Notes to Financial Statements

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1. CORPORATE INFORMATION

Mitsumaru East Kit (Holdings) Limited is a limited liability company incorporated in the Cayman Islands. The registered office of the Company is located at Century Yard, Cricket Square, Hutchins Drive, P.O. Box 2681GT, George Town, Grand Cayman, British West Indies.

The principal place of business of the Company is located at Unit 606, 6th Floor, Regent Centre, Tower B, 63 Wo Yi Hop Road, Kwai Chung, New Territories, Hong Kong.

The principal activity of the Company during the year is investment holding. There were no significant changes in the nature of the Group's principal activities during the year. The Group's principal activities are the design of the chassis of colour televisions, the trading of related components, and the assembling of colour television sets.

In the opinion of the Company's directors, the holding company and the ultimate holding company of the Group is Z-Idea Company Limited ("Z-Idea"), which is incorporated in the British Virgin Islands ("BVI").

2.1 BASIC OF PREPARATION

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

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2006. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Minority interests represent the interests of outside shareholders not held by the Group in the results and net assets of the Company's subsidiaries. Acquisitions of minority interests are accounted for using the parent entity extension method whereby the difference between the consideration and the book value of the share of the net assets acquired is recognised as goodwill.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The Group has adopted the following new and revised HKFRSs, applicable to these financial statements, for the first time for the current year's financial statements. The adoption of these new and revised standards and interpretation has had no material effect on these financial statements.

HKAS 21 Amendment	Net Investment in a Foreign Operation
HKAS 39 and HKFRS 4 Amendments	Financial Guarantee Contracts
HKAS 39 Amendment	The Fair Value Option
HK(IFRIC)-Int 4	Determining whether an Arrangement contains a Lease

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

The principal changes in accounting policies are as follows:

(a) HKAS 21 *The Effects of Changes in Foreign Exchange Rates*

Upon the adoption of the HKAS 21 Amendment regarding net investment in a foreign operation, all exchange differences arising from a monetary item that forms part of the Group's net investment in a foreign operation are recognised in a separate component of equity in the consolidated financial statements irrespective of the currency in which the monetary item is denominated. This change has had no material impact on these financial statements as at 31 December 2006 or 31 December 2005.

(b) HKAS 39 *Financial Instruments: Recognition and Measurement*

(i) *Amendment for financial guarantee contracts*

This amendment has revised the scope of HKAS 39 *Financial Instruments: Recognition and Measurement* to require financial guarantee contracts issued that are not considered insurance contracts, to be recognised initially at fair value and to be remeasured at the higher of the amount determined in accordance with HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 *Revenue*. The adoption of this amendment has had no material impact on these financial statements.

(ii) *Amendment for the fair value option*

This amendment has changed the definition of a financial instrument classified as fair value through profit or loss and has restricted the use of the option to designate any financial asset or any financial liability to be measured at fair value through the income statement. The Group had not previously used this option, and hence the amendment has had no effect on the financial statements.

(c) HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*

The Group has adopted this interpretation as of 1 January 2006, which provides guidance in determining whether arrangements contain a lease to which lease accounting must be applied. This interpretation has had no material impact on these financial statements.

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

The Group has not applied the following new and revised HKFRSs applicable to these financial statements, that have been issued but are not yet effective, in these financial statements.

HKAS 1 Amendment	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HKFRS 8	Operating Segments
HK(IFRIC)-Int 8	Scope of HKFRS 2
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment
HK(IFRIC)-Int 11	Group and Treasury Share Transactions

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

HKFRS 7 shall be applied for annual periods beginning on or after 1 January 2007. The standard requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments and also incorporates many of the disclosure requirements of HKAS 32 "Financial Instruments: Disclosure and Presentation".

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2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS *(continued)*

HKFRS 8 shall be applied for annual periods beginning on or after 1 January 2009. The standard requires the disclosure of information about the operating segments of the Group, the products and services provided by the segments, the geographical areas in which the Group operates, and revenues from the Group's major customers. This standard will supersede HKAS 14 Segment Reporting.

HK(IFRIC)-Int 8, HK(IFRIC)-Int 10 and HK(IFRIC)-Int 11 shall be applied for annual periods beginning on or after 1 May 2006, 1 November 2006 and 1 March 2007, respectively.

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, it has concluded that while the adoption of the HKAS 1 Amendment, HKFRS 7 and HKFRS 8 may result in new or amended disclosures, these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

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

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

Joint ventures

A joint venture is an entity set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture entity and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture is treated as:

(a) a subsidiary, if the Group has unilateral control, directly or indirectly, over the joint venture;

(b) a jointly-controlled entity, if the Group does not have unilateral control, but has joint control, directly or indirectly, over the joint venture;

(c) an associate, if the Group does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture's registered capital and is in a position to exercise significant influence over the joint venture; or

(d) an equity investment accounted for in accordance with HKAS 39, if the Group holds, directly or indirectly, less than 20% of the joint venture's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture.

Associates

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

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated income statement and consolidated reserves, respectively. The Group's interest in an associate is stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses. Goodwill arising from the acquisition of an associate is included as part of the Group's interest in an associate. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

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

Notes to Financial Statements

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Goodwill

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

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

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

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

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

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

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

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

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

Impairment of non-financial assets other than goodwill

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

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

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years.

Notes to Financial Statements

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Related parties

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

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

(b) the party is an associate;

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

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

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

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

(g) the party is a post-employment benefit plan for the benefit of the employees of the Group, or of any entity that is a related party of the Group.

Property, plant and equipment and depreciation

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

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

Buildings	2% — 18%
Plant and machinery	9% — 20%
Motor vehicles	9% — 30%
Office equipment	9% — 30%

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

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

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

Construction in progress represents a building under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Notes to Financial Statements

31 December 2006

2.4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investment properties

Investment properties are interests in land and buildings held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are stated at cost less accumulated depreciation and any accumulated impairment losses. Cost represents the purchase price of the investment properties and other cost incurred to bring the properties into their existing use.

Depreciation of investment properties is calculated on a straight-line basis to write off the cost of investment properties to its residual value over its lease term.

