Notes to the financial statements

For the year ended 31 December 2006

1. GENERAL INFORMATION

Bright International Group Limited (the "Company") is a limited liability company incorporated and domiciled in Bermuda. The address of the registered office of the Company is located at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda. The Company's shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The principal activities of the Company is investment holding. The principal activities of the Company's subsidiaries are set out in note 18 to the financial statements. The directors consider the ultimate holding company to be Bright International Assets Inc., which is incorporated in the British Virgin Islands ("BVI").

The financial statements on pages 37 to 87 have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The financial statements also included the applicable disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules").

2. ADOPTION OF NEW OR REVISED HKFRS

2.1 During the year, the Group has applied, for the first time, a number of new and amended HKFRSs, which are effective for accounting periods beginning on or after 1 December 2005 or 1 January 2006. These include the following:

HKAS 1, HKAS 27 & HKFRS 3 (Amendments)	Presentation of Financial Statements, Consolidated and Separate Financial Statements & Business Combinations – Amendments as a consequence of the Hong Kong Companies (Amendment) Ordinance 2005
HKAS 19 (Amendment)	Employee Benefits – Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 21 (Amendment)	The Effects of Changes in Foreign Exchange Rates – Net Investment in a Foreign Operation
HKAS 39 (Amendment)	Financial Instruments: Recognition and Measurement – Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 (Amendment)	Financial Instruments: Recognition and Measurement – The fair Value Option
HKAS 39 & HKFRS 4 (Amendments)	Financial Instruments: Recognition and Measurement and Insurance Contracts – Financial Guarantee Contracts
HKFRS 1 & HKFRS 6 ((Amendments)	First-time Adoption of Hong Kong Financial Reporting Standards and Exploration for and Evaluation of Mineral Resources
HKFRS 6	Exploration for and Evaluation of Mineral Resources
HK(IFRIC) – Int 4	Determining whether an Arrangement contains a lease
HK(IFRIC) – Int 5	Rights to Interest Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
HK(IFRIC) – Int 6	Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment

Notes to the financial statements (continued)

For the year ended 31 December 2006

2. ADOPTION OF NEW OR REVISED HKFRS (continued)

The adoption of the above new and amended HKFRSs did not resulted in significant changes to the Group's accounting policies. The specific transitional provisions contained in some of these standards were considered. The adoption of these standards did not result in any changes to the amounts or disclosures in these financial statements.

2.2 The Group has not early adopted the following HKFRSs that have been issued but are not yet effective. The adoption of such HKFRSs will not result in substantial changes to the Group's accounting policies.

HKAS 1 (Amendment)	Capital Disclosures[5]
HKFRS 7	Financial Instruments – Disclosures[5]
HKFRS 8	Operating segment[8]
HK(IFRIC) 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies[1]
HK(IFRIC) 8	Scope of HKFRS 2[2]
HK(IFRIC) 9	Reassessment of Embedded Derivatives[3]
HK(IFRIC) 10	Interim Financial Reporting and Impairment[4]
HK(IFRIC) 11	HKFRS 2: Group and Treasury Share Transactions[6]
HK(IFRIC) 12	Service Concession Arrangements[7]

Notes:

[1] Effective for annual periods beginning on or after 1 March 2006
[2] Effective for annual periods beginning on or after 1 May 2006
[3] Effective for annual periods beginning on or after 1 June 2006
[4] Effective for annual periods beginning on or after 1 November 2006
[5] Effective for annual periods beginning on or after 1 January 2007
[6] Effective for annual periods beginning on or after 1 March 2007
[7] Effective for annual periods beginning on or after 1 January 2008
[8] Effective for annual periods beginning on or after 1 January 2009

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 Basis of preparation

The significant accounting policies that have been used in the preparation of these financial statements are summarised below.

The financial statements have been prepared on the historical cost basis except for:

– investment properties,
– land and buildings,
– financial instruments classified as financial assets at fair value through profit or loss, and
– derivative financial instruments (other than designated as hedging instruments or linked to and must be settled by delivery of unquoted equity instruments whose fair value cannot be reliably measured)

which are stated at fair values. The measurement bases are fully described in the accounting policies below.

