Notes to the Financial Statements

1 GENERAL INFORMATION AND GROUP REORGANISATION

Meadville Holdings Limited (the "Company") and its subsidiaries (together, the "Group") are principally engaged in the manufacturing and distribution of printed circuit boards and copper clad laminates (the "PCB and Laminate Business").

The Company was incorporated in the Cayman Islands on 28 August 2006 as an exempted company with limited liability under the Companies Law (2004 Revision) of the Cayman Islands. The address of its registered office is Clifton House, 75 Fort Street, P.O. Box 1350 GT, George Town, Grand Cayman, Cayman Islands.

Before completion of the Reorganisation (as defined below), the PCB and Laminate Business was carried out by Photomask (HK) Limited (formerly known as Meadville Technologies Group Limited) ("PHKL"), the former holding company, and all its subsidiaries except for Qingyi Precision Maskmaking (Shenzhen) Ltd. ("SQM"). SQM was engaged in the research, design and manufacturing of photomasks (the "Photomask Business").

For the preparation of the listing of shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the following reorganisation (the "Reorganisation") was carried out to transfer the PCB and Laminate Business and its related assets to the Company by way of the following steps:

- MTG Investment (BVI) Limited ("MTG (INV)") was incorporated in the British Virgin Islands on 23 August 2006 by Tang Hsiang Chien, a shareholder of MTG (INV). Pursuant to an agreement dated 30 December 2006 entered into between MTG (INV) and PHKL, MTG (INV) acquired the equity interests in the subsidiaries of PHKL engaged in the PCB and Laminate Business (including their holding companies) and certain assets and liabilities in relation to the PCB and Laminate Business of PHKL for a total consideration of approximately HK$1,219 million, which was satisfied partly by payment of cash of HK$700 million and partly by issue of 99,999 shares in MTG (INV). As a result of the transfer, PHKL ceased its operation in the PCB and Laminate Business and only conducted the Photomask Business thereafter.

- Pursuant to an agreement dated 30 December 2006, the Company acquired the entire issued capital of MTG (INV) through a share swap, and the Company became the holding company of the companies now comprising the Group. Details of the Company's interests in its subsidiaries and associated companies are set out in Note 16 and Note 15 respectively.

As a result of the above Reorganisation, all the PCB and Laminate Business was transferred to the Company and its subsidiaries now comprising the Group effective 30 December 2006. After the above Reorganisation, the PCB and Laminate Business was carried out by the Group.

1 GENERAL INFORMATION AND GROUP REORGANISATION (CONTINUED)

The Company's shares were listed on the Stock Exchange on 2 February 2007 ("the Listing").

No balance sheet of the Company as at 31 December 2005 is presented in these financial statements as the Company was not yet incorporated on that date.

These consolidated financial statements are presented in thousands of units of Hong Kong dollars, unless otherwise stated.

These consolidated financial statements have been approved for issue by the Board of Directors on 28 March 2007.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the presentation of these consolidated financial statements is set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

(a) Basis of preparation

The Reorganisation involved companies under common control, and the Group resulting from the Reorganisation is regarded as a continuing group. Accordingly, the Reorganisation has been accounted for on the basis of merger accounting, under which the consolidated financial statements have been prepared as if the Company had been the holding company of the subsidiaries comprising the Group throughout the year ended 31 December 2006, rather than from the date on which the Reorganisation was completed. The comparative figures as at 31 December 2005 and for the year ended 31 December 2005 have been presented on the same basis.

The consolidated financial statements of the Company have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"). The consolidated financial statements have been prepared under the historical cost convention.

The preparation of the consolidated financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 4 below.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Basis of preparation (Continued)

The following new standards, amendments to standards and interpretations have been issued but are not effective for 2006 and have not been early adopted:

HK(IFRIC)-Interpretation 7, "Applying the Restatement Approach under HKAS 29", effective for annual periods beginning on or after 1 March 2006. Management does not expect the interpretation to be relevant for the Group;

HK(IFRIC)-Interpretation 8, "Scope of HKFRS 2", effective for annual periods beginning on or after 1 May 2006. Management is currently assessing the impact of HK(IFRIC)-Interpretation 8 on the Group's operations;

HK(IFRIC)-Interpretation 9, "Reassessment of Embedded Derivatives", effective for annual periods beginning on or after 1 June 2006. Management believes that this interpretation should not have a significant impact on the reassessment of embedded derivatives as the Group already assessed if embedded derivative should be separated using principles consistent with HK(IFRIC)-Interpretation 9;

HK(IFRIC)-Interpretation 10, "Interim Financial Reporting and Impairment", effective for annual periods beginning on or after 1 November 2006. Management is currently assessing the impact of HK(IFRIC)-Interpretation 10 on the Group's operations;

HK(IFRIC)-Interpretation 11, "HKFRS 2 – Group and Treasury Shares Transactions", effective for annual periods beginning on or after 1 March 2007. Management is currently assessing the impact of HK(IFRIC)-Interpretation 11 on the Group's operations;

HK(IFRIC)-Interpretation 12, "Service Concessions Arrangements", effective for annual periods beginning on or after 1 January 2008. Management is currently assessing the impact of HK(IFRIC)-Interpretation 12 on the Group's operations;

HKFRS 7, "Financial Instruments: Disclosures", effective for annual periods beginning on or after 1 January 2007, HKAS 1, "Amendments to Capital Disclosure", effective for annual period beginning on or after 1 January 2007. The Group assessed the impact of HKFRS 7 and the amendment to HKAS 1 and concluded that the main additional disclosures will be the sensitivity analysis to market risk and capital disclosures required by the amendment of HKAS 1. The Group will apply HKFRS 7 and the amendment to HKAS 1 from annual periods beginning 1 January 2007; and

HKFRS 8, "Operating Segments", effective for annual periods beginning on or after 1 January 2009. Management is currently assessing the impact of HKFRS 8 on the Group's operations.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Basis of preparation (Continued)

The following standards, amendments and interpretations are mandatory for accounting periods beginning on or after 1 January 2006 but are not relevant to the Group's operations:

HKAS 21 Amendment	New Investment in a Foreign Operation;
HKAS 39 Amendment	Cash Flow Hedge Accounting of Forecast Intragroup Transactions;
HKAS 39 Amendment	The Fair Value Option;
HKFRS 6	Exploration for and Evaluation of Mineral Resources;
HKFRS 1 Amendment	First-time Adoption of International Financial Reporting Standards and HKFRS 6 (Amendment) Exploration for and Evaluation of Mineral Resources;
HK(IFRIC)-Int 4	Determining whether an Arrangement contains a Lease;
HK(IFRIC)-Int 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds; and
HK(IFRIC)-Int 6	Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment.

In preparing the consolidated financial statements of the Company , the directors have taken into account all information that could reasonably be expected to be available, including the estimated net proceeds from the listing of the Company on 2 February 2007 (Note 35(a)), and have ascertained that the Group has obtained adequate financial resources to support the Group to continue in operational existence for the foreseeable future. Under these circumstances, the directors consider that it is proper to prepare the financial statements on a going concern basis notwithstanding that at 31 December 2006, the Group's current liabilities exceeded its current assets by approximately HK$908,313,000.

(b) Subsidiaries

Subsidiaries are all entities over which the Group has power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Subsidiaries (Continued)

Apart from the acquisition of entities under common control which are accounted for by regarding the Company as being the holding company of the subsidiaries from the beginning of the earliest period presented, or since the date when the combining companies first came under control of the controlling party, where there is shorter period, the purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as 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. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the profit and loss account.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted by the Company on the basis of dividend received and receivable.

(c) Transactions with minority interests

The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group. Disposals to minority interests result in gains and losses for the Group that are recorded in the consolidated profit and loss account. Purchases from minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Associated companies

Associated companies are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associated companies are accounted for using the equity method of accounting and are initially recognised at cost. The Group's investment in associated companies includes goodwill identified on acquisition.

The Group's share of its associated companies' post-acquisition profits or losses is recognised in the consolidated profit and loss account, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associated company equals or exceeds its interest in the associated company, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associated company.

Unrealised gains on transactions between the Group and its associated companies are eliminated to the extent of the Group's interest in the associated companies. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associated companies have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet the investments in associated companies are stated at cost less provision for impairment losses. The results of associated companies are accounted for by the Company on the basis of dividend received and receivable.

(e) Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and return that are different from those of segments operating in other economic environments.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary and associated company at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associated companies is included in investments in associated companies. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold. Impairment losses on goodwill are not reversed.

Goodwill is allocated to cash-generating units ("CGUs") for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of CGUs that are expected to benefit from the business combination in which the goodwill arosed.

(g) Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are expensed in the profit and loss account during the financial period in which they are incurred.

