1. General information

China Electronics Corporation Holdings Company Limited (the "Company") was incorporated in the Cayman Islands and continued in Bermuda with limited liability. The Company has its shares listing on The Stock Exchange of Hong Kong Limited.

The principal activities of the Company and its subsidiaries (collectively the "Group") comprise the manufacturing and sales of portable electronics products.

The address of the Company's registered office is Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda.

These consolidated financial statements are presented in thousands of units of Hong Kong dollar (HK$'000), unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on 23 March 2007.

2. Summary of significant accounting policies

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

2.1 Basis of preparation

(a) *Preparation of financial statements*

The consolidated financial statements of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants. The consolidated financial statements have been prepared under the historical cost convention.

The preparation of 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 Company'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.

(b) *The adoption of new/revised HKFRS*

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

HKAS 19 Amendment	Employee Benefits – Acturial Gains and Losses, Group Plans and Disclosures;
HKAS 21 Amendment	Net Investment in a Foreign Operation;
HKAS 39 Amendment	Cash Flow Hedge Accounting of Forecast Intragroup Transactions;
HKAS 39 Amendment	The Fair Value Option;
HKAS 39 and HKFRS 4 Amendments	Financial Guarantee Contracts;
HKFRS 6	Exploration for and Evaluation of Mineral Resources;
HKFRS 1 and HKFRS 6 Amendments	First-time Adoption of Hong Kong Financial Reporting Standards and 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.

2. Summary of significant accounting policies *(Continued)*

2.1 Basis of preparation *(continued)*

(b) *The adoption of new/revised HKFRS (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) – Int 7, 'Applying the Restatement Approach under HKFRS 29, Reporting in Hyperinflationary Economies', effective for annual periods beginning on or after 1 March 2006.

Management do not expect the interpretation to be relevant for the Group.

– HK(IFRIC) – Int 8, 'Scope of HKFRS 2', effective for annual periods beginning on or after 1 May 2006;
– HKFRS 7, 'Financial instruments: Disclosures', effective for annual periods beginning on or after 1 January 2007;
– HKAS 1 Amendment – 'Capital Disclosures', effective for annual periods beginning on or after 1 January 2007; and
– HK(IFRIC) – Int 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) – Int 8, HKFRS 7, HKAS 1 Amendment and HK(IFRIC) – Int 10 on the Group's financial statements.

– HK(IFRIC) – Int 9, 'Reassessment of Embedded Derivatives', effective for annual periods beginning on or after 1 June 2006.

Management do not expect the interpretation to be relevant for the Group.

2.2 Consolidation

The consolidated financial statements include the financial statements of the Company and all its subsidiaries made up to 31 December.

(a) *Subsidiaries*

Subsidiaries are all entities (including special purpose entities) over which the Group has the 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.

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 income statement.

2. Summary of significant accounting policies *(Continued)*

2.2 Consolidation *(continued)*

(a) Subsidiaries (continued)

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 for by the Company on the basis of dividend received and receivable.

(b) Transactions with minority interests

The Group applies a policy of treating transactions with minority interests as transactions with parities external to the Group. Disposals to minority interests result in gains and losses for the Group that are recorded in the consolidated income statement. 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.

2.3 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 returns that are different from those of segments operating in other economic environments.

2.4 Foreign currency translation

(a) 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, which is different from the Group's functional currency of Renminbi. The Directors consider that presentation of consolidated financial statements in Hong Kong dollars will facilitate analysis of financial information of the Group.

(b) 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 income statement.

2. Summary of significant accounting policies *(Continued)*

2.4 Foreign currency translation *(continued)*

(c) 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:

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

– income and expenses for each income statement 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

– all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings are taken to shareholders' equity. When a foreign operation is partially disposed of or sold, such exchange differences that were recorded in equity are recognised in the income statement as part of the gain or loss on sale.

2.5 Property, plant and equipment

Property, plant and equipment are stated at historical cost less depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

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 income statement 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, as follows:

– Leasehold improvements	5 years (or over the lease term, whichever is shorter)
– Plant and machinery	3-4 years
– Motor vehicles	5 years
– Furniture and fixtures	3-5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. 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 the proceeds with the carrying amount and are recognised in the income statement.

2. Summary of significant accounting policies *(Continued)*

2.6 Intangible assets

(a) 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 at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

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

If the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition exceeds the cost of acquisition, the excess should be recognised immediately in the income statement.

(b) Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives (three to five years).

Costs associated with developing or maintaining computer software programmes are recognised as an expense as incurred. Costs that are directly associated with the development of identifiable and unique software products controlled by the Group, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Direct costs include the employee costs incurred as a result of developing software and an appropriate portion of relevant overheads.

Computer software development costs recognised as assets are amortised over their estimated useful lives.

(c) Research and development costs

Research costs are expensed as incurred. Costs incurred on development projects relating to the design and testing of new or improved products are recognised as an intangible asset where the technical feasibility and intention of completing the product under development has been demonstrated and the resources are available to do so, costs are identifiable and there is an ability to sell or use the asset that will generate probable future economic benefits. Such development costs are recognised as an asset and amortised on a straight-line basis over a period of not more than 5 years to reflect the pattern in which the related economic benefits are recognised. Development costs that do not meet the above criteria are expensed as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

2. Summary of significant accounting policies *(Continued)*

2.7 Impairment of assets

Assets that have an indefinite useful life or have not yet available for use are not subject to amortisation and are tested annually for impairment. 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). Assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.8 Financial assets

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are classified as trade and other receivables in the balance sheet (Note 2.10).

(c) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. During the year, the Group did not hold any investments in this category.

(d) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date. During the year, the Group did not hold any investments in this category.