It should be noted that accounting estimates and assumptions are used in preparation of the financial statements. Although these estimates are based on management's best knowledge and judgement of current events and actions, actual results may ultimately differ from those estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 4.

3.2 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 December each year.

3.3 Subsidiaries

Subsidiaries are entities over which the Group has the power to control the financial and operating policies so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are excluded from consolidation from the date that control ceases.

Business combinations are accounted for by applying the purchase method. This involves the revaluation at fair value of all identifiable assets and liabilities, including contingent liabilities of the subsidiary, at the acquisition date, regardless of whether or not they were recorded in the financial statements of the subsidiary prior to acquisition. On initial recognition, the assets and liabilities of the subsidiary are included in the consolidated balance sheet at their fair values, which are also used as the bases for subsequent measurement in accordance with the Group's accounting policies.

Notes to the financial statements (continued)

For the year ended 31 December 2006

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3 Subsidiaries (continued)

Intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated in preparing the consolidated financial statements. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

In the Company's balance sheet, subsidiaries are carried at cost less impairment loss. The results of the subsidiaries are accounted for by the Company on the basis of dividends received and receivable at the balance sheet date.

3.4 Foreign currency translation

The financial statements are presented in Hong Kong Dollars (HK$), which is also the functional currency of the Company.

In the individual financial statements of the consolidated entities, foreign currency transactions are translated into the functional currency of the individual entity using the exchange rates prevailing at the dates of the transactions. At the balance sheet date, monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the balance sheet date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the balance sheet date retranslation of monetary assets and liabilities are recognised in the income statement.

Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined and are reported as part of the fair value gain or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

In the consolidated financial statements, all individual financial statements of foreign operations, originally presented in a currency different from the Group's presentation currency, have been converted into Hong Kong dollars. Assets and liabilities have been translated into Hong Kong dollars at the closing rates at the balance sheet date. Income and expenses have been converted into the Hong Kong dollars at the exchange rates ruling at the transaction dates, or at the average rates over the reporting period provided that the exchange rates do not fluctuate significantly. Any differences arising from this procedure have been dealt with separately in the currency translation reserve in equity. Goodwill and fair value adjustments arising on the acquisition of a foreign operation on or after 1 January 2005 have been treated as assets and liabilities of the foreign operation and translated into Hong Kong dollars at the closing rates. Goodwill arising on the acquisitions of foreign operations before 1 January 2005 is translated at the foreign exchange rate that applied at the date of acquisition of the foreign operation.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.5 Goodwill

Goodwill represents the excess of the cost of a business combination over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities. The cost of the business combination is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group, plus any costs directly attributable to the business combination.

Goodwill is stated at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment.

Any excess of the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of a business combination is recognised immediately in profit or loss.

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

3.6 Research and development costs

Costs associated with research activities are expensed in the income statement as they occur. Expenditure incurred on projects to develop new products is capitalised and deferred only when they meet the following recognition requirements :

(i) demonstration of technical feasibility of the prospective product for internal use or sale;

(ii) the intangible asset will generate probable economic benefits through internal use or sale;

(iii) sufficient technical, financial and other resources are available for completion;

(iv) the Group has the intention to complete the development and use or sell the new products; and

(v) the expenditure attributable to the intangible asset can be reliably measured

All other development costs are expensed as incurred.

Notes to the financial statements (continued)

For the year ended 31 December 2006

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.7 Property, plant and equipment

Leasehold land and buildings (where the fair value of the leasehold interest in the land and buildings cannot be measured separately at the inception of the lease and the building is not clearly held under an operating lease) are stated at revalued amounts, being fair value at the date of revaluation less subsequent accumulated depreciation and any subsequent impairment losses. Fair value is determined in appraisals by external professional valuers with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the balance sheet date. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. All other property, plant and equipment are stated at acquisition cost less accumulated depreciation and accumulated impairment losses.