Depreciation of property, plant and equipment is calculated, using the straight line method, to allocate cost to their residual values over their estimated useful lives, which are summarised as follows:

Buildings	22 – 25 years
Leasehold improvements	22 – 25 years
Furniture and equipment	5 – 6 years
Plant, machinery and equipment	10 – 12 years
Motor vehicles	5 – 6 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Property, plant and equipment (Continued)

Construction in progress represents buildings or leasehold improvements on which construction work has not been completed and plant, machinery and equipment pending installation. It is carried at cost which includes construction expenditures and other direct costs less any impairment losses. On completion, construction in progress is transferred to the appropriate categories of property, plant and equipment at cost less accumulated impairment losses. No depreciation is provided for construction in progress until they are completed and available for use.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are charged to the profit and loss account.

(h) Intangible assets

Technologies fee

The technologies fee is shown at historical cost. The technologies fee has a definite useful life and is carried at cost less accumulated amortisation. Amortisation is calculated using the straight line method to allocate the cost of technologies fee over its estimated useful life of 10 years.

(i) Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the profit and loss account.

(j) Impairment of investments in subsidiaries, associates and non-financial assets

Assets that have an indefinite useful life are not subject to amortisation, which are at least tested annually for impairment and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Stocks and work in progress

Stocks and work in progress are stated at the lower of cost and net realisable value. Cost, calculated on the weighted average basis, comprises materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. A write-down to net realisable value is a provision that can be subsequently reversed if the underlying facts and circumstances change.

(l) Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are expensed in the profit and loss account on a straight line basis over the period of the lease.

(m) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability, including fees and commissions paid to agents, advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the profit and loss account over the period of the borrowings using the effective interest method.

Borrowing costs incurred for the construction of any qualifying assets are capitalised during the period of time that is required to complete and prepare the assets for its intended use. Other borrowing costs are expensed.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least twelve months after the balance sheet date.

(n) Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, if the deferred taxation arises from initial recognition of an asset or liability in a transaction other than a business combination and at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred income tax is determined using tax rates that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(n) Deferred income tax (Continued)

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associated companies, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

(o) Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown in current liabilities on the balance sheet.

(p) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expenses.

(q) Employee benefits

Employee entitlements to annual and long service leaves are recognised when they accrue to employees. Provisions are made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the balance sheet date.

The Group pays contributions to separate trustee-administered funds on a mandatory basis. The Group has no further payment obligation once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due and are not reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contribution.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(q) Employee benefits (Continued)

Provisions for bonus plan due wholly within twelve months after balance sheet date are recognised where contractually obliged or where there is a past practice that has created a constructive obligation.

For shares granted to the employees, the fair value of the employee services received in exchange for the grant of the shares is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the shares granted. At each balance sheet date, the Group revises its estimates of the number of shares that are expected to vest. It recognises the impact of the revision of original estimates, if any, in the consolidated profit and loss account, with a corresponding adjustment to equity.

(r) Government grants

Grants from government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the consolidated profit and loss account over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to the purchase of property, plant and equipment are included in non-current liabilities as deferred government grants and are credited to the consolidated profit and loss account on a straight line basis over the expected lives of the related assets.

(s) Revenue recognition

Sales of goods are recognised when a Group entity has delivered products to the customer, the customer has accepted the products and collectibility of related receivables is reasonably assured.

(t) Other income

Interest income is recognised on a time proportion basis, using the effective interest method.

(u) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Hong Kong dollars. The Company's functional currency is Hong Kong dollars.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(u) Foreign currency translation (Continued)

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss account.

(iii) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(ii) income and expenses for each profit and loss account are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(iii) all resulting exchange differences are recognised as a separate component of equity.

On combination, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to owners' equity. When a foreign operation is sold, such exchange differences are recognised in the consolidated profit and loss account as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

(v) Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's accounts in the period in which the dividends are approved by the Company's shareholders.

3 FINANCIAL RISK MANAGEMENT

(a) Financial risk factors

The Group's activities expose it to a variety of financial risks: foreign exchange risk, credit risk, liquidity risk and cash flow interest-rate risk.

(i) Foreign exchange risk

The Group operates principally in Hong Kong and in the People's Republic of China (the "PRC") and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar and Renminbi. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations. The Group attempts to minimise its foreign exchange risk exposure through payment of operating costs and maintenance of borrowings at a balanced mix of major currencies.

In addition, the conversion of Renminbi into foreign currencies is subject to the rules and regulations of the foreign exchange controls promulgated by the PRC government.

(ii) Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. In order to minimise the credit risk, the management of the Group has delegated a credit control team be responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The credit risk for bank deposits and bank balances exposed is considered minimal as such amounts are placed with banks with good credit ratings.

(iii) Concentration risk

During the year ended 31 December 2006, the Group's sales to top 5 customers accounted for approximately 33.2% (2005: 42.2%) of the total revenue. The Group aims to maintain long-term relationship with reputable customers in the expansion of its business.

(iv) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, the Group aims to maintain flexibility in funding by keeping committed credit lines available.

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Financial risk factors (Continued)

(v) Cash flow and fair value interest rate risk

The Group's interest rate risk arises from borrowings. Borrowings issued at variable rates expose the Group to cash flow interest-rate risk. Other than borrowings, the Group has no significant interest-bearing assets and liabilities. Accordingly, the Group's income and operating cash flows, other than finance costs, are substantially independent of changes in market interest rates.

(b) Fair value estimation

The nominal value less estimated credit adjustments of receivables and payables, except for long-term bank loans, are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Useful lives of property, plant and equipment

The Group's management determines the estimated useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles. Management will increase the depreciation charge where useful lives are less than previously estimated lives, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

(b) Provision for impairment of trade and other receivables

The Group makes provision for impairment of trade and other receivables based on an assessment of the recoverability of these receivables. Provisions are applied to trade and other receivables where events or changes in circumstances indicate that the balances may not be collectible. The identification of impairment of trade and other receivables requires the use of judgement and estimates. Where the expectation is different from the original estimate, such difference will impact carrying value of receivables and provision for impairment losses in the period in which such estimate has been changed.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

(c) Net realisable values of stocks and work in progress

Stocks and work in progress are carried at the lower of cost and net realisable value. The cost of stocks and work in progress is written down to net realisable value when there is an objective evidence that the cost of stocks and work in progress may not be recoverable. The cost of stocks and work in progress may not be recoverable if those stocks and work in progress are damaged, if they have become wholly or partially obsolete, or if their selling prices have declined. The cost of stocks and work in progress may also not be recoverable if the estimated costs to be incurred to make the sale have increased. The amount written off to the profit and loss account is the difference between the carrying value and net realisable value of the stocks and work in progress. In determining whether the cost of stocks and work in progress can be recoverable, significant judgement is required. In making this judgement, the Group evaluates, among other factors, the duration and extent by all means to which the amount will be recovered.

5 SEGMENT INFORMATION

(a) Analysis of sales by category

Sales for the years ended 31 December 2005 and 2006 represent principally sales of Printed Circuits Board ("PCB") and Copper Clad Laminates ("Laminates").

(b) Primary reporting format – business segments

The Group is organised into two main business segments: (i) Manufacturing and distribution of Printed Circuits Board ("PCB") including provision of circuit design, QTA services and drilling and routing services; (ii) Manufacturing and distribution of Copper Clad Laminates and Prepreg ("Laminates").

Segment assets consist primarily of property, plant and equipment, leasehold land and land use rights, intangible assets, inventories, receivables and operating cash. They exclude items such as deferred income taxation, taxation recoverable and amounts due from related parties.

Segment liabilities comprise operating liabilities. They exclude items such as taxation payable and amounts due to related parties.

Capital expenditure comprises mainly additions to property, plant and equipment, leasehold land and land use rights and intangible assets as set out in Notes 13, 14 and 18, respectively.

Unallocated assets and liabilities represent assets and liabilities not dedicated to a particular segment, consist primarily of taxation and amounts due from/to related parties.

Inter-segment sales were conducted with terms mutually agreed among group companies.

