 31 December 2005:			
Cost	**48,122**	**85,542**	**133,664**
Accumulated amortisation and impairment	**(47,484)**	**(83,205)**	**(130,689)**
Net carrying amount	**638**	**2,337**	**2,975**
31 December 2004:			
At 1 January 2004:			
Cost	47,334	82,748	130,082
Accumulated amortisation and impairment	(7,053)	(36,242)	(43,295)
Net carrying amount	40,281	46,506	86,787
Cost at 1 January 2004, net of accumulated amortisation and impairment	40,281	46,506	86,787
Amortisation provided during the year	(6,893)	(26,089)	(32,982)
Impairment during the year	(33,388)	(20,417)	(53,805)
At 31 December 2004	–	–	–
At 31 December 2004 and at 1 January 2005:			
Cost	47,334	82,748	130,082
Accumulated amortisation and impairment	(47,334)	(82,748)	(130,082)
Net carrying amount	–	–	–

19. INTERESTS IN SUBSIDIARIES

	Company 2005 RMB'000	Company 2004 RMB'000
Unlisted shares, at cost	**446,415**	446,415
Shares listed Mainland China, at cost	**1,218,670**	1,218,670
	1,665,085	1,665,085
Market value of listed shares	**5,513,018**	6,295,510

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Percentage of equity attributable to the Company Indirect	Principal activities
Beijing Digipro Information Technology Company Limited	PRC**	RMB57,944,000	70%	–	Research and development of software technology and trading of network related products
China Great Wall Computer (Shenzhen) Co., Ltd. ("CGC")	PRC*	RMB458,491,500	60.47%	–	Manufacture and trading of personal computer ("PC") and PC peripheral products
ExcelStor Great Wall Technology Limited	Cayman Islands	US$25,000,000	61.68%	–	Trading of HDD
ExcelStor Technology (Shenzhen) Limited	PRC**	US$26,600,000	61.68%	–	Manufacture of HDD
Great Wall Computer Software and System Incorporation Limited ("GWCSS")	PRC**	RMB100,000,000	34.9%	34.51%	Development of computer software

19. INTERESTS IN SUBSIDIARIES (Continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Kaifa Technology (H.K.) Limited	Hong Kong	US$500,000	–	100%	Trading of HDD and HDD substrates
Shenzhen Kaifa Magnetic Recording Joint-stock Co., Ltd.	PRC**	RMB224,033,000	43%	42%	Production and development of HDD substrates
Shenzhen Kaifa Technology Co., Ltd. ("S. Kaifa")	PRC*	RMB732,932,000	55.96%	–	Production of HDD heads and related electronic products
Shenzhen Kaifa Optical & Magnetic Components Company Limited	PRC**	RMB16,000,000	–	100%	Manufacture and trading of video recording heads, laser heads and related components
Sowant Electronic-commerce Co., Ltd.	PRC**	RMB50,000,000	–	90%	Provision of e-commerce business

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

** Companies incorporated as private limited companies in the PRC

During the year, the Group acquired Beijing Changruan Lide Information Technology Co., Ltd. (formerly known as Beijin Xiangji Lide Information Technology Co., Ltd.) ("Changruan Lide") and Wuhan Changruan Huacheng Electronic Network Co., Ltd. (formerly known as Wuhan Xiangji Huacheng Electronic Network Co., Ltd.) ("Changruan Huacheng") from a fellow subsidiary of the Company. Further details of the acquisition are included in notes 34 and 40(b) to the financial statements.

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

20. INTERESTS IN ASSOCIATES

	Group		Company	
	2005	2004	**2005**	2004
	RMB'000	RMB'000	**RMB'000**	RMB'000
Unlisted shares, at cost	**–**	–	**210,000**	210,000
Share of net assets	**272,913**	1,010,559	**–**	–
Goodwill on acquisition	**–**	12,787	**–**	–
Loans to associates (note 40(c)(ii))	**315,239**	–	**–**	–
	588,152	1,023,346	**210,000**	210,000

At the balance sheet date, an amount of approximately RMB65,702,000 due from an associate is unsecured, interest–bearing at a rate of 5.05% per annum and is repayable from 15 December 2007 to 16 June 2010. The remaining balance is unsecured, interest–bearing at a rate of 5.58% per annum and has no fixed terms of repayment. The carrying amounts of these loans approximate to their fair values.