Any surplus arising on revaluation of land and buildings is credited to the revaluation reserve in equity, unless the carrying amount of that asset has previously suffered a revaluation decrease or impairment loss as described in note 3.9. To the extent that any decrease has previously been recognised in income statement, a revaluation increase is credited to income statement with the remaining part of the increase dealt with in the revaluation reserve. A decrease in net carrying amount of land and buildings arising on revaluations or impairment testing is charged against any revaluation surplus in the revaluation reserve relating to the same asset and the remaining decrease is recognised in income statement.

Depreciation is provided to write off the cost or revalued amounts less their residual values over their estimated useful lives, using the straight-line method, at the following rates per annum :

Leasehold land and buildings	The shorter of the lease terms and 20 years
Leasehold improvements	20%
Plant, machinery and moulds	10% – 33%
Furniture, fixtures and equipment	20% – 33%
Motor vehicles	20%

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

The gain or loss arising on retirement or disposal is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement. Any revaluation surplus remaining in equity is transferred to retained earnings on the disposal of land and buildings.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.7 Property, plant and equipment (continued)

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

3.8 Investment properties

Investment properties are land and/or buildings which are owned or held under a leasehold interest to earn rental income and/or for capital appreciation. These include land held for a currently undetermined future use.

When the Group holds a property interest under an operating lease to earn rental income and/or for capital appreciation, the interest is classified and accounted for as an investment property on a property-by-property basis. Any such property interest which has been classified as an investment property is accounted for as if it were held under a finance lease.

On initial recognition, investment property is measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment property is stated at fair value. Fair value is determined by external professional valuers, with sufficient experience with respect to both the location and the nature of the investment property. The carrying amounts recognised in the balance sheet reflect the prevailing market conditions at the balance sheet date.

Gains or losses arising from changes in the fair value of an investment property is included in the profit or loss for the period in which they arise.

3.9 Impairment of assets

Goodwill arising on an acquisition of subsidiary, other intangible assets, property, plant and equipment, interests in subsidiaries are subject to impairment testing.

Goodwill and other intangible assets with an indefinite useful life or those not yet available for use are tested for impairment at least annually, irrespective of whether there is any indication that they are impaired. All other assets are tested for impairment whenever there are indications that the asset's carrying amount may not be recoverable.

An impairment loss is recognised as an expense immediately for the amount by which the asset's carrying amount exceeds its recoverable amount unless the relevant asset is carried at a revalued amount under the Group's accounting policy, in which case the impairment loss is treated as a revaluation decrease according to that policy (refer to note 3.7 for details). The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell, and value in use. 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 assessment of time value of money and the risk specific to the asset.

Notes to the financial statements (continued)

For the year ended 31 December 2006

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.9 Impairment of assets (continued)

For the purposes of assessing impairment, where an asset does not generate cash inflows largely independent from those from other assets, the recoverable amount is determined for the smallest group of assets that generate cash inflows independently (i.e. a cash-generating unit). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level. Goodwill in particular is allocated to those cash-generating units that are expected to benefit from synergies of the related business combination and represent the lowest level within the Group at which the goodwill is monitored for internal management purpose.

Impairment losses recognised for cash-generating units, to which goodwill has been allocated, are credited initially to the carrying amount of goodwill. Any remaining impairment loss is charged pro rata to the other assets in the cash generating unit, except that the carrying value of an asset will not be reduced below its individual fair value less cost to sell, or value in use, if determinable.

An impairment loss on goodwill is not reversed in subsequent periods. In respect of other assets, an impairment loss is reversed if there has been a favorable change in the estimates used to determine the asset's recoverable amount and only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

3.10 Related parties

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

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

(b) the party is an associate or a jointly-controlled entity of the Company/Group;

(c) the party is a member of the key management personnel of the Company or its parent;

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

(e) 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 (c) or (d); or

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.11 Leases

(i) *Classification of assets leased to the Group*

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases, with the following exceptions:

– property held under operating leases that would otherwise meet the definition of an investment property is classified as an investment property on a property-by-property basis and, if classified as investment property, is accounted for as if held under a finance lease (see note 3.8); and

– land held for own use under an operating lease, the fair value of which cannot be measured separately from the fair value of a building situated thereon, at the inception of the lease, is accounted for as being held under a finance lease, unless the building is also clearly held under an operating lease (see note 3.7). For these purposes, the inception of the lease is the time that the lease was first entered into by the Group, or taken over from the previous lessee.