5 SEGMENT INFORMATION (CONTINUED)

The segment results for the years are as follows:

	2006 HK$'000	2005 HK$'000
Turnover		
PCB	**2,838,773**	2,015,333
Inter-segment turnover	**–**	–
Subtotal for PCB	**2,838,773**	2,015,333
Laminates	**512,466**	424,060
Inter-segment turnover	**(210,841)**	(222,479)
Subtotal for Laminates	**301,625**	201,581
Total turnover	**3,140,398**	2,216,914
Segment results		
PCB	**412,303**	218,646
Laminates	**57,864**	35,662
Loss on share reform of an associated company	**(52,237)**	–
Interest income	**6,034**	5,599
Share of net profit of associated companies	**97,849**	55,226
Finance costs	**(88,171)**	(56,914)
Income tax expense	**(48,718)**	(18,344)
Profit for the year	**384,924**	239,875
Segment assets		
PCB	**3,553,250**	2,752,597
Laminates	**440,968**	298,670
Associated companies	**441,409**	389,947
Unallocated assets	**2,220**	36,156
Total assets	**4,437,847**	3,477,370
Segment liabilities		
PCB	**2,285,096**	1,735,292
Laminates	**353,600**	284,998
Associated companies	**120,742**	143,952
Unallocated liabilities	**740,682**	33,863
Total liabilities	**3,500,120**	2,198,105
Capital expenditure		
PCB	**665,753**	379,839
Laminates	**19,494**	148,489
Total capital expenditure	**685,247**	528,328

5 SEGMENT INFORMATION (CONTINUED)

Other segment items included in the consolidated profit and loss account are as follows:

	2006 HK$'000	2005 HK$'000
Depreciation		
PCB	**200,264**	158,165
Laminates	**8,506**	1,360
Total depreciation	**208,770**	159,525
Amortisation of leasehold land and land use rights		
PCB	**1,876**	1,388
Laminates	**596**	421
Total amortisation	**2,472**	1,809
Provision for bad and doubtful debts		
PCB	**15,818**	14,370
Laminates	**192**	–
Total provision for bad and doubtful debts	**16,010**	14,370
Provision for stocks and work in progress		
PCB	**12,264**	9,096
Laminates	**(81)**	(800)
Total provision for stocks and work in progress	**12,183**	8,296
Amortisation of intangible assets		
PCB	**1,170**	1,170
Laminates	**–**	–
Total amortisation of intangible assets	**1,170**	1,170

5 SEGMENT INFORMATION (CONTINUED)

(c) Secondary reporting format – geographical segments

The Group primarily operates in Hong Kong and the PRC. Sales are made to overseas customers as well as customers in Hong Kong and the PRC.

The Group's turnover by geographical location is determined by the final destination to where the products are delivered:

	2006 HK$'000	2005 HK$'000
PRC	**1,959,283**	1,384,950
Hong Kong	**186,272**	167,867
North Asia	**447,602**	276,647
North America	**182,759**	180,695
Europe	**224,517**	92,452
Southeast Asia	**139,965**	114,303
Total turnover	**3,140,398**	2,216,914

The Group's assets are located in following geographical areas:

	2006 HK$'000	2005 HK$'000
Hong Kong	**1,036,940**	762,499
PRC	**2,957,278**	2,288,768
Associated companies	**441,409**	389,947
Unallocated assets	**2,220**	36,156
Total assets	**4,437,847**	3,477,370

The Group's capital expenditure, based on where the assets are located, is allocated as follows:

	2006 HK$'000	2005 HK$'000
Hong Kong	**54,387**	168,009
PRC	**630,860**	360,319
Total capital expenditure	**685,247**	528,328

6 OTHER INCOME

	2006 HK$'000	2005 HK$'000
Sales of scrap	**64,805**	27,780
Investment tax credits	**16,317**	15,056
Tooling charges	**10,146**	6,297
Sundries	**4,441**	2,072
Sales of raw materials	**328**	359
Income on acquisition of additional equity interest of a subsidiary (Note 33(a))	**1,108**	–
	97,145	51,564

Investment tax credits represent incentives receivable as a result of the re-investment of the dividend income from subsidiaries in the PRC.

7 EMPLOYEE BENEFIT EXPENSES (INCLUDING DIRECTORS' EMOLUMENTS)

	2006 HK$'000	2005 HK$'000
Wages and salaries	**400,923**	343,882
Retirement benefit costs	**18,146**	16,805
	419,069	360,687

The Group participates in employee social security plans, including pension, medical and other welfare benefits organised by the municipal government in the PRC in accordance with relevant regulations. Contributions are calculated based on certain percentages of the total salary costs of employees, subject to certain ceilings. The assets of the plans are held separately by the municipal government, which is responsible for the entire pension obligations payable to the retired employees. The Group has no other obligations except for making these specific contributions to the plans.

The Group also operates a defined contribution scheme in accordance with the requirements of the Mandatory Provident Fund Ordinance for all eligible employees in Hong Kong. Contributions to the scheme are calculated based on certain percentage of the applicable salary costs or pre-determined fixed sums. The assets of the scheme are held under independent trust funds.

7 EMPLOYEE BENEFIT EXPENSES (INCLUDING DIRECTORS' EMOLUMENTS) (CONTINUED)

(a) Directors' emoluments

	2006	2005
	HK$'000	HK$'000
Fees	**145**	300
Other emoluments	**13,412**	12,008
	13,557	12,308

The remuneration of every director of the Company for the year ended 31 December 2005 is set out below:

Name of director	Fees	Salary	Discretionary bonuses	Other benefits	Employer's contribution to pension scheme	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Tang Hsiang Chien	100	–	8,827	–	–	8,927
Tang Chung Yen, Tom	100	1,390	–	975	60	2,525
Tang Ying Ming, Mai	100	720	–	–	36	856
Chung Tai Keung, Canice	–	–	–	–	–	–
Leung Kwan Yuen, Andrew	–	–	–	–	–	–
Lee, Eugene	–	–	–	–	–	–
Li Ka Cheung, Eric	–	–	–	–	–	–
	300	2,110	8,827	975	96	12,308

7 EMPLOYEE BENEFIT EXPENSES (INCLUDING DIRECTORS' EMOLUMENTS) (CONTINUED)

(a) Directors' emoluments

The remuneration of every director of the Company for the year ended 31 December 2006 is set out below:

Name of director	Fees HK$'000	Salary HK$'000	Discretionary bonuses HK$'000	Other benefits HK$'000	Employer's contribution to pension scheme HK$'000	Total HK$'000
Tang Hsiang Chien	73	–	–	–	–	73
Tang Chung Yen, Tom	36	3,491	1,046	1,042	148	5,763
Tang Ying Ming, Mai	36	3,327	–	–	143	3,506
Chung Tai Keung, Canice	–	2,897	–	1,209	109	4,215
Leung Kwan Yuen, Andrew	–	–	–	–	–	–
Lee, Eugene	–	–	–	–	–	–
Li Ka Cheung, Eric	–	–	–	–	–	–
	145	9,715	1,046	2,251	400	13,557

No directors waived or agreed to waive any emoluments during the years ended 31 December 2005 and 2006. No incentive payment for joining the Group or compensation for loss of office was paid or payable to any directors during the years ended 31 December 2005 and 2006.

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group include three (2005: two) directors for the year ended 31 December 2006, whose emoluments are reflected in the analysis presented above. The emoluments paid or payable to the remaining two (2005: three) individuals for the year ended 31 December 2006 are as follows:

	2006 HK$'000	2005 HK$'000
Basic salaries, housing allowances, share options, other allowances and benefits in kind	4,432	5,059
Retirement benefit-defined contribution scheme	65	128
	4,497	5,187

7 EMPLOYEE BENEFIT EXPENSES (INCLUDING DIRECTORS' EMOLUMENTS) (CONTINUED)

(b) Five highest paid individuals (Continued)

The emoluments paid or payable to the remaining two (2005: three) individuals for the year ended 31 December 2006 fell within the following bands:

	No. of individuals 2006	2005
Emolument bands		
Under HK$1,000,000	**–**	–
HK$1,000,001-HK$1,500,000	**–**	–
HK$1,500,001-HK$2,000,000	**1**	3
HK$2,000,001-HK$2,500,000	**–**	–
HK$2,500,001-HK$3,000,000	**–**	–
HK$3,000,001-HK$3,500,000	**1**	–
	2	3

8 OPERATING PROFIT

	2006 HK$'000	2005 HK$'000
Gain on deemed disposal of interest in a subsidiary (Note)	**–**	(11,042)
Loss on deemed disposal of interest in a subsidiary	**–**	717
Raw material and consumables used	**1,568,490**	1,049,687
Employee benefit expenses	**419,069**	360,687
Amortisation of intangible assets	**1,170**	1,170
Amortisation of leasehold land and land use rights	**2,472**	1,809
Depreciation of property, plant and equipment	**208,770**	159,525
(Gain)/loss on disposal of property, plant and equipment	**(684)**	4,436
Provision for bad and doubtful debts	**16,010**	14,370
Provision for stocks and work in progress	**12,183**	8,296
Sales commission	**12,367**	10,866
Management fee expense to a related company	**5,000**	5,100
Auditors' remuneration	**2,887**	2,001
Operating lease rental expense		
– Land and buildings	**3,365**	2,480
Others	**516,277**	404,068
Total cost of sales, other gain, selling and distribution and general and administrative expenses	**2,767,376**	2,014,170

Note: The gain on deemed disposal arises from the deemed disposal of 6.29% equity interest in a subsidiary, Mica-Ava (Far East) Industrial Limited to Hitachi Chemical Co., Ltd. in January 2005.