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

Club membership

Club membership are stated at cost less any impairment losses. Cost includes fees and expenses directly related to the acquisition of the club membership.

Leases

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

Assets acquired through hire purchase contracts of a financing nature are accounted for as finance leases, but are depreciated over their estimated useful lives.

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

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

Other asset

Other asset held on a long term basis is stated at cost less any impairment loss.

Investments and other financial assets

Financial assets in the scope of HKAS 39 are classified as either financial assets at fair value through profit or loss or loans and receivables as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

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

Notes to Financial Statements

31 December 2006

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments and other financial assets *(continued)*

Financial assets at fair value through profit or loss

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

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are subsequently carried at amortised cost using the effective interest method. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Fair value

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

Impairment of financial assets

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

Assets carried at amortised cost

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

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

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

In relation to trade receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Group will not be able to collect all of the amounts due under the original terms of an invoice. The carrying amount of the receivables is reduced through the use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

Notes to Financial Statements

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Derecognition of financial assets

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

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

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

Financial liabilities at amortised cost (including interest-bearing bank loans)

Financial liabilities including trade and bills payables, other payables, interest-bearing bank loans and finance lease payables, are initially stated at fair value less directly attributable transaction costs and are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the amortisation process.

Derecognition of financial liabilities

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

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

Inventories

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

Cash and cash equivalents

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

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

Notes to Financial Statements

31 December 2006

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Income tax

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

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

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

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

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

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

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

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

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

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

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

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

Revenue recognition

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

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

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

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

(d) subsidy income, when the right to receive payment has been established.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Employee benefits

Share-based payment transactions

The Company operates share option schemes (including pre-IPO share option scheme) for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by independent professionally qualified valuers using binomial model, further details of which are given in note 29. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the Company ("market conditions"), if applicable.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the "vesting date"). The cumulative expense recognised for equity-settled transactions at each balance sheet date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the income statement for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any modification, which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

Pension schemes

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

The employees of the Group's subsidiaries, namely, East Kit Electronic (China) Co., Ltd. ("East Kit (China)"), East Kit Electronic (Shanghai) Co., Ltd. ("East Kit (Shanghai)"), Mitsumaru Electrical (Wuhu) Co., Ltd. ("Mitsumaru (Wuhu)"), and Kaern GmbH, which operate in Mainland China or in Germany are required to participate in a central pension scheme (the "CPB Scheme") operated by the local municipal government. These subsidiaries are required to contribute a percentage ranging from 20.6% to 22.5% of their payroll costs to the CPB Scheme. The only obligation of the Group with respect to the CPB Scheme is the ongoing required contributions under the CPB Scheme which are charged to the income statement as they become payable in accordance with the rules.

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31 December 2006

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Dividends

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

Foreign currencies

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

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

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

Research and development costs

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

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

Judgements

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

Income taxes

The Group has exposure to income taxes in various jurisdictions. Significant judgement is involved in determining the group-wise provision for income taxes. There are certain transactions and computations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises income tax liabilities based on estimated assessable profits, the rate of tax prevailing in the countries of operation, and the existing tax legislations, interpretations, and practices in respect thereof. Where the final tax outcome is different from the amounts that were initially recognised, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

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

Notes to Financial Statements

31 December 2006

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(continued)*

Judgements *(continued)*

Income taxes *(continued)*

Deferred tax assets are recognised for unused tax losses carried forward to the extent that it is probable (i.e., more likely than not) that future taxable profits will be available against which the unused tax losses can be utilised, based on all available evidence. Recognition primarily involves judgement regarding the future performance of the particular legal entity or tax group in which the deferred tax asset has been recognised. A variety of other factors are also evaluated in considering whether there is convincing evidence that it is probable that some portion or all of the deferred tax assets will ultimately be realised, such as the existence of taxable temporary differences, tax planning strategies and the periods in which estimated tax losses can be utilised. The carrying amount of deferred tax assets and related financial models and budgets are reviewed at each balance sheet date and to the extent that there is insufficient convincing evidence that sufficient taxable profits will be available within the utilisation periods to allow utilisation of the carryforward tax losses, the asset balance will be reduced and charged to the income statement.

Employee benefits — share-based payment transactions

The valuation of the fair value of the share options granted requires judgement in determining the expected volatility of the share price, the dividends expected on the shares, the risk-free interest rate during the life of the option and the number of share options that are expected to become exercisable, and details of which are set in note 29 to the financial statements. Where the outcome of the number of options that are exercisable is different from the previously estimated number of exercisable options, such difference will impact the income statement in the subsequent remaining vesting period of the relevant share options.

Estimation uncertainty

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

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

Impairment test of assets

The Group determines whether an asset is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating unit. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

4. SEGMENT INFORMATION

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

(i) Business segments

The Group has two business segments, namely, the design of the chassis of colour televisions and the trading of related components segment, and the assembling of colour television sets segment. The design of the chassis of colour televisions and the trading of related components segment constitutes more than 90% of the Group's revenue. Moreover, the segment results and segment assets for the assembling of colour television sets segment are less than 10% of the Group's results and total assets of all segments, respectively. Therefore, no business segment analysis is presented.

(ii) Geographical segments

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

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4. SEGMENT INFORMATION *(continued)*

(ii) Geographical segments *(continued)*

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

The following tables present revenue and certain asset and capital expenditure information for the Group's geographical segments for the years ended 31 December 2006 and 2005.

Group

	Segment revenue-sales to external customers	
	2006	2005
	HK$'000	HK$'000
Mainland China	**565,820**	523,333
Asia (other than Mainland China)	**242,548**	201,245
Europe	**235,733**	198,218
South America	**121,904**	136,793
Australia	**7,477**	4,330
Others	**313**	2,321
	1,173,795	1,066,240

Group

	Segment assets	
	2006	2005
	HK$'000	HK$'000
Mainland China	**588,639**	583,768
Hong Kong	**342,860**	330,344
Japan	**1,102**	—
Europe	**11,531**	19,271
	944,132	933,383

	Segment capital expenditure	
	2006	2005
	HK$'000	HK$'000
Mainland China	**14,671**	27,820
Hong Kong	**37,803**	24,397
Japan	**77**	—
Europe	**14**	5
	52,565	52,222

Notes to Financial Statements

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5. REVENUE AND OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold upon delivery of goods, after allowances for returns and trade discounts and business/sales tax where applicable.