(ii) *Operating lease charges as the lessee*

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to the income statement on a straight line basis over the lease terms except where an alternative basis is more representative of the pattern of benefits to be derived from the leased assets. Lease incentives received are recognised in the income statement as an integral part of the aggregate net lease payments made. Contingent rental are charged to the income statement in the accounting period in which they are incurred.

(iii) *Assets leased out under operating leases as the lessor*

Assets leased out under operating leases are measured and presented according to the nature of the assets. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the rental income.

Rental income receivable from operating leases is recognised in profit or loss on a straight-line basis over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.

Notes to the financial statements (continued)

For the year ended 31 December 2006

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.12 Financial assets

The Group classifies its financial assets into the following categories: Loan and receivables and financial assets at fair value through profit or loss.

Management determines the classification of its financial assets at initial recognition depending on the purpose for which the financial assets were acquired and where allowed and appropriate, re-evaluates this designation at every reporting date.

All financial assets are recognised when, and only when, the Group becomes a party to the contractual provisions of the instrument. 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.

Derecognition of financial assets occurs when the rights to receive cash flows from the investments expire or are transferred and substantially all of the risks and rewards of ownership have been transferred. At each balance sheet date, financial assets are reviewed to assess whether there is objective evidence of impairment. If any such evidence exists, impairment loss is determined and recognised based on the classification of the financial asset.

(i) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are subsequently measured at amortised cost using the effective interest method, less any impairment losses. 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 cost.

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

Financial assets at fair value through profit or loss includes financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss.

Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments or financial guarantee contracts.

Where a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as a financial asset at fair value through profit or loss, except where the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.12 Financial assets (continued)

(ii) *Financial assets at fair value through profit or loss* (continued)

Financial assets may be designated at initial recognition as at fair value through profit or loss if the following criteria are met:

– the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognising gains or losses on them on a different basis; or

– the assets are part of a group of financial assets which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy and information about the group of financial assets is provided internally on that basis to the key management personnel; or

– the financial asset contains an embedded derivative that would need to be separately recorded.

Subsequent to initial recognition, the financial assets included in this category are measured at fair value with changes in fair value recognised in income statement.

3.13 Impairment of financial assets

At each balance sheet date, financial assets carried at amortised cost are reviewed to determine whether there is any objective evidence of impairment. If any such evidence exists, 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 amount of the loss is recognised in profit or loss of the period in which the impairment occurs.

If, in 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 to the extent that it does not result in a carrying amount of the financial asset exceeding what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in profit or loss of the period in which the reversal occurs.

3.14 Inventories

Inventories are carried at the lower of cost and net realisable value. Cost is determined using the first-in, first-out basis, and in the case of work in progress and finished goods, comprise direct materials, direct labour and an appropriate proportion of overheads absorbing direct labour and overheads. Net realisable value is the estimated selling price in the ordinary course of business less the estimated cost of completion and applicable selling expenses.

Notes to the financial statements (continued)

For the year ended 31 December 2006

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.15 Cash and cash equivalents

Cash and cash equivalents include cash at bank and in hand, demand deposits with banks with original maturities of three months or less that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value. For the purpose of cash flow statement presentation, cash and cash equivalents include bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

3.16 Income taxes

Income tax comprises current tax and deferred tax.

Current income tax assets and/or liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting period, that are unpaid at the balance sheet date. They are calculated according to the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognised as a component of tax expense in the income statement.

Deferred tax is calculated using the liability method on temporary differences at the balance sheet date between the carrying amounts of assets and liabilities in the financial statements and their respective tax bases. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences, tax losses available to be carried forward as well as other unused tax credits, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised.

Deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither taxable nor accounting profit or loss.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax is calculated, without discounting, at tax rates that are expected to apply in the period the liability is settled or the asset realised, provided they are enacted or substantively enacted at the balance sheet date.