9 FINANCE COSTS

	2006 HK$'000	2005 HK$'000
Interest expenses on bank loans, overdrafts and other short-term loans wholly repayable within five years	**88,171**	57,139
Less: amount capitalised in construction in progress	**–**	(225)
	88,171	56,914

10 INCOME TAX EXPENSE

The amounts of taxation charged to the consolidated profit and loss account represent:

	2006 HK$'000	2005 HK$'000
Company and subsidiaries		
Current income tax		
– Hong Kong profits tax	**3,151**	(47)
– Overseas taxation	**44,875**	13,676
Deferred income tax (Note 27)	**692**	4,715
	48,718	18,344

Taxation has been provided at the appropriate tax rates prevailing in the countries in which the Group operates. Hong Kong profits tax has been provided at the rate of 17.5% (2005: 17.5%) on the estimated assessable profit for the year ended 31 December 2006. The rates applicable for income tax in the PRC is 33% (2005: 33%) for the year ended 31 December 2006.

A subsidiary, Dongguan Shengyi Electronics Ltd., is entitled to a relief of income tax in the PRC for a period of three years from 2003 to 2005. On 1 June 2005, it was approved as a High and New Technology Enterprise by Science and Technology Department of Guangdong Province and accordingly, it is entitled to a relief of income tax in the PRC for an extended period of two years from 2006 to 2007. Income tax has been provided at the effective rate of 18% for the year ended 31 December 2006 and 10% for the year ended 31 December 2005.

10 INCOME TAX EXPENSE (CONTINUED)

In accordance with the relevant applicable tax regulations, Shanghai Meadville Electronics Co., Ltd. and Shanghai Kaiser Electronics Co., Ltd. established in the PRC as wholly-owned foreign enterprises were entitled to full exemption from national enterprise income tax for the first two years and 50% reduction in national enterprise income tax for the next three years, commencing from first profitable years, which are 2004 and 2005 respectively, after offsetting all unexpired tax losses carried forward from previous years.

Taxation on overseas (mainly United States and Singapore) profits has been calculated on the estimated assessable profit for the year at the applicable rates of taxation prevailing in the countries in which the Group operates.

There is a new PRC corporate income tax law released on 16 March 2007. Under the new regime, there will be a uniform Enterprise Income Tax of 25% to all domestic and foreign enterprises in the PRC effective 1 January 2008. Entities currently enjoying preferential tax rates will be transitioned to the new regime over a period of five years. Management will assess the impact of the new regime when further interpretations of the new regime are available.

The taxation of the Group's profit before income tax differs from the theoretical amount that would arise using the applicable tax rate, being the weighted average of tax rates prevailing in the territories in which the Group operates, as follows:

	2006 **HK$'000**	2005 HK$'000
Profit before income tax and share of net profit of associated companies	**335,793**	202,993
Tax calculated at applicable tax rate	**116,031**	58,664
Effect of relief on income tax	**(87,477)**	(53,244)
Expenses not deductible for taxation purpose	**42,400**	6,573
Income not subject to taxation	**(27,863)**	(12,636)
Tax losses for which no deferred income tax recognised	**5,627**	18,987
Income tax expense	**48,718**	18,344

The weighted average domestic applicable tax rates were:

	2006	2005
Weighted average domestic applicable tax rates	**34.6%**	28.9%

The change in weighted average domestic applicable tax rates above is mainly caused by a change in mix of profit earned in different tax jurisdictions and changes in respective tax rates as mentioned above.

11 EARNINGS PER SHARE

(a) Basic

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year. In determining the weighted average number of ordinary shares in issue, a total of 1,500,000,000 ordinary shares were deemed to be in issue since 1 January 2005 as detailed in Note 2(a).

	2006	2005
Profit attributable to equity holders of the Company (HK$'000)	**320,017**	210,822
Weighted average number of ordinary shares in issue (shares in thousands)	**1,500,000**	1,500,000
Basic earnings per share (HK$ per share)	**0.21**	0.14

(b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares.

During the years ended 31 December 2005 and 2006, there were no potential dilutive ordinary shares outstanding.

12 DIVIDENDS

No dividend had been paid or declared by the Company since its incorporation. The dividend declared represented dividends declared by the companies comprising the Group to the then shareholders prior to the Reorganisation. The rates of dividend and the number of shares ranking for dividends are not presented as such information is not meaningful having regard to the purpose of this report.

13 PROPERTY, PLANT AND EQUIPMENT – GROUP

	Buildings	Leasehold improve-ments	Furniture and equipment	Plant, machinery and equipment	Motor vehicles	Construction in progress	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Year ended 31 December 2005							
Opening net book amount	331,613	18,180	20,205	672,653	6,289	126,147	1,175,087
Exchange differences	7,143	–	339	13,639	101	2,923	24,145
Additions	22,321	770	24,905	157,953	1,632	294,659	502,240
Disposals	(25)	(2,330)	(10)	(3,610)	(6)	–	(5,981)
Depreciation	(21,616)	(1,933)	(8,481)	(125,253)	(2,242)	–	(159,525)
Reclassification	65,394	(4,144)	4,444	163,501	–	(229,195)	–
Closing net book amount	404,830	10,543	41,402	878,883	5,774	194,534	1,535,966
At 31 December 2005							
Cost	496,435	18,780	82,511	1,558,211	17,549	194,534	2,368,020
Accumulated depreciation	(91,605)	(8,237)	(41,109)	(679,328)	(11,775)	–	(832,054)
Net book amount	404,830	10,543	41,402	878,883	5,774	194,534	1,535,966
Year ended 31 December 2006							
Opening net book amount	404,830	10,543	41,402	878,883	5,774	194,534	1,535,966
Exchange differences	13,056	–	1,064	38,849	179	3,269	56,417
Additions	9,447	560	16,378	221,779	4,549	401,729	654,442
Disposals	(823)	(1,913)	(226)	(3,809)	(25)	(2)	(6,798)
Distribution to equity holders	(391)	–	–	–	(66)	–	(457)
Depreciation	(26,842)	(1,490)	(12,176)	(165,820)	(2,442)	–	(208,770)
Reclassification	46,985	42	8,131	431,402	–	(486,560)	–
Closing net book amount	446,262	7,742	54,573	1,401,284	7,969	112,970	2,030,800
At 31 December 2006							
Cost	566,448	13,857	103,917	2,203,193	20,416	112,970	3,020,801
Accumulated depreciation	(120,186)	(6,115)	(49,344)	(801,909)	(12,447)	–	(990,001)
Net book amount	446,262	7,742	54,573	1,401,284	7,969	112,970	2,030,800

Depreciation expense of HK$192,229,000 (2005: HK$150,819,000) has been charged in cost of sales, HK$3,490,000 (2005: HK$392,000) in selling and distribution expenses and HK$13,051,000 (2005: HK$8,314,000) in general and administrative expenses.

For the purpose of the listing of the Company's shares on the Stock Exchange, the properties of the Group were revalued as at 30 November 2006 by B.I. Appraisals Limited, an independent firm of valuers. The valuation gave rise to a revaluation surplus of approximately HK$14,747,000 from the carrying amount of the property interests at that date. However the revaluation surplus was not incorporated in the consolidated financial statements for the year ended 31 December 2006 as the Group accounts for its property interests at cost. Had such revaluation surplus been recognised in the consolidated financial statements for the year ended 31 December 2006, additional depreciation and amortisation charges of approximately HK$4,071,000 per annum and HK$5,000 respectively would be incurred.

14 LEASEHOLD LAND AND LAND USE RIGHTS – GROUP

The Group's interest in leasehold land and land use rights represents prepaid operating lease payments and their net book values are analysed as follows:

	2006 HK$'000	2005 HK$'000
Opening net book amount	**83,654**	58,352
Additions	**30,805**	25,886
Amortisation	**(2,472)**	(1,809)
Exchange differences	**2,562**	1,225
Closing net book amount	**114,549**	83,654

	2006 HK$'000	2005 HK$'000
In Hong Kong held on:		
Leases of leasehold land between 10 to 50 years	**29,388**	30,107
In the PRC held on:		
Leases of land use rights between 10 to 50 years	**85,161**	53,547
	114,549	83,654

In regards with the leasehold land and land use rights owned and occupied by the Group, the Group holds all of the relevant certificates of state-owned land use right except for a piece of land in the PRC for which the net book value as at 31 December 2006 amounted to approximately HK$9,177,000 (2005: HK$6,552,000).