2. Summary of significant accounting policies *(Continued)*

2.8 Financial assets *(Continued)*

Regular purchases and sales of financial assets are recognised on trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the income statement. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included in the income statement in the period in which they arise.

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

2.9 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out method. The cost of finished goods and work in progress comprises design costs, raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.10 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. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. 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 carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement within administrative expenses. When the receivable is uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against administrative expenses in the income statement.

2.11 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.

2. Summary of significant accounting policies *(Continued)*

2.12 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2.13 Trade payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.14 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

2.15 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. Deferred income tax is determined using tax rates (and laws) 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.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, 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.

2.16 Provision

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. 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 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 expense.

The Group recognises a provision for repair or replacement of products still under warranty at the balance sheet date. This provision is calendared based on past history of the level of repairs and replacements.

2. Summary of significant accounting policies *(Continued)*

2.17 Employee benefits

(a) *Pension obligations*

The Group operates a mandatory provident fund scheme ("MPF") for the eligible employees in Hong Kong. The Group's contributions to MPF are set at 5% of employees' salaries, including basic salaries and other cash allowances and are expensed as incurred.

The principal subsidiary, Shenzhen Sang Fei Consumer Communications Co., Ltd. ("Sang Fei"), that operates in the PRC has to make contribution to staff retirement scheme managed by local government authorities in accordance with the relevant rules and regulations. Contributions to these schemes are charged to the income statement as and when incurred.

(b) *Employee leave entitlements*

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(c) *Bonus plans*

The expected cost of bonus payments are recognised as a liability when the Group has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

Liabilities for profit sharing and bonus plans are expected to be settled within 12 months and are measured at the amounts expected to be paid when they are settled.

(d) *Share-based compensation*

The Group operates an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of the options 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 options granted, excluding the impact of any non-market vesting conditions. Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. At each balance sheet date, the entity revises its estimates of the number of options that are expected to vest. It recognises the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to equity.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

2. Summary of significant accounting policies *(Continued)*

2.18 Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existent will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the accounts. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

2.19 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods, net of value-added tax, returns, rebates and discounts. Revenue is recognised when the goods are delivered to customers, the customers has accepted the goods and collectibility of the related receivables is reasonably assured.

Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income.

Dividend income is recognised when the right to receive payment is established.

2.20 Operating leases (as the lessee for 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 charged to the income statement on a straight-line basis over the period of the lease.

2.21 Dividend distribution

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

3. Financial risk management

3.1 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 and fair value interest rate risk.

(a) Foreign exchange risk

The foreign exchange risks of the Group occur due to the fact that the Group has business activities denominated in foreign currencies, primarily with respect to the US dollars, Hong Kong dollars, Euro and Japanese Yen. The Group has entered into foreign exchange forward contracts to manage the risk arising from its operations. Nevertheless, the conversion of Renminbi into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the People's Republic of China (the "PRC") government.

3. Financial risk management

3.1 Financial risk factors *(continued)*

(b) Credit risk

The Group has policies in place to ensure that sales are made to customers with an appropriate credit history. The Group performs ongoing credit evaluations for its customers' financial condition and generally does not require collateral on trade receivables. The Group maintains a provision for doubtful debts and actual losses have been within management's expectation.

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities. Due to the dynamic nature of the underlying businesses, the Group maintains flexibility in funding by keeping availability of committed credit lines.

(d) Cash flow and fair value interest rate risk

The Group does not have significant interest-bearing assets, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

3.2 Fair value estimation

The carrying value less impairment provision of trade receivables and payables are a reasonable approximation of their fair values. The fair values 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

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) Estimated impairment of non-financial assets

The Group tests annually whether non-financial assets, mainly including property, plant and equipment and intangible assets has suffered any impairment in accordance with the accounting policy stated in Note 2.7. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates.

(b) Income taxes

The Group is subject to income taxes in numerous jurisdictions. Significant judgement is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

(All amounts in HK dollar thousands unless otherwise stated)

4. Critical accounting estimates and judgements *(Continued)*

(c) Share option

The Group operates a share option scheme. The fair value of the options granted during the year (Note 13 (c)) is determined by using valuation techniques. The Group uses its judgements to select the valuation method and make assumptions for the significant inputs into the valuation model. At each balance sheet date, the Group reviews its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to equity over the remaining vesting period.

5. Segment information

Primary reporting format – business segments

The Group is principally engaged in manufacturing and sales of portable electronics products.

	Philips **branded original equipment manufacturer ("OEM") products**		**Own branded and other original design manufacturer ("ODM") products**		**OEM of other products and other operation**		**Total**	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005
Turnover	**2,073,120**	3,349,265	**1,366,825**	1,063,387	**109,384**	355,874	**3,549,329**	4,768,526
Segment results	**68,392**	118,412	**157,371**	68,463	**6,534**	44,160	**232,297**	231,035
Other gains-net							**5,130**	13,822
Unallocated costs							**(167,575)**	(148,107)
Operating profit							**69,852**	96,750
Finance income/(costs) – net							**1,665**	(6,804)
Profit before income tax							**71,517**	89,946
Income tax expense							**(2,358)**	(5,598)
Profit for the year							**69,159**	84,348
Segment assets	**286,174**	997,513	**196,879**	43,428	**32,380**	9,618	**515,433**	1,050,559
Unallocated assets							**820,209**	885,478
Total assets							**1,335,642**	1,936,037
Segment liabilities	**298,751**	63,090	**276,729**	3,718	**15,753**	–	**591,233**	66,808
Unallocated liabilities							**141,271**	1,300,834
Total liabilities							**732,504**	1,367,642
Capital expenditures							**32,260**	26,935
Depreciation/ amortisation charge							**49,646**	57,863
Impairment charge							**(4,952)**	21,024

(All amounts in HK dollar thousands unless otherwise stated)

5. Segment information *(Continued)*

Primary reporting format – business segments *(Continued)*

Unallocated costs consist primarily of selling and marketing costs and administrative expenses, which contribute to all business segments.