An analysis of the Group's revenue and other income and gains is as follows:

	2006 HK$'000	2005 HK$'000
Revenue		
Sale of goods	**1,173,795**	1,066,240
Other income and gains		
Bank interest income	**4,701**	1,322
Rental income	**18**	—
Fair value gain on equity investments at fair value through profit or loss	**6,543**	—
Gain on disposal of items of property, plant and equipment	**—**	547
Subsidy income	**126**	566
Others	**732**	548
	12,120	2,983

6. FINANCE COSTS

	Group	
	2006 HK$'000	2005 HK$'000
Interest on bank loans wholly repayable within five years	**10,319**	7,886
Interest on finance lease payables	**11**	104
	10,330	7,990

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7. PROFIT BEFORE TAX

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

	Notes	2006 HK$'000	2005 HK$'000
Cost of inventories sold		**1,048,891**	947,362
Depreciation for property, plant and equipment	14	**10,457**	6,547
Depreciation for investment properties	15	**17**	—
Amortisation of prepaid land premiums	16	**251**	248
Research and development costs*		**2,246**	2,630
Minimum lease payments under operating leases in respect of land and buildings		**1,010**	1,456
Auditors' remuneration		**1,450**	1,250
Employee benefit expenses (including directors' remuneration — note 8):			
Wages and salaries		**49,309**	30,436
Equity-settled share option expense		**2,085**	2,796
Pension scheme contributions		**6,091**	4,017
		57,485	37,249
Foreign exchange difference, net*		**2,223**	2,387
Impairment of trade receivables*		**574**	2,152
Fair value gain on equity investments at fair value through profit or loss*		**—**	(80)
Provision against/(write-back of provision against) slow-moving inventories		**1,863**	(28)

* These items are included in "Other operating expenses" on the face of the consolidated income statement.

8. DIRECTORS' REMUNERATION

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

	Group	
	2006 HK$'000	2005 HK$'000
Fees	**390**	390
Other emoluments:		
Salaries, allowances and benefits in kind	**12,249**	5,669
Bonuses	**—**	390
Employee share option benefits	**761**	984
Pension scheme contributions	**42**	42
	13,052	7,085
	13,442	7,475

In the prior year, certain directors were granted share options, in respect of their services to the Group, under the share option schemes of the Company, further details of which are set out in note 29 to the financial statements. The fair value of such options, which has been amortised to the income statement, was determined as at the date of grant and was included in the above directors' remuneration disclosures.

Notes to Financial Statements

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8. DIRECTORS' REMUNERATION *(continued)*

(a) Independent non-executive directors

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

	2006 HK$'000	2005 HK$'000
Mr. Ede Hao Xi, Ronald	**150**	150
Mr. Ts'o Shun, Roy	**120**	120
Mr. Li Yueh Chen	**120**	120
	390	390

There were no other emoluments payable to the independent non-executive directors during the year (2005: Nil).

(b) Executive directors

	Salaries, allowances and benefits in kind HK$'000	Bonuses HK$'000	Employee share options benefits HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
2006					
Mr. Zhang Shuyang	**5,139**	**—**	**299**	**18**	**5,456**
Mr. Tung Chi Wai, Terrence	**3,926**	**—**	**254**	**12**	**4,192**
Mr. Kazunori Watanabe	**3,184**	**—**	**208**	**12**	**3,404**
	12,249	**—**	**761**	**42**	**13,052**
2005					
Mr. Zhang Shuyang	2,264	165	387	18	2,834
Mr. Tung Chi Wai, Terrence	1,936	125	328	12	2,401
Mr. Kazunori Watanabe	1,469	100	269	12	1,850
	5,669	390	984	42	7,085

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

The above executive directors' remuneration are equivalent to the compensation of key management personnel of the Group.

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included three (2005: three) directors, details of whose remuneration are disclosed in note 8 above. Details of the remuneration of the remaining two (2005: two) non-director, highest paid employees for the year are as follows:

	Group 2006 HK$'000	2005 HK$'000
Salaries, allowances and benefits in kind	**1,623**	1,589
Employee share option benefits	**25**	34
Pension scheme contributions	**199**	197
	1,847	1,820

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9. FIVE HIGHEST PAID EMPLOYEES *(continued)*

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

	Number of employees	
	2006	2005
Nil to HK$1,000,000	**1**	1
HK$1,000,001 to HK$1,500,000	**1**	1
	2	2

During the year, no share options were granted under the Company's share option schemes to the two non-director, highest paid employees in respect of their services to the Group.

10. TAX

Hong Kong profits tax has been provided at the rate of 17.5% (2005: 17.5%) on the estimated assessable profits arising in Hong Kong during the year. Tax on profits assessable elsewhere, if applicable, have been calculated at the rates of tax prevailing in the regions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

The subsidiaries operating in Mainland China were granted a tax concession whereby they enjoyed exemption from corporate income tax ("CIT") for two years starting from the first year in which they record assessable profits, after deducting tax losses brought forward, and are entitled to a 50% exemption from CIT for the following three years.

The tax concession granted to East Kit Electronic (Shanghai) Co., Ltd. ("East Kit (Shanghai)") expired prior to 1 January 2005. Upon obtaining an approval for additional concession with effect on 1 January 2006, East Kit (Shanghai) was granted a partial exemption from the national and local portion of CIT for the three years as it qualified as an "Advanced Technology Company" pursuant to the tax regulation in Mainland China. The CIT rate applied to East Kit (Shanghai) for the year was 13.5% (2005: 27%).

For the year ended 31 December 2006, Mitsumaru Electrical (Wuhu) Co., Ltd. ("Mitsumaru (Wuhu)") reported its third year's profit since its establishment. The tax concession granted to Mitsumaru (Wuhu) then commenced on 1 January 2004 and Mitsumaru (Wuhu) was exempted from CIT for 2004 and 2005. Pursuant to the tax regulation in Mainland China, 50% tax reduction is granted to Mitsumaru (Wuhu) for the succeeding three years. The CIT rate applied to Mitsumaru (Wuhu) for the year was 12% (2005: Nil).