20. INTERESTS IN ASSOCIATES (Continued)

A reconciliation of the above amounts of goodwill arising on the acquisition of associates is as follows:

	RMB'000
31 December 2005	
At 1 January 2005:	
Cost as previously reported	**110,021**
Effect of adopting HKFRS 3 (note 2.2 (d))	**(97,234)**
Net carrying amount	**12,787**
Accumulated amortisation and impairment as previously reported	**(97,234)**
Effect of adopting HKFRS 3 (note 2.2 (d))	**97,234**
Accumulated amortisation and impairment as restated	–
Net carrying amount	**12,787**
Cost at 1 January 2005, net of accumulated amortisation and impairment	**12,787**
Arising from acquisition of an associate	**544**
Impairment during the year (note 6)	**(13,331)**
Net carrying amount	–
At 31 December 2005:	
Cost	**110,565**
Accumulated impairment	**(110,565)**
Net carrying amount	–

20. INTERESTS IN ASSOCIATES (Continued)

	RMB'000
31 December 2004	
At 1 January 2004:	
Cost	72,003
Accumulated amortisation and impairment	(72,003)
Net carrying amount	–
Cost at 1 January 2004, net of accumulated amortisation and impairment	–
Arising from acquisition of associates	38,018
Amortisation provided during the year	(327)
Impairment during the year	(24,904)
At 31 December 2004	12,787
At 31 December 2004:	
Cost	110,021
Accumulated amortisation and impairment	(97,234)
Net carrying amount	12,787

20. INTERESTS IN ASSOCIATES (Continued)

Particulars of the principal associates are as follows:

Name	Place of incorporation/ registration	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Great Wall Broadband Network Service Co., Ltd. ("GWB")*	PRC	RMB600,000,000	35%	15%	Provision of broadband network services
China Huaxu Golden Card Co., Ltd. *	PRC	RMB40,018,552	–	25.6%	Manufacture of magnetic and optical card
ExcelStor Group Limited*	Cayman Islands	US$15,000,000	–	33.33%	Trading of hard disk drivers ("HDD")
IBM Leasing Company Limited*	PRC	RMB163,507,782	–	20%	Direct finance leasing and provision of consulting services
G&W Technologies, Co., Ltd. *	Republic of Korea	US$497,760	–	30%	Manufacture of HDD spindle motors
O-Net Communications Limited*	Cayman Islands	HK$22,224,299	–	46.46%	Trading of fiber optic components and manufacture of fiber optic parts for optical communications networks, integrated parts for optical communications networks and crystal parts for optical communications networks

20. INTERESTS IN ASSOCIATES (Continued)

Particulars of the principal associates are as follows:

Name	Place of incorporation/ registration	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Shenzhen Elcoteq Electronics Co., Ltd. (formerly known as "Shenzhen GKI Electronics Co., Ltd.")*	PRC	RMB99,609,465	–	30%	Manufacture of motherboards
Shenzhen Hai Liang Storage Products Co., Ltd.	PRC	RMB494,742,208	–	20%	Manufacture and sales of magnetic head products
Shenzhen KTM Glass Substrate Co., ltd.	PRC	RMB122,108,400	–	49%	Manufacture and sales of glass substrates

* Not audited by Ernst & Young Hong Kong or other Ernst & Young International member firms.

During the year, CGC entered into a sale and purchase agreement with an independent third party to dispose of its entire equity interests in Great Wall International Information Products (Shenzhen) Co., Ltd. for a consideration of US$44,000,000 (equivalent to approximately RMB364,000,000), resulting in gain on disposal of approximately RMB330,000,000.

During the year, S. Kaifa entered into a sale and purchase agreement with independent third parties to dispose of its entire equity interests in Shenzhen Kaifa Payton Technology Co., Ltd. for a consideration of US$40,345,000 (equivalent to approximately RMB332,039,000), resulting in gain on disposal of approximately RMB7,800,000.