15 INVESTMENTS IN ASSOCIATED COMPANIES – GROUP

	2006 HK$'000	2005 HK$'000
Share of net assets	**440,782**	389,342
Goodwill	**627**	605
	441,409	389,947

15 INVESTMENTS IN ASSOCIATED COMPANIES – GROUP (CONTINUED)

The movement of share of net assets and goodwill of associated companies is as follows:

	2006 **HK$'000**	2005 HK$'000
Beginning of the year	**389,947**	341,604
Exchange differences	**13,657**	8,890
Additional investments in associated companies	**33,305**	14,420
Loss on share reform of an associated company (Note)	**(52,237)**	–
Share of associated companies' results		
– net profit after taxation	**97,849**	55,226
– dividend received	**(41,112)**	(30,193)
End of the year	**441,409**	389,947

The aggregate amounts of each of current assets, non-current assets, current liabilities, non-current liabilities, income and expenses related to the Group's investments in associated companies are as follows:

	2006 **HK$'000**	2005 HK$'000
Assets		
Non-current assets	**365,549**	372,994
Current assets	**537,867**	475,903
	903,416	848,897
Liabilities		
Non-current liabilities	**84,094**	45,454
Current liabilities	**378,540**	414,101
	462,634	459,555
Net assets	**440,782**	389,342
Share of net assets of:		
A listed associated company	**355,901**	340,901
An unlisted associated company	**84,881**	48,441
	440,782	389,342
Income	**917,130**	708,007
Expenses	**(819,281)**	(652,781)
Profit after income tax	**97,849**	55,226

15 INVESTMENTS IN ASSOCIATED COMPANIES – GROUP (CONTINUED)

The Group's interests in its principal associated companies are as follows:

Name	Country of incorporation	Principal activities	Percentage of equity held
Guangdong Shengyi Sci. Tech Co., Ltd. ("GSST")	PRC	Manufacturing of copper clad laminates	22.18
Suzhou Shengyi Sci. Tech Co., Ltd. ("SSST")[1]	PRC	Manufacturing of copper clad laminates	41.64

[1] Indirect associated company

Note: GSST is listed on the Shanghai Stock Exchange. The Group's shares in GSST carrying at cost as at 31 December 2005 of HK$70.1 million were promoter shares, which were restricted and could not be freely traded on the public market. On 19 January 2006, GSST approved to convert all restricted shares to unrestricted shares by paying 3.3 shares to the shareholders of every 10 unrestricted shares (the "Share Reform"). Accordingly, the number of shares and percentage of equity held by the Group decreased from 165,305,000 shares to 141,525,000 and from 25.91% to 22.18% respectively and such shares become gradually tradable effective from 9 March 2007. Pursuant to this Share Reform, the Group's share of net asset value in GSST has decreased by an amount of HK$52,237,000 and was charged to the profit and loss account for the year.

Based on the market price of the unrestricted shares of GSST, the market value of the Group's shares as of 31 December 2006 was approximately as follows:

	2006 **HK$'000**	2005 HK$'000
Market value of the listed equity securities	**1,736,981**	1,131,423

16 INVESTMENTS IN SUBSIDIARIES – COMPANY

	2006 HK$'000
Unlisted investment, at cost	**777,000**

The following is a list of all the subsidiaries as at 31 December 2006:

Name	Place of incorporation/ establishment	Principal activities and place of operation	Issued and fully paid up share capital/ registered capital	Percentage of beneficial interest attributable to the Group
AVA International Limited	Hong Kong	Investment holding/ Hong Kong	HK$2,000,000	100.00
Circuit Net Technology Limited	BVI	Investment holding/ Hong Kong	US$1,285	100.00
Dongguan Meadville Circuits Limited[2]	PRC	Manufacturing of printed circuit boards/PRC	US$41,600,000	80.00
Dongguan Shengyi Electronics Ltd.[2]	PRC	Manufacturing of printed circuit boards/PRC	US$26,080,000	70.20
Guangzhou Meadville Electronics Co., Ltd.[3]	PRC	Manufacturing of printed circuit boards/PRC	US$30,000,000	100.00
OPC Manufacturing Limited (formerly known as Mass Lam International Limited)	Hong Kong	Manufacturing of printed circuit boards/ Hong Kong	HK$8,000,000	100.00
Meadville Innovations (Shanghai) Co., Ltd.[3]	PRC	Provision of printed circuit board design services/PRC	US$1,000,000	100.00
Meadville International Trading (Shanghai) Co., Ltd.[3]	PRC	Trading of printed circuit boards and liaison office/PRC	US$500,000	100.00
Meadville Enterprises (HK) Limited	Hong Kong	Administration and treasury/Hong Kong	HK$1	100.00

16 INVESTMENTS IN SUBSIDIARIES – COMPANY (CONTINUED)

Name	Place of incorporation/ establishment	Principal activities and place of operation	Issued and fully paid up share capital/ registered capital	Percentage of beneficial interest attributable to the Group
Mica-Ava (No.3) Limited	BVI	Investment holding/ Hong Kong	US$1	100.00
Mica-Ava China Limited	Hong Kong	Investment holding/ Hong Kong	HK$78,000	100.00
Mica-AVA (Guangzhou) Material Company Ltd.[3]	PRC	Manufacturing of copper clad laminates/PRC	US$30,000,000	100.00
Mica-Ava (Far East) Industrial Limited	Hong Kong	Manufacturing of copper clad laminates/ Hong Kong	HK$13,088	93.71
MTG Investment (BVI) Limited[1]	BVI	Investment holding/ Hong Kong	US$1	100.00
MTG Laminate (BVI) Limited	BVI	Investment holding/ Hong Kong	US$1	100.00
MTG Management (BVI) Limited	BVI	Investment holding/ Hong Kong	US$1	100.00
MTG PCB (BVI) Limited	BVI	Investment holding/ Hong Kong	US$1	100.00
Oriental Printed Circuits, Inc.	United States of America	Dormant/United States of America	US$300,000	100.00
Oriental Printed Circuits (USA), Inc.	United States of America	Sales liaison office/ United States of America	US$100,000	100.00
Oriental Printed Circuits Limited	Hong Kong	Sales and distribution of printed circuit boards/ Hong Kong	HK$50,000,000	100.00

16 INVESTMENTS IN SUBSIDIARIES – COMPANY (CONTINUED)

Name	Place of incorporation/ establishment	Principal activities and place of operation	Issued and fully paid up share capital/ registered capital	Percentage of beneficial interest attributable to the Group
Shanghai Kaiser Electronics Co., Ltd.[3]	PRC	Provision of printed circuit boards drilling service/PRC	US$11,000,000	100.00
Shanghai Meadville Electronics Co., Ltd.[3]	PRC	Manufacturing of printed circuit boards/PRC	US$44,500,000	100.00
Shanghai Meadville Science & Technology Co., Ltd.[3]	PRC	Research and development of high-end multi-layer printed circuit boards/PRC	US$18,000,000	100.00
State Link Trading Limited	BVI	Importer of printed circuit boards/United States of America	US$1	100.00

[1] Direct subsidiary

[2] Equity joint venture enterprise

[3] Wholly-owned foreign enterprise

No change in the percentage of beneficial interest of the above principal subsidiaries attributable to the Group during the year ended 31 December 2006, except for the following subsidiaries:

	2006	2005
	%	%
Oriental Printed Circuits (Singapore) Pte Limited	**Liquidated**	100.00
Shanghai Kaiser Electronics Co., Ltd.	**100.00**	90.00
Dongguan Shengyi Electronics Ltd.	**70.20**	70.00

17 GOODWILL – GROUP

Goodwill arising from PCB segment:

	2006	2005
	HK$'000	HK$'000
Opening net book amount	**14,055**	11,181
Exchange differences	**477**	251
Acquisition of additional interest in a subsidiary	**–**	2,623
Impairment of goodwill	**(55)**	–
Closing net book amount	**14,477**	14,055
End of the year		
Cost	**34,201**	33,779
Accumulated amortisation	**(19,724)**	(19,724)
	14,477	14,055

Impairment test for goodwill

Goodwill is allocated to the Group's cash generating units (CGUs) identified according to the country of operation. The allocation by country of operation is presented below:

	2006	2005
	HK$'000	HK$'000
Hong Kong	**–**	55
PRC	**14,477**	14,000
	14,477	14,055

For the purposes of impairment reviews, the recoverable amount of goodwill is determined based on value-in-use calculations. The value-in-use calculations use cash flow projections based on the extrapolation of the latest unaudited financial results of each cash-generating unit to a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated below. There are a number of assumptions and estimates involved for the preparation of cash flow projections for the year.

Key assumptions used for value-in-use calculations for goodwill for each of the years ended 31 December 2007, 2008, 2009, 2010 and 2011 are gross margin, growth rate and discount rate of 21%, 16.75% and 10% respectively.

17 GOODWILL – GROUP (CONTINUED)

These assumptions have been used for the analysis of each cash-generating unit within the business segment. The directors prepared the financial budgets reflecting actual and prior year performance and market development expectations. The growth rates used are consistent with the industry growth estimates. The directors estimate discount rate using pre-tax rates that reflect market assessments of the time value of money of the Group for the year ended 31 December 2006. Judgement is required to determine key assumptions adopted in the cash flow projections and changes to key assumptions can significantly affect these cash flow projections.