Segment assets consist primarily of inventories and trade receivables. Unallocated assets comprise property, plant and equipment, intangible assets, deferred taxation, other receivables and cash and cash equivalents.

Segment liabilities comprise trading liabilities. Unallocated liabilities comprise items such as taxation, borrowings, provisions and other payables.

Secondary reporting format – geographical segments

The Group's three business segments operate in four main geographical areas – Mainland China, Europe, Hong Kong and Asia excluding Mainland China and Hong Kong. The segment sales based on the geographical location of its customers are presented below:

	2006	2005
Sales		
Mainland China	**1,676,916**	2,256,707
Europe	**6,540**	690,062
Asia excluding Mainland China and Hong Kong	**1,030,871**	606,578
Hong Kong	**835,002**	1,215,179
	3,549,329	4,768,526

No segment assets and liabilities are presented as over 90% of the Group's assets are located in Mainland China.

(All amounts in HK dollar thousands unless otherwise stated)

6. Property, plant and equipment

Group

	Leasehold improvements	Plant and machinery	Motor vehicles	Furniture and fixtures	Total
At 1 January 2005					
Cost	33,466	276,074	2,887	25,354	337,781
Accumulated depreciation and impairment	(21,948)	(182,792)	(1,566)	(12,073)	(218,379)
Net book amount	11,518	93,282	1,321	13,281	119,402
Year ended 31 December 2005					
Opening net book amount	11,518	93,282	1,321	13,281	119,402
Additions	3,809	6,300	335	3,393	13,837
Depreciation charge	(3,481)	(42,864)	(456)	(8,533)	(55,334)
Exchange differences	195	1,430	10	179	1,814
Disposals	(58)	(568)	–	(42)	(668)
Closing net book amount	11,983	57,580	1,210	8,278	79,051
At 31 December 2005					
Cost	37,834	286,627	3,265	29,068	356,794
Accumulated depreciation and impairment	(25,851)	(229,047)	(2,055)	(20,790)	(277,743)
Net book amount	11,983	57,580	1,210	8,278	79,051
Year ended 31 December 2006					
Opening net book amount	11,983	57,580	1,210	8,278	79,051
Additions	2,853	19,024	1,375	2,982	26,234
Depreciation charge	(4,323)	(34,792)	(592)	(5,617)	(45,324)
Exchange differences	342	1,259	17	154	1,772
Disposals	–	(12)	–	(36)	(48)
Closing net book amount	10,855	43,059	2,010	5,761	61,685
At 31 December 2006					
Cost	24,795	307,331	4,743	32,596	369,465
Accumulated depreciation and impairment	(13,940)	(264,272)	(2,733)	(26,835)	(307,780)
Net book amount	10,855	43,059	2,010	5,761	61,685

Depreciation expense of HK$35,415,000 (2005: HK$43,944,000) has been expensed in cost of goods sold, HK$200,000 (2005: HK$225,000) in selling and marketing costs and HK$9,709,000 (2005: HK$11,165,000) in administrative expenses.

Lease rental expense amounting to HK$14,860,000 (2005: HK$16,168,000) relating to the lease of property and machinery are included in the income statement.

(All amounts in HK dollar thousands unless otherwise stated)

6. Property, plant and equipment *(Continued)*

Company

	Motor vehicles	Furniture and fixtures	Total
At 1 January 2005			
Cost	684	52	736
Accumulated depreciation	(45)	(10)	(55)
Net book amount	639	42	681
Year ended 31 December 2005			
Opening net book amount	639	42	681
Additions	–	72	72
Depreciation charge	(137)	(11)	(148)
Closing net book amount	502	103	605
At 31 December 2005			
Cost	684	124	808
Accumulated depreciation	(182)	(21)	(203)
Net book amount	502	103	605
Year ended 31 December 2006			
Opening net book amount	502	103	605
Additions	488	57	545
Disposal	–	(10)	(10)
Depreciation charge	(211)	(29)	(240)
Closing net book amount	779	121	900
At 31 December 2006			
Cost	1,172	166	1,338
Accumulated depreciation	(393)	(45)	(438)
Net book amount	779	121	900

(All amounts in HK dollar thousands unless otherwise stated)

7. Intangible assets – Group

	Computer Software
At 1 January 2005	
Cost	10,609
Accumulated amortisation	(7,111)
Net book amount	3,498
Year ended 31 December 2005	
Opening net book amount	3,498
Additions	13,098
Exchange differences	46
Amortisation charge	(2,529)
Closing net book amount	14,113
At 31 December 2005	
Cost	23,918
Accumulated amortisation	(9,805)
Net book amount	14,113
Year ended 31 December 2006	
Opening net book amount	14,113
Additions	6,026
Exchange differences	434
Amortisation charge	(4,322)
Closing net book amount	16,251
At 31 December 2006	
Cost	30,900
Accumulated amortisation	(14,649)
Net book amount	16,251

Amortisation of HK$634,000 (2005: HK$137,000) has been expensed in cost of goods sold, HK$39,000 (2005: HK$32,000) is included in selling and marketing costs and HK$3,649,000 (2005: HK$2,360,000) in administrative expenses in the income statement.

(All amounts in HK dollar thousands unless otherwise stated)

8. Investments in subsidiaries – Company

	2006	2005
Investments in subsidiaries – unlisted shares, at cost	**260,000**	260,000
Amounts due from subsidiaries	**11,700**	3,900
	271,700	263,900

The following is a list of the principal subsidiaries as at 31 December 2006.