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

20. INTERESTS IN ASSOCIATES (Continued)

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

	Group	
	2005	2004
	RMB'000	RMB'000
Assets	**6,512,614**	17,581,561
Liabilities	**5,019,007**	13,295,988
Revenues	**27,395,311**	55,146,501
Profit	**382,830**	1,730,555

21. AVAILABLE-FOR-SALE EQUITY INVESTMENTS/LONG TERM INVESTMENTS

	Group		Company	
	2005	2004	**2005**	2004
	RMB'000	RMB'000	**RMB'000**	RMB'000
Unlisted equity investments, at cost	**69,200**	55,948	**2,500**	2,500
Impairment loss	**–**	(2,897)	**–**	–
	69,200	53,051	**2,500**	2,500

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

22. INVENTORIES

	Group	
	2005	2004
	RMB'000	RMB'000
Raw materials	**321,700**	485,526
Work in progress	**65,816**	42,277
Finished goods	**435,581**	341,406
Consumables	**6,110**	5,861
	829,207	875,070

23. TRADE AND BILLS RECEIVABLES

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally for a period of three months, extending up six months for major customers. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing.

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

	Group		Company	
	2005	2004	**2005**	2004
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within 90 days	**1,052,180**	1,206,066	**840**	430
91 to 180 days	**1,091,106**	322,097	**–**	–
181 to 365 days	**16,524**	17,368	**–**	–
Over 365 days	**52,563**	–	**–**	–
	2,212,373	1,545,531	**840**	430

The carrying amount of trade and bills receivables approximates to their fair value.

There is no significant concentration of credit risk with respect to trade receivables as the Group has a large number of diversified customers.

24. FACTORED TRADE RECEIVABLES/BANK ADVANCES ON FACTORED TRADE RECEIVABLES

At 31 December 2005, a subsidiary of the Group factored trade receivables of RMB26,600,000 (2004:Nil) to banks on a without-recourse basis for short-term bank borrowings of RMB20,000,000 (2004:Nil). As the subsidiary of the Group still retained the risks and rewards associated with the delay in payment by the customers, the financial asset derecognition conditions as stipulated in HKAS 39 have not been fulfilled. Accordingly, bank advances from the factoring of the Group's trade receivables have been accounted for as current liabilities in the consolidated balance sheet.

The factored trade receivables as at the balance sheet date was aged within 90 days.

25. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2005	2004	**2005**	2004
	RMB'000	RMB'000	**RMB'000**	RMB'000
Prepayments	**188,618**	52,548	**5**	–
Deposits and other receivables	**309,750**	209,596	**3,137**	3,163
	498,368	262,144	**3,142**	3,163

The carrying amounts of deposits and other receivables approximate to their fair values.

26. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	Group		Company	
	2005	2004	**2005**	2004
	RMB'000	RMB'000	**RMB'000**	RMB'000
Cash and bank balances	**2,321,961**	2,112,029	**190,347**	670,601
Less: Pledged for long term bank loans	**–**	(281,485)	**–**	(223,560)
Cash and cash equivalents	**2,321,961**	1,830,544	**190,347**	447,041

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

At the balance sheet date, the cash and bank balances of the Group denominated in RMB amounted to RMB1,930,844,000 (2004: RMB1,149,848,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at bank earns interest at floating rates based on daily bank deposits rates. Short term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The carrying amounts of the cash and cash equivalents and the pledged deposits approximate to their fair values.

27. TRADE AND BILLS PAYABLES

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

	Group		Company	
	2005	2004	**2005**	2004
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within 90 days	**2,327,050**	2,148,712	**–**	–
91 to 180 days	**127,251**	172,747	**–**	–
181 to 365 days	**1,502**	20,751	**–**	–
Over 365 days	**32,750**	7,474	**217**	15,810
	2,488,553	2,349,684	**217**	15,810

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

28. INTEREST-BEARING BANK BORROWINGS

	Effective interest rate (%)	Maturity	Group 2005 RMB'000	Group 2004 RMB'000	Company 2005 RMB'000	Company 2004 RMB'000
Current						
Bank loans – unsecured	5 – 8	2006	**303,210**	403,462	**120,000**	320,000
Bank loans – secured	5 – 8	2005	**–**	359,699	**–**	100,000
Bank loans – secured	Libor+0.1	2005	**–**	115,145	**–**	–
			303,210	878,306	**120,000**	420,000
Non-current						
Secured bank loans	Libor+0.1	2008~2010	**42,496**	–	**–**	–
Secured bank loans	5 – 8	2007	**25,616**	–	**–**	–
			68,112	–	**–**	–
			371,322	878,306	**120,000**	420,000