18 INTANGIBLE ASSETS – GROUP

	Technologies fee	**Others**	**Total**
	HK$'000	HK$'000	HK$'000
Year ended 31 December 2005			
Opening net book amount	9,945	277	10,222
Additions	–	202	202
Amortisation	(1,170)	–	(1,170)
Closing net book amount	8,775	479	9,254
At 31 December 2005			
Cost	11,700	800	12,500
Accumulated amortisation	(2,925)	(321)	(3,246)
Net book amount	8,775	479	9,254
Year ended 31 December 2006			
Opening net book amount	8,775	479	9,254
Amortisation	(1,170)	–	(1,170)
Closing net book amount	7,605	479	8,084
At 31 December 2006			
Cost	11,700	800	12,500
Accumulated amortisation	(4,095)	(321)	(4,416)
Net book amount	7,605	479	8,084

19 STOCKS AND WORK IN PROGRESS – GROUP

	2006 HK$'000	2005 HK$'000
Raw materials	**136,733**	83,155
Work in progress	**93,488**	68,045
Finished goods	**139,644**	105,275
Consumable stocks	**3,594**	2,713
	373,459	259,188

The cost of inventories recognised as expenses and included in cost of goods sold is as follows:

	2006 HK$'000	2005 HK$'000
Cost of inventories	**2,486,560**	1,792,641

20 DEBTORS AND PREPAYMENTS – GROUP

	Group		Company
	2006 **HK$'000**	2005 HK$'000	**2006** **HK$'000**
Debtors	**1,124,995**	910,034	**–**
Prepayments and other receivables	**116,704**	64,850	**7,532**
	1,241,699	974,884	**7,532**

The carrying amounts of debtors and prepayments approximate their fair values.

20 DEBTORS AND PREPAYMENTS – GROUP (CONTINUED)

During the year, the Group normally granted credit terms of 60-90 days. The ageing analysis of the debtors, based on the invoice date and net of provision, is as follows:

	Group	
	2006	2005
	HK$'000	HK$'000
Within credit period	**827,403**	614,164
0-30 days	**171,962**	152,198
31-60 days	**61,396**	69,345
61-90 days	**26,449**	34,766
Over 90 days	**37,785**	39,561
	1,124,995	910,034

21 AMOUNT DUE FROM A DIRECTOR

The amount due from a director was non-trade in nature, unsecured, interest-free and repayable on demand except for an amount of HK$31,989,000 for the year ended 31 December 2005 which was interest bearing at 5.3% compounded annually. The carrying amount of the amount due from a director, Tang Hsiang Chien, approximates its fair value. The maximum receivable amount during the year is as follows:

	2006	2005
	HK$'000	HK$'000
Maximum receivable amount during the year	**40,479**	31,569

22 AMOUNTS DUE FROM/(TO) RELATED PARTIES

The amounts due from/(to) related parties are non-trade in nature, unsecured, interest-free and repayable on demand except for amounts due from related parties of HK$8,955,000 for the year ended 31 December 2005 which were interest bearing at prime rate. The amounts due to related parties include HK$700 million partial consideration pursuant to the Reorganisation as detailed in Note 1, such balance has been subsequently settled in January 2007. The settlement was mainly financed by a new five-year term loan of HK$550 million and drawn down of an aggregate of HK$140 million from existing short term facilities in January 2007. The carrying amounts of the amounts due from/(to) related parties approximate their fair values.

23 CASH AND BANK BALANCES – GROUP

Cash and bank balances were denominated in the following currencies:

	2006 HK$'000	2005 HK$'000
Hong Kong dollars	**5,801**	7,860
Renminbi ("RMB")	**73,309**	101,418
U.S. dollars	**118,831**	64,814
Others	**13,209**	174
	211,150	174,266

Cash and bank balances include the following:

	2006 HK$'000	2005 HK$'000
Bank balances restricted for tax and customs duty purpose	**1,424**	13,499

Some of the Group's bank balances denominated in RMB are deposited with banks in the PRC. The remittance of funds out of these bank accounts is subject to the rules and regulations promulgated by the tax and customs departments of the PRC Government.

24 SHARE CAPITAL

	Note	Number of ordinary shares	Nominal value of ordinary shares HK$'000	Share premium HK$'000	Total HK$'000
Authorised					
Ordinary shares of HK$0.10 each upon incorporation	(a)	3,800,000	380	–	380
Sub-division of issued shares	(b)(i)	34,200,000	–	–	–
		38,000,000	380	–	380
Increase in authorised share capital of HK$0.01 each	(b)(ii)	19,962,000,000	199,620	–	199,620
		20,000,000,000	200,000	–	200,000

24 SHARE CAPITAL (CONTINUED)

	Note	Number of ordinary shares	Nominal value of ordinary shares HK$'000	Share premium HK$'000	Total HK$'000
Issued and fully paid					
Ordinary shares of HK$0.10					
each issued	(a)	1	–	–	–
Sub-division of issued shares	(b)(i)	9	–	–	–
		10	–	–	–
Shares issued to					
Tang Hsiang Chien credited					
as fully paid of HK$0.01 each	(b)(iii)	235,305,000	2,353	119,535	121,888
Shares issued to Su Sih (BVI) Limited ("SuSih")					
credited as fully paid of HK$0.01 each	(b)(iii)	1,264,694,990	12,647	642,465	655,112
		1,500,000,000	15,000	762,000	777,000

(a) As at the date of incorporation of the Company, its authorised share capital was HK$380,000 divided into 3,800,000 shares of HK$0.10 each. On 28 August 2006, one subscriber's share of HK$0.10 in the Company was allotted and issued to the initial subscriber and was transferred by the initial subscriber on the same day to Tang Hsiang Chien, a director of the Company, for cash at par.

(b) Pursuant to a written resolution of the sole shareholder of the Company passed on 30 December 2006,

(i) Each of the then issued and unissued shares of HK$0.10 each in the share capital of the Company was subdivided into 10 shares of HK$0.01 each so that the authorised and issued share capital of the Company comprises shares of HK$0.01 each;

(ii) The authorised share capital of the Company was increased from HK$380,000 to HK$200,000,000 by the issue of an additional 19,962,000,000 shares. On 30 December 2006, Tang Hsiang Chien transferred 10 shares to SuSih, a company wholly owned by Tang Hsiang Chien for cash at par value; and

(iii) On 30 December 2006, the Company issued and allotted, credited as fully paid, 235,305,000 shares to Tang Hsiang Chien (in his capacity as the trustee of Mein et Moi Trust ("MEM Trust") and 1,264,694,990 shares to SuSih respectively in consideration of a total of 100,000 shares representing the entire issued shares of MTG(INV) transferred to the Company by Tang Hsiang Chien (in his capacity as the trustee of MEM Trust) and SuSih pursuant to a sale and purchase agreement entered into by the Company as purchaser and Tang Hsiang Chien (in his capacity as the trustee of MEM Trust) and SuSih as the vendor.

24 SHARE CAPITAL (CONTINUED)

(c) On 12 January 2007, the Company has adopted a share option scheme whereby its participants may be granted options to subscribe for shares at the discretion of the Board or a committee thereof. The principal terms of the share option scheme are summarised in the directors' report.

25 RESERVES

(a) Group

	Merger reserve HK$'000 Note (i)	General reserve HK$'000 Note (iii)	Exchange reserve HK$'000	Retained profits HK$'000	Total HK$'000
At 1 January 2005	(551,127)	62,535	1,898	683,191	196,497
Profit for the year	–	–	–	210,822	210,822
Dividends (Note 12)	–	–	–	(80,000)	(80,000)
Distribution to equity holders (Note (ii))	(374)	–	–	–	(374)
Exchange differences	1,732	220	20,891	–	22,843
Transfer	–	5,531	–	(5,531)	–
At 31 December 2005	(549,769)	68,286	22,789	808,482	349,788
Profit for the year	–	–	–	320,017	320,017
Partial consideration pursuant to the Reorganisation (Note 1)	(700,000)	–	–	–	(700,000)
Distribution to equity holders (Note (ii))	–	–	–	(57,793)	(57,793)
Exchange differences	2,934	336	41,529	–	44,799
Transfer	–	12,773	–	(12,773)	–
At 31 December 2006	(1,246,835)	81,395	64,318	1,057,933	(43,189)

25 RESERVES (CONTINUED)

(a) Group

Notes:

(i) The merger reserve of the Group represents the difference between the nominal amount of the share capital issued by the Company and the nominal amount of the share capital of the subsidiaries transferred to the Company, in addition to the partial consideration of HK$700 million to PHKL pursuant to the Reorganisation as detailed in Note 1.

(ii) The reduction during the year ended 31 December 2005 represented the injection of additional paid-up capital by the controlling party to Qingyi Precision Maskmaking, a subsidiary of PHKL engaged in the Photomask Business which is excluded from the Group as a result of the Reorganisation.