Name	Place of incorporation and kind of legal entity	Place of operation and principal activities	Particulars of issued share capital	Interest held
Indirectly held:				
Sang Fei	PRC, a Sino-foreign equity joint venture company	PRC, manufacture and sales of portable electronics products	Registered capital of US$33,000,000	65%
China Electronics Corporation Management Limited	Hong Kong, limited company	Hong Kong, provision of group management services	2 ordinary shares of HK$1 each	100%

9. Inventories – Group

	2006	2005
Raw materials	**230,856**	284,703
Work in progress	**54,850**	100,139
Finished goods	**50,096**	62,192
	335,802	447,034

The cost of inventories recognised as expense and included in cost of goods sold amounted to HK$3,127,030,000 (2005: HK$4,325,554,000).

Reversal of written down of inventories to net realisable value of HK$4,952,000 (2005: provision of HK$21,024,000) has been credited in cost of goods sold during the year with utilisation of such inventories.

(All amounts in HK dollar thousands unless otherwise stated)

10. Trade and other receivables

	Group		Company	
	2006	2005	**2006**	2005
Trade receivables (Note (a))	**415,932**	1,010,140	**–**	–
Notes receivables	**799**	1,981	**–**	–
Other receivables from related parties (Note 29(c))	**24,026**	26,583	**–**	–
Prepayments and deposits	**21,011**	11,868	**219**	484
Value-added tax refundable	**25,739**	21,000	**–**	–
Other receivables	**5,672**	13,372	**250**	1,649
	493,179	1,084,944	**469**	2,133

The directors are of the opinion that the carrying amounts of trade and other receivables approximate their fair values. All trade and other receivables are due within 1 year and non interest-bearing.

(a) The majority of the Group's sales are on letter of credit or documents against payment. The remaining amounts are with credit term of 30 to 60 days. At 31 December 2006, the ageing analysis of the Group's trade receivables was as follows:

Ageing	**2006**	2005
Current to 30 days	**410,109**	968,786
31 – 60 days	**2,561**	23,480
Over 60 days	**3,262**	17,874
	415,932	1,010,140

Including in the balance were trade receivables from related parties of HK$352,597,000 (2005: HK$920,551,000). About 90% (2005: 91%) of the trade receivables from related parties as at 31 December 2006 was covered by bank issued guarantee documents.

(All amounts in HK dollar thousands unless otherwise stated)

11. Cash and cash equivalents

	Group		Company	
	2006	2005	**2006**	2005
Cash at bank and in hand				
China Electronics Corporation				
Finance Co., Ltd. (Note 29(c))	**51,595**	2,886	**–**	–
Cash at other banks and financial institutions and				
in hand	**170,131**	235,846	**9,151**	101,925
	221,726	238,732	**9,151**	101,925
Short-term bank deposits	**198,083**	67,649	**187,005**	67,649
	419,809	306,381	**196,156**	169,574

China Electronics Corporation Finance Co., Ltd. is a non-bank financial institution approved by the People's Bank of China. The deposits yield interest at prevailing saving deposit rates.

The effective interest rate on short-term bank deposits was 2.459% (2005: 3.844%). The maturity days of these deposits ranged from 5 to 29 days (2005: 15 to 35 days).

12. Issued equity/share capital

(a) Issued equity – Group

	Number of shares	Issued equity
At 1 January 2005	8,668,480,000	373,750
Capital reorganisation (ii)	(7,584,920,000)	–
Utilisation of issued equity against accumulated losses (iii)	–	(3,676)
At 31 December 2005	1,083,560,000	370,074
At 1 January and 31 December 2006	1,083,560,000	370,074

(i) On 10 December 2003, China Electronics Corporation ("CEC"), the Company and the Company's then holding company, Winsan International Holdings Limited entered into a sale and purchase agreement to acquire CEC's 65% equity interest in Sang Fei (the "Acquisition"). The Acquisition was completed on 24 September 2004 and has been accounted for as a reverse acquisition. For accounting purpose, Sang Fei is regarded as the acquirer while the Company and its then subsidiaries are deemed to have been acquired by Sang Fei. Accordingly, the amount recognised as issued equity, which consists of share capital and share premium, has been determined by adding to the issued equity of Sang Fei immediately before the completion of the Acquisition the cost of the acquisition of the Winsan Group.

(All amounts in HK dollar thousands unless otherwise stated)

12. Issued equity/share capital *(Continued)*

(a) Issued equity – Group *(Continued)*

(ii) Pursuant to the resolutions passed a special general meeting on 17 May 2005, the nominal value of the shares of the Company was reduced from HK$0.01 each to HK$0.00125 each, and immediately after the reduction, every eight then issued shares with nominal value of HK$0.00125 each were consolidated into one new share of HK$0.01 each. After the capital reorganisation, the issued share capital of the Company comprises 1,083,560,000 shares HK$0.01 each. An amount of HK$75,849,000 standing to the credit of the share capital account of the Company was cancelled and credited to the contributed surplus account.

(iii) On 18 March 2005, the board of directors of the Company resolved to apply the entire contributed surplus of HK$154,440,000 to set off an equivalent amount of the accumulated losses. Upon completion of the capital reorganisation, an equivalent amount in the contributed surplus account was then applied to set off against the entire remaining accumulated losses of the Company.