Changes in deferred tax assets or liabilities are recognised in the income statement, or in equity if they relate to items that are charged or credited directly to equity.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.17 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) 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

(c) rental income, on a time proportion basis over the lease terms.

3.18 Employee benefits

Share-based payment transactions

The Company operates a 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. 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.

Notes to the financial statements (continued)

For the year ended 31 December 2006

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.18 Employee benefits (continued)

Share-based payment transactions (continued)

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 who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the participating 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 which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute a certain percentage of the payroll costs to the central pension scheme. The contributions are charged to the income statement as they become payable in accordance with the rules of the central pension scheme.

3.19 Provisions, contingent liabilities and contingent assets

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

All provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.19 Provisions, contingent liabilities and contingent assets (continued)

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

Contingent liabilities are recognised in the course of the allocation of purchase price to the assets and liabilities acquired in a business combination. They are initially measured at fair value at the date of acquisition and subsequently measured at the higher of the amount that would be recognised in a comparable provision as described above and the amount initially recognised less any accumulated amortisaton, if appropriate.

3.20 Financial guarantees issued

A financial guarantee contract is a contract that requires the issuer (or guarantor) to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Where the Group issues a financial guarantee, the fair value of the guarantee is initially recognised as deferred income within trade and other payables. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the Group's policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in profit or loss on initial recognition of any deferred income.

The amount of the guarantee initially recognised as deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised if and when it becomes probable that the holder of the guarantee will call upon the Group under the guarantee and the amount of that claim on the Group is expected to exceed the current carrying amount i.e. the amount initially recognised less accumulated amortisation, where appropriate.

3.21 Financial liabilities

Financial liabilities include discounted bills with recourse, trade and bills payables and other payables and accruals. They are included in balance sheet line items under current liabilities.

Financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument. All interest related charges are recognised as an expense in financial costs in the income statement. A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Notes to the financial statements (continued)

For the year ended 31 December 2006

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.21 Financial liabilities (continued)

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

Trade and bills payables and other payables and accruals are recognised initially at their fair value and subsequently measured at amortised cost, using the effective interest method.

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

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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, is discussed below:

(i) 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. The carrying amount of goodwill at 31 December 2006 was HK$23,906,000 (2005: HK$25,686,000). More details are given in note 17.

(ii) Share-based payment

The fair value of options granted are estimated by independent professional valuer based on the various assumptions of volatility, life of options, dividend yield and annual risk-free rate, excluding the impact of non-market vesting conditions, which generally represent the best estimate of the fair value of the option at the date of granting the options.

(iii) Impairment of receivables

The Group's management determines impairment of receivables on a regular basis. This estimate is based on the credit history of its customers/borrowers and current market conditions. Management reassess the impairment of receivables at the balance sheet date.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

Estimation uncertainty (continued)

(iv) Income taxes

The Group is subject to income taxes in Mainland China. Significant judgement is required in determining the amount of the provision for income taxes and the timing of payment of related taxes. The Group recognises liabilities for anticipated tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which the tax outcome is finalised.

(v) Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. These estimates are based on the current market condition and the historical experience of selling products of similar nature. It could change significantly as a result of competitor actions in response to severe industry cycles. Management will reassess the estimations at the balance sheet date.

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:

Classification between investment properties and owner-occupied properties

The Group determines whether a property qualifies as an investment property, and has developed criteria in making that judgement. Investment property is a property held to earn rentals or for capital appreciation or both.

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

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

Notes to the financial statements (continued)

For the year ended 31 December 2006

5. SEGMENT INFORMATION

In accordance with the Group's internal financial reporting, the Group has determined that business segment be presented as the primary reporting format. Since over 90% of the Group's revenue, results and assets are derived from the design, manufacture and sale of lighting products, no separate analysis of financial information by business segment is presented in the financial statements.

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers. Segment assets and capital expenditure are based on the geographical location of the assets.