The reduction during the year ended 31 December 2006 represented the assets and liabilities related to the Photomask Business which are excluded from the Group as a result of the Reorganisation. The above reductions are reflected as a distribution made to the equity holders of the Company.

(iii) As stipulated by regulations in the PRC, the Company's subsidiaries established and operated in the PRC are required to appropriate a portion of their after-tax profit (after offsetting prior year losses) to the general reserve, at rates determined by their respective boards of directors. The general reserve can be utilised to offset prior year losses or be utilised for the issuance of bonus shares. During the year ended 31 December 2006, the boards of directors of the Company's subsidiaries in the PRC appropriated an aggregate amount of approximately HK$12,773,000 (2005: HK$5,531,000) to the general reserve.

(b) Company

	Accumulated loss HK$'000
At 31 December 2004 and 2005	–
Loss for the year	597
At 31 December 2006	597

26 BORROWINGS – GROUP

	2006 HK$'000	2005 HK$'000
Non-current		
Long-term bank loans (Note a)	**749,060**	532,757
Current		
Current portion of long-term bank loans (Note a)	**166,200**	37,500
Short-term bank loans (Note b)	**817,537**	823,764
Bank overdrafts (Note b)	**42,510**	2,075
	1,026,247	863,339

Certain short-term bank loans and overdrafts were secured by properties and assets of certain subsidiaries of the Group in 2005 (Note 32).

(a)

	2006 HK$'000	2005 HK$'000
Long-term bank loans	**915,260**	570,257
Less: current portion included under current liabilities	**(166,200)**	(37,500)
Long-term portion under non-current liabilities	**749,060**	532,757

All long-term bank loans are unsecured and carry interest ranging from 0.75% to 1.2% above Hong Kong Inter Bank Offering Rate or Singapore Inter Bank Offering Rate and are repayable in equal quarterly or semi-annual instalments up to 2012.

The carrying amounts and fair values of the long-term bank loans are as follows:

	2006 HK$'000	2005 HK$'000
Long-term bank loans		
Carrying amounts	**915,260**	570,257
Fair values	**927,277**	564,626

The fair values of current borrowings equal their carrying amount, as the impact of discounting is not significant. The fair values of non-current borrowings are estimated based on discounted cash flow approach using the prevailing market rates of interest available to the Group of 5.09% (2005: 5.16%) for financial instruments with substantially the same terms and characteristics for the year ended 31 December 2006, depending on the types and currencies of borrowings.

26 BORROWINGS – GROUP (CONTINUED)

(b) The carrying amounts of the short-term bank loans and bank overdrafts approximate their fair values.

	2006 HK$'000	2005 HK$'000
Secured	**–**	67,140
Unsecured	**860,047**	758,699
	860,047	825,839

(c) The carrying amounts of bank borrowings are denominated in the following currencies:

	2006 HK$'000	2005 HK$'000
RMB	**593,846**	473,204
Hong Kong dollars ("HK$")	**569,918**	498,663
U.S. dollars ("US$")	**610,932**	422,024
Japanese Yen ("JPY")	**–**	2,205
EURO	**611**	–
	1,775,307	1,396,096

(d) The effective interest rates (per annum) at the balance sheet dates are as follows:

	As at 31 December 2005				
	RMB	HK$	US$	JPY	EURO
Long-term loans	5.26%	5.16%	5.38%	–	–
Short-term loans	5.32%	5.14%	5.34%	1.10%	–
Bank overdrafts	–	7.75%	–	–	–

	As at 31 December 2006				
	RMB	**HK$**	**US$**	**JPY**	**EURO**
Long-term loans	**5.58%**	**5.11%**	**6.51%**	**–**	**–**
Short-term loans	**5.09%**	**4.95%**	**6.32%**	**–**	**5.63%**
Bank overdrafts	**5.58%**	**7.75%**	**–**	**–**	**–**

26 BORROWINGS – GROUP (CONTINUED)

(e) All short-term bank loans and bank overdrafts will mature within one year. The maturity of long-term bank loans is as follows:

	2006 **HK$'000**	2005 HK$'000
Within 1 year	**166,200**	37,500
Between 1 and 2 years	**263,736**	126,191
Between 2 and 5 years	**471,524**	350,503
Wholly repayable within 5 years	**901,460**	514,194
Over 5 years	**13,800**	56,063
	915,260	570,257

(f) The Group has the following undrawn borrowing facilities:

	2006 **HK$'000**	2005 HK$'000
Fixed rate		
expiring within one year	**382,293**	486,996
Floating rate		
expiring within one year	**1,148,817**	225,342
	1,531,110	712,338

As at 31 December 2006, the facilities were subject to annual review at various dates.

(g) The exposure of the Group's borrowings to interest rate changes and the contractual repricing dates at the balance sheet dates are as follows:

	2006 **HK$'000**	2005 HK$'000
Total borrowings		
6 months or less	**906,047**	992,215
over 6 months and up to 12 months	**869,260**	403,881
	1,775,307	1,396,096

27 DEFERRED TAX LIABILITIES – GROUP

The movement of deferred income tax account is as follows:

	2006 **HK$'000**	2005 HK$'000
Beginning of the year	**13,642**	8,927
Charged to consolidated profit and loss account (Note 10)	**692**	4,715
Distribution to equity holders	**(115)**	–
End of the year	**14,219**	13,642
Representing:		
Accelerated depreciation allowances	**24,329**	18,544
Taxation losses	**(10,110)**	(4,902)
	14,219	13,642

Deferred taxation has been provided in full on temporary differences under the liability method using the taxation rate of 17.5% (2005: 17.5%). Deferred tax liabilities will be settled after more than twelve months.

The movement in deferred tax assets and liabilities during the year without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

Deferred tax liabilities:

	Accelerated depreciation allowances HK$'000
At 1 January 2005	(14,199)
Recognised in the profit and loss account	(4,345)
At 31 December 2005	(18,544)
Recognised in the profit and loss account	(5,900)
Distribution to equity holders	115
At 31 December 2006	(24,329)

27 DEFERRED TAX LIABILITIES – GROUP (CONTINUED)

Deferred tax assets:

	Taxation losses HK$'000
At 1 January 2005	5,272
Recognised in the profit and loss account	(370)
At 31 December 2005	4,902
Recognised in the profit and loss account	5,208
At 31 December 2006	10,110

Deferred income tax assets are recognised for tax loss carry forwards to the extent that the realisation of the related benefit through the future taxable profits is probable. The Group did not recognise deferred income tax assets of HK$59,858,000 (2005: HK$54,231,000) in respect of accumulated losses amounting to HK$241,622,000 (2005: HK$277,247,000) as at 31 December 2006, that can be carried forward against future taxable income. As at 31 December 2006, these tax losses had no expiry date.

28 CREDITORS AND ACCRUALS

	Group		**Company**
	2006 **HK$'000**	2005 HK$'000	**2006** **HK$'000**
Creditors	**382,330**	408,799	**–**
Accruals	**417,700**	191,601	**1,004**
	800,030	600,400	**1,004**

28 CREDITORS AND ACCRUALS (CONTINUED)

During the year, the Group normally received credit terms of 60-90 days. The ageing analysis of the creditors, based on the invoice date, is as follows:

	Group	
	2006	2005
	HK$'000	HK$'000
Within credit period	**286,059**	242,384
0-30 days	**58,823**	71,529
31-60 days	**21,214**	49,206
61-90 days	**9,629**	27,636
Over 90 days	**6,605**	18,044
	382,330	408,799

29 AMOUNTS DUE TO A MINORITY SHAREHOLDER/ASSOCIATED COMPANIES

The amounts due to a minority shareholder/associated companies are unsecured, interest-free and payable within normal trade credit terms. The carrying amounts of the amounts due to a minority shareholder/associated companies approximate their fair values.

30 AMOUNTS DUE TO SUBSIDIARIES

The amounts due to subsidiaries are unsecured, interest-free and payable on demand. The carrying amounts of the amounts due to subsidiaries approximate their fair values.

31 COMMITMENTS

(a) Capital commitments

Capital commitments in respect of property, plant and equipment at the balance sheet dates are as follows:

	2006	2005
	HK$'000	HK$'000
Contracted but not provided for	**271,270**	27,744
Authorised but not contracted for	**6,998**	181,844
	278,268	209,588

At 31 December 2006, the Group had commitment in respect of the injection of additional capital into certain subsidiaries established in the PRC totalling approximately HK$433,700,000 (2005: HK$33,150,000).