(b) Share capital – Company

	Number of shares – ordinary share of HK$0.01 each				
	Authorised	**Issued and fully paid**	**Share capital**	**Share premium**	**Total**
At 1 January 2005	30,000,000,000	8,668,480,000	86,685	325,055	411,740
Capital reorganisation	–	(7,584,920,000)	(75,849)	–	(75,849)
At 31 December 2005	30,000,000,000	1,083,560,000	10,836	325,055	335,891
At 1 January and 31 December 2006	30,000,000,000	1,083,560,000	10,836	325,055	335,891

(All amounts in HK dollar thousands unless otherwise stated)

13. Other reserves

Group

	Capital reserve (Note (a))	Surplus reserves (Note (b))	Share option (Note (c))	Translation reserve	Total
At 1 January 2005	(1,806)	21,010	–	–	19,204
Share option granted	–	–	6,572	–	6,572
Appropriation from retained earnings	–	4,982	–	–	4,982
Currency translation differences	–	–	–	4,304	4,304
At 31 December 2005	(1,806)	25,992	6,572	4,304	35,062
At 1 January 2006	(1,806)	25,992	6,572	4,304	35,062
Share option granted	–	–	3,654	–	3,654
Appropriation from retained earnings	–	7,333	–	–	7,333
Currency translation differences	–	–	–	9,088	9,088
At 31 December 2006	(1,806)	33,325	10,226	13,392	55,137

(a) Capital reserve

Capital reserve represents the exchange differences arising from paid-in capital paid by foreign currencies in the principal subsidiary, Sang Fei.

(b) Surplus reserves

In accordance with the "Laws of the People's Republic of China on Joint Ventures Using Chinese and Foreign Investment" and Sang Fei's Articles of Association, appropriations of the reserve fund and the enterprise expansion fund from profit after taxation have to be made prior to profit distribution to the equity owners. The percentage of appropriation of reserve fund and the enterprise expansion fund is approved by the board of directors of Sang Fei.

Upon approval from the board of directors of Sang Fei, the reserve fund can be used to offset against accumulated losses or to increase capital while the enterprise expansion fund can be used to expand production and to increase capital.

Under the Companies Act 1981 of Bermuda, the contributed surplus of the Company is distributable to shareholders in certain circumstances as specified in section 54 thereof.

(c) Share option

On 25 October 2005, 28,450,000 options were granted to certain directors, employees and other participants at an exercise price of HK$1.488 under the Share Option Scheme. 40% of the options granted are exercisable from 1 November 2005 to 31 October 2008, another 30% are exercisable from 1 November 2006 to 31 October 2009 and the remaining 30% are exercisable from 1 November 2007 to 31 October 2010. The options have an option term of 3 years commencing from the exercisable date. No option was exercised during the year.

Expense arising from the share option scheme recognised in administrative expenses during the year amounted to HK$3,654,000 (2005: HK$6,572,000).

(All amounts in HK dollar thousands unless otherwise stated)

13. Other reserves *(Continued)*

Company

	Contributed surplus	Share option	Total
At 1 January 2005	140,263	–	140,263
Capital Reorganisation	75,849	–	75,849
Utilisation of issued equity against accumulated losses (Note 12(a)(iii)	(154,440)	–	(154,440)
Share option granted	–	6,572	6,572
At 31 December 2005	61,672	6,572	68,244
At 1 January 2006	61,672	6,572	68,244
Share option granted	–	3,654	3,654
At 31 December 2006	61,672	10,226	71,898

14. Trade and other payables

	Group		Company	
	2006	2005	**2006**	2005
Trade payables	**511,472**	966,990	**–**	–
Other payables from related parties (Note 29(c))	**17,072**	10,774	**–**	–
Accrued expenses	**47,205**	30,583	**2,744**	3,947
Advance from customers	**52,870**	24,880	**–**	–
Other payables	**89,207**	95,967	**–**	–
	717,826	1,129,194	**2,744**	3,947

The directors are of the opinion that the carrying amounts of trade and other payables approximate their fair values. All trade and other payables are non interest-bearing.

(All amounts in HK dollar thousands unless otherwise stated)

14. Trade and other payables *(Continued)*

At 31 December 2006, the ageing analysis of the Group's trade payables was as follows:

	2006	2005
Current to 30 days	**487,812**	943,177
31 – 60 days	**14**	2,561
Over 60 days	**23,646**	21,252
	511,472	966,990

Included in the balance of trade payables to related parties amounted to HK$29,060,000 (2005: HK$56,034,000).

15. Short-term bank loans – Group

The bank loans as at 31 December 2005 were unsecured, repayable within one year and bear interest at the average borrowing rate of 4.674% per annum, which had been repaid during the year.

The Group has undrawn borrowing facilities of approximately HK$1,000,000,000 as at 31 December 2006 (2005: HK$346,154,000). The facilities are at fixed rate and expiring within one year which are subject to review at various dates during 2007.

16. Provision for warranty – Group

	2006	2005
At 1 January	**2,106**	2,214
Additional provisions charged to income statement	**21,089**	11,516
Less: utilised during the year	**(10,561)**	(11,624)
At 31 December	**12,634**	2,106

The Group provides warranties on own branded and certain ODM products distributed by Sang Fei for end users in the PRC market and undertakes to repair or replace items that fail to operate satisfactorily. Provisions have been recognised for expected warranty claims based on past experience of the level of repairs and returns.

17. Other gains – net

	2006	2005
Sales of samples and materials	**5,355**	11,828
Others	**(225)**	1,994
	5,130	13,822

(All amounts in HK dollar thousands unless otherwise stated)

18. Expenses by nature

Expenses included in cost of goods sold, selling and marketing costs and administrative expenses are analysed as follows:

	2006	2005
Depreciation and amortisation expenses (Notes 6 and 7)	**49,646**	57,863
Employee benefit expenses (Note 19)	**149,056**	139,525
Changes in inventories of finished goods and work in progress	**61,363**	4,588
Raw materials and consumables used	**3,065,667**	4,320,966
Bad debt expense	**82**	570
(Reversal of)/written down of inventories to net realisable value (Note 9)	**(4,952)**	21,024
Provision on warranty (Note 16)	**21,089**	11,516
Operating lease expenses on buildings	**13,776**	16,168
Research and development costs	**34,667**	15,830
Auditors' remuneration	**1,247**	1,140

19. Employee benefit expense

	2006	2005
Basic salaries, allowances and benefits in kind	**137,000**	126,653
Contributions to retirement schemes (Note (a) and (b))	**8,402**	6,300
Share based compensation	**3,654**	6,572
	149,056	139,525

(a) The Group operates a MPF for the eligible employees in Hong Kong. The Group's contributions to MPF are set at 5% (2005: 5%) of employees' salaries, including basic salaries and other cash allowances and expensed as incurred.