	2006	2005
	HK$'000	HK$'000
Group:		
Current year provision:		
Hong Kong	**—**	1,181
Mainland China	**1,750**	2,727
	1,750	3,908
Overprovision in prior years	**—**	(408)
Tax refunded	**(5,894)**	—
Deferred — note 27	**6,894**	975
Total tax charge for the year	**2,750**	4,475

During the year, the Group decided to increase the capital contribution to East Kit (Shanghai) by capitalising its retained profits to paid-up capital. In accordance with the tax regulations in Mainland China, CIT previously paid on retained profits being capitalised can be refunded. The refund of HK$5,894,000 represented refunds arising from the capitalisation of the retained profits during the year.

Notes to Financial Statements

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10. TAX *(continued)*

A reconciliation of the tax expense applicable to profit before tax using the statutory rate to the tax expense at the effective tax rate is as follows:

	Group	
	2006	2005
	HK$'000	HK$'000
Profit before tax	**11,177**	19,404
Tax at the statutory tax rate of 17.5% (2005: 17.5%)	**1,956**	3,396
Adjustments in respect of current tax of previous periods	**—**	(408)
Different tax rates applicable to subsidiaries operating in Mainland China	**2,019**	(194)
Income not subject to tax	**(327)**	(266)
Expenses not deductible for tax	**1,759**	1,187
Tax losses not recognised	**3,237**	760
Tax refunded	**(5,894)**	—
Tax charge at the Group's effective rate	**2,750**	4,475

11. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

The consolidated profit attributable to equity holders of the parent for the year ended 31 December 2006 includes a profit of HK$13,980,000 (2005: HK$8,643,000) which has been dealt with in the financial statements of the Company (note 30 (b)).

12. DIVIDEND

	2006	2005
	HK$'000	HK$'000
Proposed final — Nil (2005: HK1.125 cents) per ordinary share	**—**	4,500

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

The calculation of basic earnings per share for the year is based on the profit for the year attributable to ordinary equity holders of the parent of HK$8,639,000 (2005: HK$15,216,000), and 400,000,000 (2005: 400,000,000) ordinary shares in issue during the year.

The diluted earnings per share amounts for the years ended 31 December 2006 and 2005 have not been disclosed as the outstanding options during the both years have an anti-dilutive effect on the basic earnings per share for these years.

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14. PROPERTY, PLANT AND EQUIPMENT

Group

	Note	Buildings HK$'000	Plant and machinery HK$'000	Motor vehicles HK$'000	Office equipment HK$'000	Construction in progress HK$'000	Total HK$'000
Cost:							
At 1 January 2005		24,564	8,342	8,990	10,219	31,485	83,600
Additions		2,472	8,805	2,263	12,240	8,891	34,671
Disposals		(5,872)	—	(3,113)	—	—	(8,985)
Transfer		39,776	—	—	—	(39,776)	—
Exchange realignments		686	118	133	135	5	1,077
At 31 December 2005 and 1 January 2006		61,626	17,265	8,273	22,594	605	110,363
Additions		22,440	12,888	886	3,875	4,700	44,789
Disposals		—	(11)	(47)	—	—	(58)
Transfer		4,232	—	—	—	(4,232)	—
Exchange realignments		1,014	300	242	696	23	2,275
At 31 December 2006		89,312	30,442	9,354	27,165	1,096	157,369
Accumulated depreciation:							
At 1 January 2005		3,566	1,707	2,917	6,182	—	14,372
Provided during the year	7	2,506	1,817	978	1,246	—	6,547
Disposals		(1,053)	—	(1,756)	—	—	(2,809)
Exchange realignments		58	45	36	102	—	241
At 31 December 2005 and 1 January 2006		5,077	3,569	2,175	7,530	—	18,351
Provided during the year	7	3,122	2,621	1,326	3,388	—	10,457
Disposals		—	(11)	(47)	—	—	(58)
Exchange realignments		203	135	85	275	—	698
At 31 December 2006		8,402	6,314	3,539	11,193	—	29,448
Net carrying amount:							
At 31 December 2006		80,910	24,128	5,815	15,972	1,096	127,921
At 31 December 2005		56,549	13,696	6,098	15,064	605	92,012

Notes to Financial Statements

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14. PROPERTY, PLANT AND EQUIPMENT *(continued)*

Group

The Group's buildings as at 31 December 2006 are held under the following lease terms:

	Hong Kong	Mainland China	Total
	HK$'000	HK$'000	HK$'000
At cost:			
Medium term leases	22,440	66,872	89,312

The net carrying amount of the Group's machinery held under finance leases included in the total amount of machinery at 31 December 2006 amounted to HK$2,296,000 (2005: Nil).

At 31 December 2006, certain of the Group's buildings and plant and machinery with net carrying amount of HK$22,394,000 (2005: Nil) and HK$8,251,000 (2005: Nil), respectively were pledged to secure a mortgage loan and bank loan granted to the Group.

15. INVESTMENT PROPERTIES

	Group	
	2006	2005
	HK$'000	HK$'000
Cost:		
At 1 January	**—**	—
Additions	**7,776**	—
At 31 December	**7,776**	—
Accumulated depreciation:		
At 1 January	**—**	—
Provided during the year (note 7)	**17**	—
At 31 December	**17**	—
Net carrying amount	**7,759**	—

The Group's investment properties are situated in Hong Kong and are held under medium term leases. As at 31 December 2006, the fair value of the Group's investment properties was HK$7,776,000 which was determined by Vigers Appraisal & Consulting Limited on an open market, existing use basis. The investment properties are leased to third parties under operating leases, further details of which are included in note 33 to the financial statements.

At 31 December 2006, the Group's investment properties with a net carrying value of HK$7,759,000 were pledged to secure mortgage loan granted to the Group (note 25).