	Group 2005 RMB'000	Group 2004 RMB'000	Company 2005 RMB'000	Company 2004 RMB'000
Analysed into:				
Within one year or on demand	**303,210**	878,306	**120,000**	420,000
In the second year	**42,496**	–	**–**	–
In the third to fifth years, inclusive	**25,616**	–	**–**	–
	371,322	878,306	**120,000**	420,000

28. INTEREST-BEARING BANK BORROWINGS (Continued)

Notes:

(a) Non-current bank loans amounting to RMB68,112,000 are secured by:

(i) mortgages over the Group's construction in progress, which had an aggregate carrying value at the balance sheet date of approximately RMB40,539,000; and

(ii) mortgages over the Group's machineries, which had an aggregate carrying value at the balance sheet date of approximately RMB34,847,000.

(b) Except a secured bank loan of RMB42,496,000 which is denominated in United States dollars, all other borrowings are in RMB.

Other interest rate information:

	Group			
	2005		2004	
	Fixed rate RMB'000	**Floating rate RMB'000**	Fixed rate RMB'000	Floating rate RMB'000
Bank loans – unsecured	**303,210**	**–**	661,161	–
Bank loans – secured	**25,616**	**42,496**	102,000	115,145
	328,826	**42,496**	763,161	115,145

	Company			
	2005		2004	
	Fixed rate RMB'000	**Floating rate RMB'000**	Fixed rate RMB'000	Floating rate RMB'000
Bank loans – unsecured	**120,000**	**–**	100,000	–
Bank loans – secured	**–**	**–**	320,000	–
	120,000	**–**	420,000	–

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

29. PROVISIONS

Group

	Provision for contingent liability RMB'000	Product warranties RMB'000	Total RMB'000
At beginning of year	17,564	–	17,564
Additional provision	36,070	11,625	47,695
At 31 December 2005	53,634	11,625	65,259

The Group provides loan guarantees to a bank for purchase loans borrowed by certain customers. The provision is based on the best estimate of the probable future obligation which these customers may not repay the bank loans as scheduled. As at 31 December 2005, the balance of loan guarantees amounted to RMB95,641,000 (2004: RMB122,108,000 (note 36)).

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

30. DEFERRED TAX

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

Deferred tax liabilities

Group	2005			
	Accelerated tax depreciaton RMB'000	Capitalisation of interest RMB'000	Revaluation of properties RMB'000	Total RMB'000
At 1 January 2005	43	9,417	474	9,934
Deferred tax charged/(credited) to the income statement during the year (note 10)	(16)	(906)	4,023	3,101
Gross deferred tax liabilities at 31 December 2005	27	8,511	4,497	13,035

Deferred tax assets

Group	2005		
	Tax losses RMB'000	Others RMB'000	Total RMB'000
At 1 January 2005	4,090	1,136	5,226
Deferred tax (charged)/credited to the income statement during the year (note 10)	38	(1,136)	(1,098)
Gross deferred tax assets at 31 December 2005	4,128	–	4,128
Net deferred tax liabilities at 31 December 2005			8,907

30. DEFERRED TAX (Continued)

Deferred tax liabilities

Group

	2004			
	Accelerated tax depreciaton RMB'000	Capitalisation of interest RMB'000	Revaluation of properties RMB'000	Total RMB'000
At 1 January 2004	–	10,322	(97)	10,225
Deferred tax charged/(credited) to the income statement during the year (note 10)	43	(905)	571	(291)
Gross deferred tax liabilities at 31 December 2004	43	9,417	474	9,934

Deferred tax assets

Group

	2004		
	Tax losses RMB'000	Others RMB'000	Total RMB'000
At 1 January 2004	4,052	4,542	8,594
Deferred tax (charged)/credited to the income statement during the year (note 10)	38	(3,406)	(3,368)
Gross deferred tax assets at 31 December 2004	4,090	1,136	5,226
Net deferred tax liabilities at 31 December 2004			4,708

30. DEFERRED TAX (Continued)

The Group has tax losses arising in Mainland China of RMB624,791,000 (2004: RMB591,000,000) that are available for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time. The unused tax losses will gradually expire from 2006 to 2010.