The Group's operations are located in five main geographical areas. The following table provides an analysis of the Group's sales :

Segment revenue:

	2006	2005
	HK$'000	*HK$'000*
United States of America	**706,732**	658,607
Hong Kong and Mainland China	**32,010**	41,516
Canada	**29,355**	31,456
Europe	**10,284**	11,231
Others	**28,032**	31,763
	806,413	774,573

The following is an analysis of the carrying amount of segment assets, and additions to property, plant and equipment and intangible assets, analysed by the geographical area in which the assets are located.

	Segment assets		**Capital expenditures**	
	2006	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
United States of America	**8,460**	5,751	**46**	–
Hong Kong and Mainland China	**600,207**	536,119	**22,045**	64,979
Canada	**24,711**	28,010	**19**	757
Europe	**–**	–	**–**	–
Others	**27,277**	28,820	**–**	–
	660,655	598,700	**22,110**	65,736

6. REVENUE AND OTHER INCOME

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after allowances for returns and trade discounts during the year.

An analysis of revenue and other income is as follows:

	Group	
	2006	2005
	HK$'000	*HK$'000*
Revenue – sale of goods	**806,413**	774,573
Other income:		
Gross rental income from investment properties	**883**	852
Bank interest income	**728**	620
Gain on disposal of financial assets at fair value through profit or loss	**812**	773
Gain on disposal of property, plant and equipment	**23**	–
Others	**2,829**	2,868
	5,275	5,113

Notes to the financial statements (continued)

For the year ended 31 December 2006

7. PROFIT BEFORE INCOME TAX

	Group	
	2006	2005
	HK$'000	*HK$'000*
Profit before income tax is arrived at after charging/(crediting):		
Cost of inventories sold	**465,383**	445,822
– including write-down of inventories to net realisable value	**1,556**	–
Depreciation	**30,120**	25,137
Minimum lease payments under operating leases:		
Land and buildings	**4,575**	4,491
Office equipment	**178**	139
Auditors' remuneration	**1,100**	1,230
Staff costs (including directors' remuneration and retirement scheme contribution)	**77,877**	71,978
Other operating expenses:		
Impairment of goodwill	**1,780**	3,558
Research and development costs	**3,822**	7,126
Provision for impairment of trade receivables	**3,093**	457
Write-off of items of property, plant and equipment	**1,164**	326
Foreign exchange differences, net	**2,365**	545
Fair value loss on financial assets at fair value through profit or loss	**183**	500
Surplus on revaluation of leasehold land and buildings	**(189)**	(256)

8. FINANCE COSTS

	Group	
	2006	2005
	HK$'000	*HK$'000*
Interest on bank loans and overdrafts	**162**	77
Interest on other loans	**324**	192
	486	269

9. DIRECTORS' REMUNERATION

Remuneration of the directors disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	Group	
	2006	2005
	HK$'000	*HK$'000*
Fees:		
Executive directors	**700**	700
Independent non-executive directors	**300**	300
	1,000	1,000
Other emoluments of executive directors:		
Salaries, allowances and benefits in kind	**6,500**	6,500
Discretionary bonuses	**2,585**	2,098
Employee share option benefits	**586**	–
	10,671	9,598

(a) Independent non-executive directors

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

	Group	
	2006	2005
	HK$'000	*HK$'000*
Mr. Leung Hok Lim	**100**	100
Mr. Chan Nien Po	**100**	100
Mr. Hsiao Horng Ching	**100**	100
	300	300

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

Notes to the financial statements (continued)