Notes to Financial Statements

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16. PREPAID LAND PREMIUMS

	Group	
	2006	2005
	HK$'000	HK$'000
Carrying amount at 1 January	**11,145**	11,203
Recognised during the year (note 7)	**(251)**	(248)
Exchange realignment	**396**	190
Carrying amount at 31 December	**11,290**	11,145
Current portion included in prepayments, deposits and other receivables	**(256)**	(248)
Non-current portion	**11,034**	10,897

The leasehold land is held under a medium term lease and is situated in Mainland China.

17. GOLF CLUB MEMBERSHIP

	Group	
	2006	2005
	HK$'000	HK$'000
Cost at 1 January 2006	**—**	—
Additions	**360**	—
At 31 December 2006	**360**	—

Impairment testing of golf club membership

The recoverable amount of the golf club membership is determined based on its estimated fair value at the balance sheet date.

18. INTERESTS IN SUBSIDIARIES

	Company	
	2006	2005
	HK$'000	HK$'000
Unlisted shares, at cost	**98,949**	98,949
Due from subsidiaries	**141,424**	109,927
Due to a subsidiary	**(22,854)**	(2,521)
	217,519	206,355

The amounts due are unsecured, interest-free and have no fixed terms of repayment. The carrying amounts of the amounts due approximate their fair values.

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18. INTERESTS IN SUBSIDIARIES *(continued)*

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/registered and paid up share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Mitsumaru (Holdings) Limited	Hong Kong	Ordinary HK$100 Deferred HK$5,000,000	—	100	Investment holding
Mitsumaru (H.K.) Limited	Hong Kong	HK$10,000	—	100	Trading of electronic components
East Kit Electronic (China) Co., Ltd.*	Mainland China	Paid-up registered US$11,000,000	—	100	Design of the chassis of colour televisions and trading of electronic components
East Kit Electronic (Shanghai) Co., Ltd.*	Mainland China	Paid-up registered US$12,650,000	—	100	Design of the chassis of colour televisions and trading of electronic components
Mitsumaru Electronic (Wuhu) Co., Ltd.*	Mainland China	Paid-up registered US$1,300,000	—	100	Assembling of colour television sets and other electronic components
Kaern GmbH	Germany	Nominal EUR450,000	—	90	Trading of electronic components
Mitsumaru East Kit (Group) Limited ("Mitsumaru EK Group")	BVI	HK$1	100	—	Investment holding

* These subsidiaries are registered as wholly-foreign-owned enterprises under the PRC law.

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

19. INTEREST IN AN ASSOCIATE

	Group 2006 HK$'000	2005 HK$'000
Share of net assets	**20,147**	—
Goodwill on acquisition	**8,207**	—
	28,354	—

The above goodwill on acquisition is relevant to the design of the display system cash-generating units, which is a reportable segment of the Group, for impairment testing purposes.

The recoverable amount of the design of the display system cash-generating units has been determined based on a value in use calculation using cash flow projections approved by management. The discount rate applied to the cash flow projections is 6% and cash flows beyond the forecast period are extrapolated using the historical financial information without an aggressive growth rate being taken into account by management.

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19. INTEREST IN AN ASSOCIATE *(continued)*

Particulars of the associate are as follows:

Name	Place of registration and operations	Nominal value of registered and paid-up share capital	Percentage of ownership interest attributable to the Group	Principal activities
Cyber Opto-Electronical Technology Co., Ltd.	Mainland China	Paid-up registered RMB30,800,000	38.5%	Research and development and manufacture of high resolution large screen rear projection display system

On 13 December 2005, the Group entered into an agreement (the "Agreement") with a stated-owned enterprise, which is an independent third party to the Group, for the acquisition of a 38.5% equity interest in Cyber Opto-Electronical Technology Co., Ltd., a limited liability company established in the People's Republic of China, for a consideration of RMB30,800,000 (the "Acquisition"). The Acquisition constituted a discloseable transaction pursuant to the Listing Rules. As at 31 December 2005, a deposit of HK$15,361,000 was paid by the Group. The Acquisition was completed in April 2006. Further details of the Acquisition were set out in the Company's circular dated 4 January 2006.

The following table illustrates the summarised financial information of the Group's associate extracted from its management accounts.

	2006 **HK$'000**
Assets	**52,442**
Liabilities	**115**
Revenues	**6,527**
Loss	**7,449**

20. RESTRICTED TIME DEPOSITS

Pursuant to agreements entered into between the Group and a supplier dated 28 June 2002 and 31 March 2005, the Group agreed to use certain of its bank deposits as security to guarantee the Group's performance and settlement of all of its outstanding obligations and liabilities due to the supplier in connection with the supply of electronic components.

21. INVENTORIES

	Group	
	2006 **HK$'000**	2005 HK$'000
Raw materials	**93,052**	73,086
Finished goods	**51,559**	51,724
	144,611	124,810

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22. TRADE RECEIVABLES

The Group's trading terms with its customers are mainly on credit, except for the new customers, where payment in advance is normally required. The credit period generally ranges from 30 to 120 days, extending up to six months for major customers. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise the credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non interest-bearing.

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

	Group	
	2006	2005
	HK$'000	HK$'000
Within 90 days	**267,945**	330,986
91 days to 180 days	**86,915**	24,057
181 days to 1 year	**18,649**	40,425
Over 1 year	**12,970**	17,292
	386,479	412,760

Included in the trade receivables as at 31 December 2006 was an amount due from a debtor (the "Debtor") of approximately HK$51,000,000 (the "Debt") of which an amount of approximately HK$4,500,000 was subsequently settled. The Group has entered into a repayment agreement with the Debtor subsequent to the balance sheet date. To secure the settlement of the Debt, the Group had also entered into two security pledge agreements with the Debtor. Pursuant to these agreements, the Debtor pledged its inventories with book value of approximately RMB24,867,000 (equivalent to HK$24,867,000) and a floating charge on the money receivable from the sales of these inventories for a value of RMB16,000,000 (equivalent to HK$16,000,000), and its brand names for a value of RMB40,000,000 (equivalent to HK$40,000,000). The Group and the Debtor are currently undergoing the legal registration process for the pledge of the brand names.

23. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

		Group		Company	
		2006	2005	**2006**	2005
	Note	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Cash and bank balances		**80,980**	86,761	**216**	853
Time deposits		**67,163**	61,009	**—**	—
		148,143	147,770	**216**	853
Less: Pledged time deposits for banking facilities	25	**(67,163)**	(11,415)	**—**	—
Cash and cash equivalents		**80,980**	136,355	**216**	853

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK$25,959,000 (2005: HK$34,640,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

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

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24. TRADE AND BILLS PAYABLES

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

	Group	
	2006	2005
	HK$'000	HK$'000
Within 180 days	**446,409**	519,854
181 days to 1 year	**73,572**	24,424
1 to 2 years	**8,451**	5,455
Over 2 years	**10,454**	9,422
	538,886	559,155

25. INTEREST-BEARING BANK LOANS

	Effective interest rate (%)	Maturity	Group 2006 HK$'000	Group 2005 HK$'000
Current				
Bank loans — secured	5.39–7.75	2007	**122,384**	116,899
Non-current				
Bank loans — secured	5.39–7.27	2008–2016	**19,526**	—
			141,910	116,899

	Group	
	2006	2005
	HK$'000	HK$'000
Analysed into:		
Bank loans repayable within one year or on demand	**122,384**	116,899
In the second year	**4,917**	—
In the third to fifth years, inclusive	**4,776**	—
Beyond five years	**9,833**	—
	141,910	116,899

At 31 December 2006, the Group's bank loans, together with the banking facilities, were secured by the following:

(a) time deposits of the Group amounted to HK$67,163,000 (2005: HK$11,415,000) (note 23);

(b) pledged over the Group's plant and machinery, which had an aggregated carrying value at the balance sheet date of approximately HK$8,251,000 (2005: Nil) (note 14);

(c) mortgages over the Group's buildings situated in Hong Kong, which had an aggregate carrying value at the balance sheet date of approximately HK$22,394,000 (2005: Nil) (note 14);

(d) mortgages over the Group's investment properties situated in Hong Kong, which had an aggregate carrying value at the balance sheet date of approximately HK$7,759,000 (2005: Nil) (note 15) ; and

(e) corporate guarantees executed by the Company.

25. INTEREST-BEARING BANK LOANS *(continued)*

Other interest rate information:

	Group			
	2006		2005	
	Fixed rate	**Floating rate**	Fixed rate	Floating rate
	HK$'000	**HK$'000**	HK$'000	HK$'000
Bank loans — secured	**9,939**	**131,971**	29,762	87,137

The carrying amounts of the Group's bank loans approximate their fair values.

26. FINANCE LEASE PAYABLES

The Group leases certain machineries. These leases are classified as finance leases.

At 31 December 2006, the total future minimum lease payments under finance leases and their present values, were set out below:

Group

	Minimum lease payments 2006 HK$'000	Minimum lease payments 2005 HK$'000	**Present value of minimum lease payments 2006 HK$'000**	Present value of minimum lease payments 2005 HK$'000
Amounts payable within one year and total minimum finance lease payments	**2,076**	—	**1,865**	—
Future finance charges	**(211)**	—		
Total net finance lease payables	**1,865**	—		
Portion classified as current liabilities	**(605)**	—		
Long term portion	**1,260**	—		

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27. DEFERRED TAX

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

Group

Deferred tax assets

	Impairment of trade receivables HK$'000
At 1 January 2005	22,101
Deferred tax charged to the income statement during the year (note 10)	(1,653)
Exchange realignment	372
At 31 December 2005 and 1 January 2006	20,820
Deferred tax charged to the income statement during the year (note 10)	(6,962)
Exchange realignment	1,179
At 31 December 2006	15,037

The Group has tax losses arising in Hong Kong of HK$21,467,000 (2005: HK$9,740,000). Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time, or it is not probable that sufficient taxable profits will be available to allow all or part of the deferred tax assets to be utilised.

Deferred tax liabilities

	Uninvoiced sales HK$'000
At 1 January 2005	1,226
Deferred tax credited to the income statement during the year (note 10)	(678)
Exchange realignment	14
At 31 December 2005 and 1 January 2006	562
Deferred tax credited to the income statement during the year (note 10)	(68)
Exchange realignment	21
At 31 December 2006	515

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28. SHARE CAPITAL

Shares

	2006 HK$'000	2005 HK$'000
Authorised:		
1,000,000,000 ordinary shares of HK$0.1 each	**100,000**	100,000
Issued and fully paid:		
400,000,000 ordinary shares of HK$0.1 each	**40,000**	40,000

Share options

Details of the Company's share option schemes and the share options issued under the schemes are included in note 29 to the financial statements.

29. SHARE OPTION SCHEMES

Pursuant to an ordinary resolution passed at an extraordinary general meeting of the Company held on 22 June 2004, the Company approved and adopted a share option scheme (the "Scheme") and a pre-IPO share option scheme (the "Pre-IPO Scheme"). The purpose of these two schemes is to provide incentives and/or rewards to any director, consultant, advisor person including full-time or part-time employee of the Company and its subsidiaries, at the sole discretion of the board, for their contribution to, and their continuing efforts to promote the interests of the Company. The schemes became effective on 22 June 2004 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The Scheme

The maximum number of unexercised share options currently permitted to be granted under the Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue at any time. The maximum number of shares issuable under share options to each eligible participant in the Scheme within any 12-month period, is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Share options granted to a director, chief executive or substantial shareholder of the Company, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the price of the Company's shares at the date of the grant) in excess of HK$5 million, within any 12-month period, are subject to shareholders' approval in a general meeting.

The offer of a grant of share options may be accepted within 21 days from the date of the offer. The exercise period of the share options granted is determinable by the directors, and commences after a certain vesting period and ends on a date which is not later than five years from the date of the offer of the share options or the expiry date of the Scheme, whichever is earlier.

The exercise price of the share options is determinable by the directors, but may not be less than the higher of (i) the Stock Exchange closing price of the Company's shares on the date of the offer of the share options; and (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of the offer.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

At 31 December 2006 and up to the date of approval of these financial statements, no share options have been granted under the Scheme.