At 31 December 2005, there was no significant unrecognised deferred tax liability (2004: Nil).

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

Deferred tax liabilities

Company

	2005		
	Capitalisation of interest RMB'000	**Revaluation of properties RMB'000**	**Total RMB'000**
At 1 January 2005	**1,435**	**312**	**1,747**
Deferred tax credited to the income statement during the year	**(26)**	**(312)**	**(338)**
Gross deferred liabilities at 31 December 2005	**1,409**	**–**	**1,409**

Deferred tax assets

Company

	2005 Tax losses RMB'000
At 1 January 2005	**1,435**
Deferred tax charged to the income statement during the year	**(26)**
Gross deferred tax assets at 31 December 2005	**1,409**
Net deferred tax assets at 31 December 2005	**–**

30. DEFERRED TAX (Continued)

Deferred tax liabilities

Company

	2004		
	Capitalisation of interest RMB'000	Revaluation of properties RMB'000	Total RMB'000
At 1 January 2004	1,461	(64)	1,397
Deferred tax charged/(credited) to the income statement during the year	(26)	376	350
Gross deferred tax liabilities at 31 December 2004	1,435	312	1,747

Deferred tax assets

Company

	2004 Tax losses RMB'000
At 1 January 2004	1,397
Deferred tax credited to the income statement during the year	38
Gross deferred tax assets at 31 December 2004	1,435
Net deferred tax liabilities at 31 December 2004	312

31. OTHER LONG TERM PAYABLES

Other long term payables represent government grants which are unsecured, interest-free and have no fixed terms of repayment.

32. SHARE CAPITAL

Shares

	2005 RMB'000	2004 RMB'000
Authorised, issued and fully paid:		
743,870,000 state-owned legal person shares of RMB1.00 each	**743,870**	743,870
453,872,000 overseas listed foreign invested shares of RMB1.00 each	**453,872**	453,872
	1,197,742	1,197,742

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

33. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on pages 47 to 48 of the financial statements.

Certain amounts of goodwill arising on the acquisition of subsidiaries in prior years remain eliminated against the consolidated reserves, as explained in note 17 to the financial statements.

33. RESERVES (Continued)

(b) Company

	Note	Share premium account RMB'000	Retained profits RMB'000	Total RMB'000
Balance at 1 January 2004				
As previously reported		996,660	111,718	1,108,378
Net profit for the year		–	63,793	63,793
Proposed final 2004 dividend	12	–	(50,305)	(50,305)
At 31 December 2004		996,660	125,206	1,121,866
Net profit for the year		–	60,064	60,064
Proposed final 2005 dividend	12	–	(23,955)	(23,955)
At 31 December 2005		996,660	161,315	1,157,975

34. BUSINESS COMBINATION

On 1 January 2005, the Group acquired 66.17% and 68% equity interests in Changruan Lide and Changruan Huacheng, respectively from a fellow subsidiary of the Company. Changruan Lide is principally engaged in the manufacture of computer software and hardware products and Changruan Huacheng is principally engaged in the manufacture of internet related products. Further details of the transaction are included in note 40(b) to the financial statements. The purchase consideration for the acquisition was in the form of cash.

34. BUSINESS COMBINATION (Continued)

The fair values of the identifiable assets and liabilities of acquired subsidiaries as at the date of acquisition and the corresponding carrying amounts immediately before the acquisition were as follows:

	Notes	**Fair value recognised on acquisition RMB'000**
Property, plant and equipment	14	16,539
Intangible assets	18	788
Interests in associates		3,078
Cash and bank balances		14,724
Trade receivables		21,540
Prepayments and other receivables		20,486
Inventories		28,143
Trade all bill payables		(18,509)
Other payables and accruals		(10,299)
Tax payable		(527)
Long term loans		(6,423)
Minority interests		(22,817)
		46,723
Satisfied by cash		46,723

An analysis of the net outflow of cash and cash equivalents in respect of the acquisition of a subsidiary is as follows:

	RMB'000
Cash consideration	46,723
Cash and bank balances acquired	(14,724)
Net outflow of cash and cash equivalents in respect of the acquisition of the subsidiaries	31,999

Since its acquisition, Changruan Lide and Changruan Huacheng contributed RMB7,874,000 to the Group's turnover and a loss of RMB2,816,000 to the consolidated profit for the year ended 31 December 2005.