(b) The principal subsidiary, Sang Fei, participates in a defined contribution retirement scheme based on laws and regulations in the PRC. Each employee covered by the scheme is entitled, after their retirement from Sang Fei, to a pension equal to the basis salary of the employees as at their retirement dates in the PRC. The local government authority of the PRC is responsible for the pension liabilities to these retired employees in the PRC. Sang Fei made monthly contributions to the retirement scheme at a minimum rate of 8% (2005: 8%) of the basis salaries of employees in the PRC.

(All amounts in HK dollar thousands unless otherwise stated)

20. Directors' and senior management's emoluments

(a) Directors' and senior management's emoluments

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

Name of Director	Fees	Salaries, allowance and benefits in kind	Employer's contribution to pension scheme	Share-based payment	Total
Mr. Chen Zhaoxiong (Note a)	–	–	–	–	–
Mr. Yang Xiaotang (Note b)	–	167	8	–	175
Mr. Tong Baoan	–	500	19	960	1,479
Mr. Fan Qingwu	–	400	20	909	1,329
Mr. Hua Longxing	–	404	–	909	1,313
Mr. Chan Kay Cheung	180	–	–	–	180
Mr. Wong Po Yan	180	–	–	–	180
Mr. Yin Yongli	180	–	–	–	180
	540	1,471	47	2,778	4,836

During the year, no director has waived emolument or has agreed to waived the directors' emolument (2005: nil).

Notes:

(a) Appointed on 11 April 2006

(b) Resigned on 11 April 2006.

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

Name of Director	Fees	Salaries, allowance and benefits in kind	Employer's contribution to pension scheme	Share-based payment	Total
Mr. Yang Xiaotang	–	600	30	924	1,554
Mr. Tong Baoan	–	500	25	878	1,403
Mr. Fan Qingwu	–	400	20	832	1,252
Mr. Hua Longxing	–	404	–	832	1,236
Mr. Chan Kay Cheung	180	–	–	–	180
Mr. Wong Po Yan	180	–	–	–	180
Mr. Yin Yongli	180	–	–	–	180
	540	1,904	75	3,466	5,985

(All amounts in HK dollar thousands unless otherwise stated)

20. Directors' and senior management's emoluments *(Continued)*

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include two directors (including supervisors) (2005: 2 directors) whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining three (2005: 3) individual during the year are as follows:

	2006	2005
Basic salaries, allowances and benefits in kind	**4,064**	3,397
Bonuses	**1,194**	1,066
Contributions to retirement schemes	**179**	180
Share-based compensation	**315**	289
	5,752	4,932

(c) The emoluments fell within the following band:

	Number of individuals	
	2006	2005
HK$1,000,001 – HK$1,500,000	**1**	1
HK$1,500,001 – HK$2,000,000	**–**	2
HK$2,000,001 – HK$2,500,000	**2**	–
	3	3

21. Finance income/(costs) – net

	2006	2005
Interest income on short-term deposits	**8,109**	4,697
Interest on bank loans	**(6,444)**	(11,501)
Net finance income/(costs)	**1,665**	(6,804)

(All amounts in HK dollar thousands unless otherwise stated)

22. Taxation

(a) Income tax expense

The amount of taxation charged to the consolidated income statement represents:

	2006	2005
Current taxation – PRC enterprise income tax	**6,760**	10,112
Deferred taxation	**(4,402)**	(4,514)
	2,358	5,598

(i) No provision for Hong Kong profits tax has been made as the Group has no assessable profit for the year (2005: nil).

(ii) The principal subsidiary, Sang Fei, is a foreign investment production enterprise established in Shenzhen Special Economic Zone in the PRC, the prevailing PRC enterprise income tax rate is 15%. As approved by the tax authorities in 1998, Sang Fei is entitled to exemption from income tax for two years followed by a 50% tax reduction for three years, commencing from the year ended 31 December 2000, the first cumulative profit-making year net of losses carried forward. Sang Fei was certified as a high technology enterprise from 2002 and as approved by the tax authorities in 2004, Sang Fei is entitled to 50% tax reduction from enterprise income tax for further three years starting from 2005. Consequently, enterprise income tax has been provided at the rate of 7.5% (2005: 7.5%) for the year.