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29. SHARE OPTION SCHEMES *(continued)*

The Pre-IPO Scheme

The purpose and the principal terms of the Pre-IPO Scheme, approved and adopted by the Company's shareholders on 22 June 2004, are substantially the same as the purpose and the terms of the Scheme except that:

(i) The subscription price per share shall be the price of each share issued under the public offering, that is, HK$1.068 per share;

(ii) The maximum number of shares which may be issued upon the exercise of all options granted under the Pre-IPO Scheme shall be 35,000,000 shares; and

(iii) Save for the options which have been granted but have not lapsed, been cancelled or exercised in full under the Pre-IPO Scheme as set out below, no further options will be offered or granted under the Pre-IPO Scheme after the day immediately prior to the listing of the Company's shares on the Stock Exchange.

On 25 June 2004, options to subscribe for 35,000,000 shares at an exercise price of HK$1.068 were granted by the Company under the Pre-IPO Scheme to a total of 91 employees of the Company at a consideration of HK$1.00 per option under the Pre-IPO Scheme.

The following outstanding share options which are exercisable for shares under the Pre-IPO Scheme during the year were as follows:

Name or category of participant	At 1 January 2006	Granted during the year	Lapsed during the year	At 31 December 2006	Date of grant of options	Exercisable period*	Exercise price of options HK$
Directors							
Mr. Zhang Shuyang	2,300,000	—	—	2,300,000	25 June 2004	25 June 2004-24 June 2014	1.068
Mr. Tung Chi Wai, Terrence	1,950,000	—	—	1,950,000	25 June 2004	25 June 2004-24 June 2014	1.068
Mr. Kazunori Watanabe	1,600,000	—	—	1,600,000	25 June 2004	25 June 2004-24 June 2014	1.068
	5,850,000	—	—	5,850,000			
Other employees							
In aggregate	28,470,000	—	(3,850,000)	24,620,000	25 June 2004	25 June 2004-24 June 2014	1.068
	34,320,000	—	(3,850,000)	30,470,000			

* Each option has a 10-year exercise period commencing from 25 June 2004 to 24 June 2014. Within the 10-year exercise period, there is a total vesting period of four years. Commencing on the first, second, third and fourth anniversaries of the date of grant of an option, the relevant grantee may exercise up to 0%, 33%, 67% and 100%, respectively, of the shares comprised in his or her option (less any number of shares in respect of which the option has been previously exercised).

The fair value of the Pre-IPO granted was HK$7,598,000 of which the Group recognised a share option expense of HK$2,085,000 (2005: HK$2,796,000) during the year ended 31 December 2006.

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29. SHARE OPTION SCHEMES *(continued)*

The Pre-IPO Scheme *(continued)*

The fair value of the Pre-IPO share options granted on 25 June 2004 was estimated by Vigers Appraisal & Consulting Limited, independent professionally qualified valuers, using binomial model taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used for calculating the fair value of the Pre-IPO share options at the date of grant as follows:

Dividend yield (%)	0.72
Historical volatility (%)	45.00
Risk-free interest rate (%)	4.47
Expected life of option (year)	10.00
Share price at date of grant (HK$)	1.07

The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome. No other feature of the Pre-IPO share options was incorporated into the measurement of the fair value.

30. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and the prior year are presented in the consolidated statement of changes in equity on page 32 of the financial statements.

The Group's contributed surplus represents the difference between the nominal value of the shares of the subsidiaries acquired pursuant to the group reorganisation, over the nominal value of the Company's shares issued in exchange therefor.

In accordance with the relevant regulation in Mainland China, the subsidiaries operating in Mainland China are required to transfer 10% of their profits after tax, as determined under the accounting regulations in Mainland China, to the statutory surplus reserve, until the balance of the fund reaches 50% of their respective registered capital. The statutory surplus reserve and the expansion reserve are non-distributable, and subject to certain restrictions set out in the relevant regulations in Mainland China. These reserves can be used either to offset against accumulated losses or be capitalised as paid-up capital. However, such balance of the statutory surplus reserve must be maintained at a minimum of 25% of paid-up capital after above mentioned usages.

For the year ended 31 December 2006, the profit appropriation represented the appropriation of statutory surplus reserve of up to 25% of the paid-up capital for fulfillment of the above statutory requirements.

The appropriation of statutory surplus reserve to retained profits was made with respect to the capitalisation of statutory surplus reserve and retained profits as paid-up capital of East Kit (China) and East Kit (Shanghai) in 2003.

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30. RESERVES *(continued)*

(b) Company

	Note	Share premium account HK$'000	Pre-IPO share option reserve HK$'000	Contributed surplus HK$'000	Retained profits/ (accumulated losses) HK$'000	Total HK$'000
At 1 January 2005		52,557	1,455	98,938	(363)	152,587
Equity-settled share option arrangements		—	2,796	—	—	2,796
Profit for the year		—	—	—	8,643	8,643
Proposed final 2005 dividend	12	—	—	—	(4,500)	(4,500)
At 31 December 2005 and 1 January 2006		52,557	4,251	98,938	3,780	159,526
Equity-settled share option arrangements		—	2,085	—	—	2,085
Share options lapsed during the year		—	(750)	—	750	—
Profit for the year		—	—	—	13,980	13,980
At 31 December 2006		52,557	5,586	98,938	18,510	175,591

The Company's contributed surplus represents the excess of the fair value of the shares of the subsidiaries acquired pursuant to the group reorganisation completed in 2004, over the nominal value of the Company's shares issued in exchange therefor. Under the Companies Law (2004 Revision) of the Cayman Islands, the Company's share premium account and contributed surplus may be distributed to the shareholders of the Company, provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business.

The share option reserve comprises the fair value of share options granted which are yet to be exercised, as further explained in the accounting policy for share-based payment transactions in note 2.4 to the financial statements. The amount will either be transferred to the share premium account when the related options are exercised, or be transferred to retained profits should the related options expire or be forfeited.