35. DISPOSAL OF A SUBSIDIARY

	Notes	2005 RMB'000	2004 RMB'000
Net assets disposed of:			
Property, plant and equipment	14	202	–
Cash and bank balances		2,626	–
Trade receivables		157	–
Inventories		2,912	–
Prepayments and other receivables		250	–
Trade payables		(1,000)	–
Other payables and accruals		(12)	–
Tax payable		25	–
Minority interests		(3,096)	–
		2,064	–
Goodwill	17	378	–
Less: loss on disposal of a subsidiary	6	705	–
		1,737	–
Satisfied by:			
Cash		994	–
Interests in associates		743	–
		1,737	–

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of a subsidiary is as follows:

	2005 RMB'000
Cash consideration	994
Cash and bank balances disposed of	(2,626)
Net inflow of cash and cash equivalents in respect of the disposal of a subsidiary	(1,632)

The results of the subsidiary disposed of in the year ended 31 December 2005 had no significant impact on the Group's consolidated turnover or profit after tax for the year.

36. CONTINGENT LIABILITIES

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

	Group		Company	
	2005	2004	**2005**	2004
	RMB'000	RMB'000	**RMB'000**	RMB'000
Guarantees given to banks in connection with facilities granted to:				
Subsidiaries	–	–	**96,842**	157,320
Associates	**642,000**	820,000	**642,000**	820,000
Third parties	**279,132**	304,820	–	–
	921,132	1,124,820	**738,842**	977,320

37. PLEDGE OF ASSETS

Details of the Group's bank loans which are secured by the assets of the Group, are included in notes 24 and 28, to the financial statements.

38. OPERATING LEASE ARRANGEMENTS

(a) As lessor

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

At 31 December 2005, the Group and the Company had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Group		Company	
	2005	2004	**2005**	2004
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within one year	**56,775**	33,409	**3,703**	10,053
In the second to fifth years, inclusive	**82,815**	75,293	**11,913**	16,109
After five years	**19,387**	37,613	**–**	–
	158,977	146,315	**15,616**	26,162

(b) As lessee

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

At 31 December 2005, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group		Company	
	2005	2004	**2005**	2004
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within one year	**7,659**	10,676	**–**	197
In the second to fifth years, inclusive	**10,099**	9,775	**–**	–
	17,758	20,451	**–**	197

39. COMMITMENTS

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

	Group		Company	
	2005	2004	**2005**	2004
	RMB'000	RMB'000	**RMB'000**	RMB'000
Contracted, but not provided for:				
Land and buildings	**16,101**	9,057	–	249
Plant and machinery	**9,764**	–	–	–
	25,865	9,057	–	249
Contracted, but not provided for:				
Capital contributions payable to associates	–	5,795	–	–
	25,865	14,852	–	249

40. RELATED PARTY TRANSACTIONS

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

		Group	
		2005	2004
	Notes	**RMB'000**	RMB'000
Ultimate holding company:			
Sales of products		–	30,324
License fees	(i)	**1,394**	1,160
Associates:			
Sale of products	(ii)	**3,352,494**	2,589,465
Rental income	(iii)	**36,986**	46,572
Royalty income	(iv)	**46,357**	47,105
Interest income	(v)	**15,964**	3,280
Processing fee income		**12,108**	3,422
Purchase of components and parts	(vi)	**626,473**	1,843
Fellow subsidiaries:			
Sale of products	(ii)	**16,332**	779
Purchases of components and parts	(vi)	**472,763**	1,876

Notes:

(i) The license fee paid to the ultimate holding company was based on a rate of 1.5% of the revenue from the products under the brand of "Great Wall".

(ii) The sales to the associates and the fellow subsidiaries were made accordingly to the published prices and conditions offered to the major customers of the Group.