(iii) The taxation on the Group's profit before income tax differs from the theoretical amount that would arise using the taxation rate in the PRC as follows:

	2006	2005
Profit before income tax	**71,517**	89,946
Calculated at a taxation rate of 15% (2005: 15%)	**10,728**	13,492
Profit earned in the tax holiday period	**(9,804)**	(11,074)
Expenses not deductible for taxation purposes	**313**	317
Tax losses for which no deferred income tax asset was recognised	**1,121**	2,863
Income tax expense	**2,358**	5,598

(All amounts in HK dollar thousands unless otherwise stated)

22. Taxation *(Continued)*

(b) Deferred taxation

The movement on the deferred tax assets during the year is as follows:

	Group	
	2006	2005
At 1 January	**4,514**	–
Deferred taxation credited to the income statement	**4,402**	4,514
At 31 December	**8,916**	4,514
Representing deferred tax assets arising from:		
Impairment of inventories	**2,534**	2,939
Accelerated depreciation of property, plant and equipment	**4,717**	540
Others	**1,665**	1,035
	8,916	4,514

The amounts shown in the balance sheet include the following:

	Group	
	2006	2005
Deferred tax assets to be recovered after more than 12 months	**7,251**	3,479
Deferred tax assets to be recovered within 12 months	**1,665**	1,035
	8,916	4,514

Deferred income tax assets are recognised for tax loss carrying-forwards to the extent that the realisation of the related tax benefit through the future taxable profits is probable. The Group did not recognise deferred income tax assets of HK$3,984,000 (2005: HK$2,863,000) in respect of losses amounted to HK$22,184,000 (2005: HK$16,363,000) that can be carried forward against future taxable income.

23. Profit attributable to equity holders of the Company

The profit attributable to equity holders of the Company is dealt with the financial statements of the Company to the extent of the HK$58,692,000 (2005: HK$28,130,000).

(All amounts in HK dollar thousands unless otherwise stated)

24. Earnings per share

The calculation of the basic earnings per share is based on the Group's profit attributable to equity holders of the Company for the year ended 31 December 2006 of HK$43,276,000 (2005: HK$49,899,000) and the number of 1,083,560,000 (2005: 1,083,560,000 ordinary shares deemed to have been in issue on 1 January 2005) ordinary shares in issue during the year.

The exercise of the share options granted under the Share Option Scheme of the Company would have an anti-dilutive effect on the profit per share for the year.

25. Dividends

A 2005 final dividend of HK$0.02 per ordinary share totalling HK$21,671,000 was paid in June 2006.

The directors proposed a 2006 final dividend of HK$0.016 per share (2005: HK$0.02) amounting to a total dividend of HK$17,337,000 in cash which is subject to the approval by the shareholders of the Company at the forthcoming annual general meeting.

26. Cash generated from operations

	2006	2005
Profit for the year	**69,159**	84,348
Adjustment for:		
Income tax expense	**2,358**	5,598
Depreciation of owned property, plant and equipment	**45,324**	55,334
Amortisation of intangible assets	**4,322**	2,529
Loss/(profit) on sale of property, plant and equipment	**6**	(4)
Interest income	**(8,109)**	(4,697)
Interest expense	**6,444**	11,501
Share-based compensation	**3,654**	6,572
Changes in working capital (excluding the effect of exchange differences on consolidation)		
Inventories	**111,232**	(58,415)
Trade and other receivables	**591,765**	(153,553)
Trade and other payables	**(404,524)**	365,730
Provision for warranty	**10,528**	(108)
Net cash inflow generated from operations	**432,159**	314,835

(All amounts in HK dollar thousands unless otherwise stated)

27. Commitments

(a) Capital commitments – Group

At 31 December 2006, the Group's capital commitment which were contracted but not provided for were as follows:

	2006	2005
Purchase of property, plant and equipment and computer software	**1,259**	3,163

(b) Operating lease commitments

As at 31 December 2006, the Group had future aggregate minimum lease payments under non-cancellable operating leases for factories and office premises as follows:

	Group		**Company**	
	2006	2005	**2006**	2005
Not later than one year	**26,218**	25,635	**651**	631
In the second to fifth years	**19,774**	27,808	**–**	626
	45,992	53,443	**651**	1,257

28. Contingent liability

The Group did not have any material contingent liabilities outstanding as at 31 December 2006 (2005: nil).

29. Related-party transactions and balances

Parties are considered to be related if one company has the ability, directly or indirectly, to control the other company 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 or common significant influence.

Save as disclosed other where in this report, significant related party transactions of the Group's business are as follows:

During the year, the Group entered into transactions with companies under common control of:

– CEC, the ultimate holding company. These companies are denoted by * below;

– Koninklijke Philips Electronics N.V. ("KPE") (a company incorporated in Holland), the ultimate holding company of the minority shareholder with significant influence on operation of the principal subsidiary, Sang Fei. These companies are denoted by # below:

(All amounts in HK dollar thousands unless otherwise stated)

29. Related-party transactions and balances *(Continued)*

(a) Sales of products, samples and materials:

		2006	2005
Sales of products:			
Philips (China) Investment Co., Ltd.	#	**1,561,368**	1,797,211
Philips France S.A.S.	#	**2,175**	689,190
Philips Electronics Singapore Pte. Ltd.	#	**1,014,335**	606,578
Philips Electronics Hong Kong Ltd.	#	**273,944**	515,138
Shenzhen SED Coalitan Electronics Co., Ltd.	*	**2,448**	–
Philips Electronics Trading Services (Shanghai) Co., Ltd.	#	**1,241**	8,428
Philips Consumer Electronics B.V.	#	**949**	–
Sales of samples and materials:			
Philips Electronics Hong Kong Ltd.	#	**682**	16,962
Philips (China) Investment Co., Ltd.	#	**34,494**	40,143
Philips Consumer Electronics B.V.	#	**4,353**	–
Philips Electronics Singapore Pte. Ltd.	#	**950**	6,660
Shenzhen SED Coalition Electronics Co., Ltd.	*	**860**	–
Shenzhen Sang Da Baili Electronics Co., Ltd.	*	**407**	–
Shenzhen SED International Electronic Device Co., Ltd.	*	**713**	–
Philips Electronics (Shanghai) Co., Ltd.	#	**–**	13,349
Shenzhen SED Industry Co., Ltd.	*	**–**	4,444
CEC Group, others	*	**–**	360
Philips Group, others	#	**24**	929
Provision of maintenance services:			
Philips (China) Investment Co., Ltd.	#	**25,338**	–

Members of KPE and its subsidiaries (the "Philips Group") and members of CEC and its group companies (the "CEC Group") are the major customers of the Group.