(b) Operating lease commitments

The future aggregate minimum lease expense under non-cancellable operating leases in respect of land and buildings is payable as follows:

	2006	2005
	HK$'000	HK$'000
Within one year	**3,387**	1,655
One to five years	**2,035**	1,975
More than five years	**5,027**	5,191
	10,449	8,821

32 PLEDGE OF ASSETS

The Group had executed floating debentures over the undertakings, properties and assets of certain subsidiaries, as securities for banking facilities amounting to the following:

	2006 HK$'000	2005 HK$'000
Property, plant and equipment	–	50,406
Stocks and work in progress	–	40,066
Debtors and prepayments	–	294,087
Other assets	–	120,162
Total pledged assets	–	504,721

During the year, all the floating debentures over the undertakings, properties and assets of certain subsidiaries had been released upon the issuance of revised banking facilities for the purpose of settlement of partial consideration of the reorganisation as mentioned in Note 22.

33 CONSOLIDATED CASH FLOW STATEMENT

(a) Acquisition of additional equity interest of a subsidiary

On 20 September 2005, Goalink Industrial Ltd. ("Goalink") invested US$ 500,000 in Shanghai Kaiser Electronics Co., Ltd. which represented 10% of its new registered share capital.

On 27 July 2006, the Group acquired 10% interest in Shanghai Kaiser Electronics Co., Ltd. from Goalink at a consideration of US$815,000 (approximately HK$6,354,000).

33 CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)

(a) Acquisition of additional equity interest of a subsidiary (Continued)

Details of the net assets acquired and goodwill are as follows:

	Acquiree's carrying amount 2006 HK$'000
Net assets acquired	
Property, plant and equipment	**69,646**
Land use right	**2,242**
Stocks and work in progress	**857**
Debtors and prepayments	**9,283**
Cash and bank balances	**5,237**
Creditors and accruals	**(10,187)**
Balances with group companies	**(2,461)**
Net assets value	**74,617**
Additional share of net assets value (10%)	**7,462**
Less: Consideration paid	**(6,354)**
Negative goodwill credited to profit and loss account (Note)	**1,108**

Note: Negative goodwill represents excess of acquirers interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost.

(b) Analysis of changes in financing

	Bank loans HK$'000
At 1 January 2005	906,508
Net cash from financing activities	487,513
At 31 December 2005	1,394,021
Net cash from financing activities	338,776
At 31 December 2006	1,732,797

33 CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)

(c) Analysis of cash and cash equivalents

	2006 HK$'000	2005 HK$'000
Cash and bank balances	**211,150**	174,266
Bank overdrafts (Note 26)	**(42,510)**	(2,075)
	168,640	172,191
Less: Cash restricted for tax and customs duty purpose (Note 23)	**(1,424)**	(13,499)
Cash and cash equivalents	**167,216**	158,692

34 RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability, directly or indirectly control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control.

The Group is controlled by Su Sih (BVI) Limited ("SuSih"), which owns 84.3% of the Company's shares. The ultimate parent of the Group is SuSih.

The Group regularly conducts transactions in the normal course of business with the associated companies and related parties, details of which during the year are:

(a) Purchase of raw materials (Note i)

	2006 HK$'000	2005 HK$'000
Associated companies		
Guangdong Shengyi Sci. Tech Co., Ltd.	**304,836**	195,356
Suzhou Shengyi Sci. Tech Co., Ltd.	**34,280**	27,396
Minority shareholder of a subsidiary		
Hitachi Chemical Co. (Hong Kong) Limited	**176,922**	88,389

(b) Purchase of equipment (Note ii)

	2006 HK$'000	2005 HK$'000
Companies beneficially owned by directors of the Company		
Acumen Works Limited	**–**	15,000

34 RELATED PARTY TRANSACTIONS (CONTINUED)

(c) Purchase of finished goods (Note i)

	2006 HK$'000	2005 HK$'000
Minority shareholder of a subsidiary		
Hitachi Chemical Co. (Hong Kong) Limited	**2,361**	1,249

(d) Interest income (Note iii)

	2006 HK$'000	2005 HK$'000
Companies beneficially owned by directors of the Company		
Su Sih Enterprises Limited	**714**	2,174
Le Baron International Ltd.	**1,275**	1,807
A director		
Tang Hsiang Chien	**1,754**	651

(e) Management fee expenses (Note iv)

	2006 HK$'000	2005 HK$'000
Company beneficially owned by directors of the Company		
Su Sih Enterprises Limited	**5,000**	5,100

(f) Sales of finished goods (Note v)

	2006 HK$'000	2005 HK$'000
Minority shareholder of a subsidiary		
Hitachi Chemical Co. (Hong Kong) Limited	**27,230**	9,104

34 RELATED PARTY TRANSACTIONS (CONTINUED)

(g) Amounts due from/(to) related parties

	Note	2006 HK$'000	2005 HK$'000
A Director			
Non-trade balances	21	**–**	25,039
Related parties			
Non-trade balances	22		
Companies beneficially owned by directors of the Company			
Su Sih Enterprises Limited		**–**	8,955
Qingyi Precision Maskmaking (Shenzhen) Ltd.		**5**	(2,159)
Photomask (HK) Limited		**(709,603)**	(1,156)
Organisation significantly influenced by directors of the Company			
Shanghai Tang Tsun Yuan Education Fund		**–**	(9,842)
		(709,598)	(4,202)
Minority shareholder of a subsidiary			
Trade balance	29	**(63,359)**	(23,794)
Associated companies			
Trade balance	29	**(120,742)**	(143,952)

(h) Key management compensation

	2006 HK$'000	2005 HK$'000
Basic salaries, housing allowances, share options, other allowances and benefits in kind	**31,219**	19,506
Bonuses	**5,919**	13,635
	37,138	33,141

34 RELATED PARTY TRANSACTIONS (CONTINUED)

(i) Purchases of raw materials/finished goods from an associated company and a minority shareholder of a subsidiary are made at prices and terms no more than those charged by and contracted with other third party suppliers of the Group.

(ii) Purchases of equipment from a subsidiary of a controlling shareholder are conducted at prices and terms no more than those charged by third party suppliers of the Group.

(iii) Interest income from a controlling shareholder and a director are calculated at prime rate (2005: prime rate) and 5.3% (2005: 5.3%) per annum on the amount receivable, respectively.

(iv) Management fee expense is subject to the terms of an agreement signed by the parties at a fixed monthly fee for the provision of management services and consultancy services by the controlling shareholder. Starting from 1 April 2005, monthly fee was increased from HK$200,000 to HK$500,000. The service contract expired on 31 October 2006.

(v) Sales of finished goods are made at prices and terms no less than those sold by and contracted with other third party customers of the Group which are due within a normal credit year.

35 EVENTS AFTER THE BALANCE SHEET DATE

(a) On 2 February 2007, the Company was successfully listed on the Main Board of the Stock Exchange following the completion of its global offering of 526,600,000 shares comprising a total of 500,000,000 new shares offered for subscription by the Company and a total of 26,600,000 shares offered for sale by SuSih, the Company's controlling shareholder. The net proceeds of the shares offered by SuSih are to be paid to certain employees of the Group. The aggregate net proceeds received by the Company from the global offering after deducting underwriting fees and estimated expenses payable by the Company in connection with the global offering are estimated to be HK$1,046 million.

(b) On 20 December 2006, SuSih approved the grant of shares of the Company (the "Shares") to employees from its own shareholding whereby the employees of the Group were granted a total of 64,250,000 Shares, out of which 29,352,000 Shares are subject to being returned to Total Glory Holdings Limited, a wholly owned subsidiary of SuSih, upon resignation or dismissal of the employees for cause during the year that the return condition applies. In respect of those Shares which are not subject to the return condition, the value of such Shares amounting to approximately HK$78.5 million, based on the offer price of HK$2.25, will be charged as an employee expense of the Company for the financial year ending 31 December 2007. In respect of those Shares which are subject to the return condition, the value of such Shares will be charged to the employee expense of the Company on a straight-line basis over the relevant vesting year. As a result, the employee expenses of the Company will be increased by approximately HK$17.2 million, HK$17.2 million, HK$17.2 million, HK$9.9 million and HK$4.4 million, based on the offer price of HK$2.25, for each of the financial years ending 31 December 2007, 2008, 2009, 2010 and 2011 respectively. The above employee expenses will have no dilutive impact on the net asset value.

(c) Pursuant to an agreement dated 12 January 2007 between SuSih and Chung Tai Keung, Canice, and a consultancy agreement dated 1 November 2006 between SuSih and a consultant to SuSih. SuSih has granted to Chung Tai Keung, Canice and the consultant a total of 70,550,000 Shares which are not subject to any return condition. The value of such Shares amounting to approximately HK$158.8 million, based on the offer price of HK$2.25, will be charged as an employee expense of the Company for the financial year ending 31 December 2007. The above employee expense will have no dilutive impact on the net asset value.

(d) On 12 January 2007, the Company has adopted a share option scheme whereby its participants may be granted options to subscribe for shares at the discretion of the Board or a committee thereof. The principal terms of the share option scheme are summarised in the directors' report.