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

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

(v) The interest income received from the associates was based on interest rates of 5.05% to 5.58% per annum on the loans to the associates.

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

40. RELATED PARTY TRANSACTIONS (Continued)

(b) Other transactions with related parties:

During the year, Great Wall Information Industry Co., Ltd. (formerly known as Hunan Computer Co., Ltd.) ("GWII"), a fellow subsidiary of the Company, acquired 29.6% equity interest in GWCSS by cash injection.

During the year, the Group acquired equity interests in Changruan Lide, Changruan Huacheng and Changsha Xiangji Huaxiang Computer Co., Ltd. ("Huaxiang") from GWII.

(c) Outstanding balances with related parties:

(i) As disclosed in the consolidated balance sheet, the Group had outstanding other payables to its ultimate holding company of RMB1,394,000 (2004: other receivables of RMB12,000), as at the balance sheet date. The other payables were unsecured, interest-free and have no fixed terms of repayment.

(ii) Details of the Group's loans to its associates as at the balance sheet date are included in note 20 to the financial statements.

(iii) As disclosed in the consolidated balance sheet, the Group had outstanding trade receivables from and trade payables to the associates of RMB297,251,000 (2004: RMB785,222,000) and RMB119,393,000 (2004: RMB111,988,000), respectively, as at the balance sheet date. They are repayable on similar credit term to those offered to the major customers of the Group and those offered by associates to their major customers.

(iv) As disclosed in the consolidated balance sheet, the Group had outstanding receivable and other payables to the fellow subsidiaries of RMB18,692,000 (2004: RMB12,591,000) and RMB580,000 (2004: Nil), respectively, as at the balance sheet date. The other payables are unsecured, interest-free and have no fixed terms of repayment.

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

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

Foreign currency risk

The Group has transactional currency exposures. Such exposures arise from sales or purchases by operating units in currencies other than the units' functional currency. Approximately 82% (2004: 80%) of the Group's sales are denominated in currencies other than the functional currency of the operating units making the sale, whilst almost 79% (2004: 75%) of costs are denominated in the unit's functional currency.

Credit risk

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

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral.

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of short and long term bank loans.

Cash flow interest rate risk

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

The Group's policy is to manage its interest cost using a mix of fixed and variable rate debts approximately 89.14% (2004: 86.91%) of the Group's interest-bearing borrowings bore interest at fixed rates.

42. POST BALANCE SHEET EVENTS

Proposed share reform of two subsidiaries

On 27 February 2006, the Board of the Company announced the revised share reform proposals of S. Kaifa ("S. Kaifa Proposal") and CGC ("CGC Proposal"), subsidiaries of the Company, which shares were listed on the Shenzhen Stock Exchange.

According to the CGC Proposal dated 21 February 2006, the Company proposes to offer 3.2 shares of CGC to each A Shareholder for every 10 A Shares held by such A Shareholder in exchange for such A Shareholder to agree that all unlisted shares of CGC be changed to listed A Shares. The Company will transfer a total of 58,003,200 shares, representing 12.65% of the total number of shares of CGC, to the CGC A Shareholders. The equity interest of CGC attributed to the Group would decrease from 60.47% to 47.82% after the proposed share reforms.

According to the S. Kaifa Proposal dated 21 February 2006, the Company and other shareholders who holding unlisted shares of S. Kaifa, propose to offer 3 shares of S. Kaifa to each A Shareholder for every 10 A Shares held by such A Shareholder. The Company will transfer a total of 47,076,057 shares, representing 6.42% of the total number of shares of S. Kaifa, to the S. Kaifa A Shareholders. The equity interest of S. Kaifa attributed to the Group would decrease from 55.96% to 49.54% after the proposed share reforms.

Shareholders' meeting of the Company was held on 15 April 2006, both of CGC Proposal and S. Kaifa Proposal were approved.

43. COMPARATIVE AMOUNTS

As further explained in notes 2.2 and 2.4 to the financial statements, due to the adoption of new and revised HKFRSs during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain prior year and opening balance adjustments have been made.

Certain comparative amounts have been reclassified and restated to conform with the current year's presentation and accounting treatment.

44. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 24 April 2006.