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31. CONTINGENT LIABILITIES

Corporate guarantees

At 31 December 2006, unlimited guarantees given to banks by the Company and jointly with its subsidiaries in connection with facilities granted to subsidiaries amounted to HK$152,286,000 (2005: HK$130,700,000). The banking facilities granted to the subsidiaries subject to guarantees given to the banks by the Company were utilised to the extent of approximately HK$126,228,000 (2005: HK$90,857,000).

Litigation

On 28 July 2004, the Company announced that East Kit Industries Limited and East Kit Electronic Manufacturing Co. Ltd (collectively known as the "Plaintiffs") applied to the court and an interim injunction was granted by the court against the Company on 23 July 2004, which restrained the Company from using the words "East Kit" and the characters "東傑" as part of its name in Hong Kong (the "Interim Injunction").

A consent order (the "Consent Order") was made by the court on 30 July 2004. The Consent Order has released many restrictions previously imposed on the Company by the Interim Injunction.

The hearing of the Summons took place during the period from 3 November 2005 to 5 November 2005 and the Interim Injunction imposed on the Company was successfully discharged on 5 November 2005. The high court also refused to grant the Plaintiffs' application for a renewal of the Consent Order after hearing the Plaintiffs' summons. As a result, the Company is no longer subject to any restriction in using the words "East Kit" or words confusing similar as part of its English company name or characters "東傑" or any characters as part of its Chinese company name in Hong Kong, under the Interim Injunction or the Consent Order.

On 5 November 2004, it was ordered by the high court that there would be a speedy trial in respect of the Plaintiffs' allegation that the Company has, among other things, passed off its business as being connected with that of the Plaintiffs (the "Speedy Trial").

The Legal Proceedings have been settled on terms whereby the Company makes no admission of liability in relation to the subject matter of such proceedings and each party bears its own legal costs and expenses. The Company will retain its formal corporate title "Mitsumaru East Kit (Holdings) Limited" (in English) and "三丸東傑(控股)有限公司" (in Chinese) but has agreed that henceforth it will adopt a business/brand name "MEK" (in English) and "三丸東傑" (in Chinese). The Directors believe that the terms of the settlement will not have a material impact upon the business of the Company and its subsidiaries.

For the year ended 31 December 2006, the Group incurred legal and professional fees in an aggregate amount of HK$1,414,000 (2005: HK$1,547,000) for this litigation. Such amount was charged to the income statement for the year under "Other operating expenses".

32. PLEDGE OF ASSETS

Details of the Group's bank loans, which are secured by the assets of the Group, are included in notes 25 to the financial statements.

Notes to Financial Statements

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33. OPERATING LEASE ARRANGEMENTS

As lessor

The Group leases its investment properties (note 15) under operating lease arrangements, with leases negotiated for terms ranging from one to two years. The terms of the leases generally also require the tenants to pay security deposits.

At 31 December 2006, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Group	
	2006	2005
	HK$'000	HK$'000
Within one year	**205**	—
In the second to fifth years, inclusive	**61**	—
	266	—

As lessee

The Group leases its office properties under operating lease arrangements which are negotiated for terms of one to two years. At 31 December 2006, the Group had total future minimum lease obligation under non-cancellable operating leases in respect of land and buildings falling due as follows:

	Group	
	2006	2005
	HK$'000	HK$'000
Within one year	**73**	555
In the second to fifth years, inclusive	**—**	1,991
After five years	**—**	2,043
	73	4,589

34. COMMITMENTS

In addition to the operating lease commitments detailed in note 33 above, the Group had the following capital commitments at the balance sheet date:

	Group	
	2006	2005
	HK$'000	HK$'000
Contracted, but not provided for the acquisition of plant and machinery	**2,643**	6,149#
Contracted, but not provided for the acquisition of buildings	**578**	—
Contracted, but not provided for the acquisition of an equity investment	**—**	14,254
	3,221	20,403

During the year ended 31 December 2005, the Group entered into an agreement for purchases of moulds with a total contract sum of HK$23,700,000. As at 31 December 2005, the Group paid a deposit of HK$17,551,000 and the unpaid amount was disclosed as a capital commitment to the Group.

At the balance sheet date, the Company did not have any other significant commitments.

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35. MAJOR NON-CASH TRANSACTION

During the year, the Group entered into a non-cash transaction of a finance lease arrangement in respect of the property, plant and equipment, with a total capital value at the inception of the lease of approximately HK$1,932,000 (2005: Nil).

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group does not have written risk management policies and guidelines. However, the board of directors meets periodically to analyse and formulate measures to manage the Group's exposure to market risk, including principally changes in interest rates and currency exchanges rates. Generally, the Group introduces conservative strategies on risk management. As the Group's exposure to the market risk is kept at a minimum, the Group has not used any derivatives and other instruments for hedging purposes. The Group does not hold or issue derivative financial instruments for trading purposes.

At 31 December 2006, the Group's financial instruments mainly comprise cash and cash equivalents, trade receivables, other receivables, trade payables, other payables, bank loans and financial leases payables.

(a) Foreign currency risk

The Group's monetary assets, loans and transactions are principally denominated in Hong Kong Dollars ("HK$"), RMB and United States Dollars ("US$"). The Group is exposed to foreign exchange risk arising from the exposure of HK$ against RMB and US$. Considering that the exchange rate between HK$ and US$ is pegged, the Group believes its exposure to exchange rate risk is minimal. At present, the Group does not intend to seek to hedge its exposure to foreign exchange fluctuations. However, the Group will constantly review the economic situation and its foreign exchange risk profile, and will consider appropriate hedging measures in future as may be necessary.

(b) Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents and equity investments at fair value through profit or loss, arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

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

37. POST BALANCE SHEET EVENTS

During the 5th Session of the 10th National People's Congress, which was concluded on 16 March 2007, the PRC Corporate Income Tax Law ("the New Corporate Income Law") was approved and will become effective on 1 January 2008. The New Corporate Income Tax Law introduces a wide range of changes which include, but are not limited to, the unification of the income tax rate for domestic-invested and foreign-invested enterprises at 25%. Since the detailed implementation and administrative rules and regulations have not yet been announced, the financial impact of the New Corporate Income Tax Law to the Group cannot be reasonably estimated at this stage.

38. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 25 April 2007.