(All amounts in HK dollar thousands unless otherwise stated)

29. Related-party transactions and balances *(Continued)*

(b) Other transactions

		2006	2005
Receipt of interest:			
China Electronics Corporation Finance Co., Ltd.	*	**214**	5
Purchase of goods:			
Philips Electronics Hong Kong Ltd.	#	**214,168**	421,970
Shenzhen Sang Da Baili Electronics Co., Ltd.	*	**20,895**	7,748
Philips France S.A.S.	#	**2,531**	701
Philips (China) Investment Co., Ltd.	#	**1,085**	12,208
Philips Electronics (Beijing) Co., Ltd.	#	**646**	2,216
Philips Electronics Trading Services (Shanghai) Co., Ltd.	#	**946**	971
CEC Group, others	*	**638**	569
Philips Group, others	#	**42**	312
Processing services:			
Shenzhen Sang Da Baili Electronics Co., Ltd.	*	**6,645**	4,867
Shenzhen SED Industry Co., Ltd.	*	**4,898**	4,107
Fitment and decoration services:			
Shenzhen SED Fitment & Decoration Co., Ltd.	*	**1,820**	2,459
Canteen services:			
Shenzhen Sang Da Baili Electronics Co., Ltd.	*	**10,918**	11,273
Repair and maintenance services:			
Shanghai SED ARC Co., Ltd.	*	**2,144**	–
Shenzhen SED ARC Co., Ltd.	*	**628**	1,493
Rental:			
Shenzhen SED Industry Co., Ltd.	*	**7,473**	7,283
China Great Wall Computer Shenzhen Co., Ltd.	*	**493**	–
Great Wall Technology Company Limited	*	**655**	–

(All amounts in HK dollar thousands unless otherwise stated)

29. Related-party transactions and balances *(Continued)*

(c) Year-end balance arising from sales and other transactions

		2006	2005
Trade receivables due from related parties:			
Philips Electronics Singapore Pte. Ltd.	#	**223,114**	212,073
Philips (China) Investment Co., Ltd.	#	**93,525**	495,947
Philips Electronics Hong Kong Ltd.	#	**35,407**	112,833
Philips Electronics Trading Services (Shanghai) Co., Ltd.	#	**551**	3,928
Philips France S.A.S.	#	**–**	95,770
		352,597	920,551
Other receivables due from related parties:			
Philips Electronics Hong Kong Ltd.	#	**11,621**	10,661
Philips (China) Investment Co., Ltd.	#	**10,035**	4,974
Philips Consumer Electronics B.V.	#	**1,867**	–
PCC Hong Kong Ltd.	#	**–**	369
Philips France S.A.S.	#	**164**	4,969
Shenzhen SED International Electronic Device Co., Ltd.	*	**101**	–
Shenzhen Sang Da Baili Electronics Co., Ltd.	*	**99**	–
Philips Electronics Singapore Pte. Ltd.	#	**139**	53
Philips Electronics (Shanghai) Co., Ltd.	#	**–**	5,553
Shenzhen SED Coalition Electronics Co., Ltd.	*	**–**	4
		24,026	26,583
Prepayments:			
Shenzhen Sang Da Baili Electronics Co., Ltd.	*	**6,205**	–
Trade payables due to related parties:			
Philips Electronics Hong Kong Ltd.	#	**16,263**	39,010
Philips (China) Investment Co., Ltd.	#	**6,223**	12,325
Philips France S.A.S.	#	**4,248**	1,523
Shenzhen Sang Da Baili Electronics Co., Ltd.	*	**1,823**	–
Philips Electronics Singapore Pte. Ltd.	#	**287**	778
Philips Electronics (Beijing) Co., Ltd.	#	**180**	608
Philips Electronics Trading Services (Shanghai) Co., Ltd.	#	**22**	–
Langfang CEC Dacheng Electronic Co., Ltd.	*	**14**	652
Shenzhen SED Coalition Electronics Co., Ltd.	*	**–**	1,138
		29,060	56,034

(All amounts in HK dollar thousands unless otherwise stated)

29. Related-party transactions and balances *(Continued)*

(c) Year-end balance arising from sales and other transactions *(Continued)*

		2006	2005
Other payables due to related parties:			
Philips France S.A.S.	#	**6,244**	–
Philips Electronics Hong Kong Ltd.	#	**6,197**	6,208
Philips Electronics Singapore Pte. Ltd.	#	**2,408**	2,303
Shenzhen Sang Da Baili Electronics Co., Ltd.	*	**998**	1,942
Shenzhen SED ARC Co., Ltd.	*	**448**	–
Philips (China) Investment Co., Ltd.	#	**399**	–
Philips Electronics Trading Services (Shanghai) Co., Ltd.	#	**285**	292
Shenzhen SED Fitment and Decoration Co., Ltd.	*	**93**	29
		17,072	10,774
Advance from customers:			
Shenzhen SED Coalition Electronics Co., Ltd.	*	**2,027**	1,146
Deposits:			
China Electronics Corporation Finance Co., Ltd.	*	**51,595**	2,886

30. Event after the balance sheet date

On 16 March 2007, the Tenth National People's Congress ("NPC") plenary session passed the enterprise income tax law ("New Tax Law") that imposes a unified income tax rate of 25% for most enterprises. The New Tax Law will be effective 1 January 2008 and will have impact on the preferential tax policies available in special economic and high technology zones in which Sang Fei is located. As the implementation measures on the various transitional periods and rules for existing preferential tax policies have not yet been announced, the Group cannot reasonably estimate the financial impact of the New Tax Law at this stage.