For the year ended 31 December 2006

9. DIRECTORS' REMUNERATION (continued)

(b) Executive directors

	Fees	Salaries, allowances and benefits in kind	Discretionary bonuses	Employee share option benefits	Total remuneration
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
2006					
Mr. Hsu Chen Shen	**100**	**1,700**	**669**	**–**	**2,469**
Mr. Hsu Shiu Sheng	**100**	**1,200**	**487**	**–**	**1,787**
Mrs. Hsu Wei Jui Yun	**100**	**400**	**74**	**–**	**574**
Mr. Pak Ping Chun	**100**	**900**	**417**	**293**	**1,710**
Mr. Yang Hsien Lin	**100**	**900**	**524**	**293**	**1,817**
Mr. Hsu Chin Liang	**100**	**900**	**241**	**–**	**1,241**
Mr. Hsu Chiang Lung	**100**	**500**	**173**	**–**	**773**
	700	**6,500**	**2,585**	**586**	**10,371**
2005					
Mr. Hsu Chen Shen	100	1,700	535	–	2,335
Mr. Hsu Shiu Sheng	100	1,200	370	–	1,670
Mrs. Hsu Wei Jui Yun	100	400	63	–	563
Mr. Pak Ping Chun	100	900	344	–	1,344
Mr. Yang Hsien Lin	100	900	433	–	1,433
Mr. Hsu Chin Liang	100	900	200	–	1,200
Mr. Hsu Chiang Lung	100	500	153	–	753
	700	6,500	2,098	–	9,298

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

10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year were all (2005: all) directors of the Company, details of whose remuneration are set out in note 9 above.

11. INCOME TAX EXPENSE

No provision for Hong Kong profits tax has been made since the Group did not have any assessable profits arising in Hong Kong during the current and prior years. Taxes on profits assessable elsewhere have been calculated at the prevailing rates of tax based on existing legislation, interpretations and practices.

	Group 2006 HK$'000	2005 HK$'000
Current tax – Mainland China		
Charge for the year	**4,392**	5,234
Underprovision in prior years	**–**	438
Current tax – Elsewhere		
Charge for the year	**343**	135
Total tax charge for the year	**4,735**	5,807

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

Group – 2006

	Mainland China HK$'000	Mainland China %	North America HK$'000	North America %	Total HK$'000	Total %
Profit/(Loss) before income tax	**63,471**		**(3,411)**		**60,060**	
Tax at the statutory tax rate	**20,946**	**33.0**	**(1,232)**	**36.1**	**19,714**	**32.8**
Different tax rate for specific provinces or local authority	**(3,332)**	**(5.3)**	**44**	**(1.3)**	**(3,288)**	**(5.4)**
Tax losses not recognised	**1,728**	**2.7**	**597**	**(17.5)**	**2,325**	**3.9**
Income not subject to tax	**(15,837)**	**(24.9)**	**–**	**–**	**(15,837)**	**(26.4)**
Expenses not deductible for tax	**943**	**1.5**	**934**	**(27.4)**	**1,877**	**3.1**
Tax losses utilised from previous period	**(56)**	**(0.1)**	**–**	**–**	**(56)**	**(0.1)**
Tax charge at the Group's effective rate	**4,392**	**6.9**	**343**	**(10.1)**	**4,735**	**7.9**

Notes to the financial statements (continued)

For the year ended 31 December 2006

11. INCOME TAX EXPENSES (continued)

Group – 2005

	Mainland China		North America		Total	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*
Profit/(Loss) before income tax	58,772		(4,961)		53,811	
Tax at the statutory tax rate	19,394	33.0	(1,792)	36.1	17,602	32.7
Different tax rate for specific provinces or local authority	(643)	(1.1)	69	(1.4)	(574)	(1.1)
Adjustments in respect of current tax of previous periods	438	0.8	–	–	438	0.8
Tax losses not recognised	3,630	6.2	2,157	(43.5)	5,787	10.8
Income not subject to tax	(18,104)	(30.8)	(305)	6.2	(18,409)	(34.2)
Expenses not deductible for tax	957	1.6	6	(0.1)	963	1.8
Tax charge at the Group's effective rate	5,672	9.7	135	(2.7)	5,807	10.8

12. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The consolidated profit attributable to equity holders of the Company for the year ended 31 December 2006 include a profit of approximately HK$95,322,000 (2005: profit of approximately HK$47,189,000) which has been dealt with in the financial statements of the Company (note 29b).

13. DIVIDENDS

	2006	2005
	HK$'000	*HK$'000*
Interim – HK3 cents (2005: Nil) per ordinary share	**14,715**	–
Proposed final – HK2.5 cents (2005: HK4 cents) per ordinary share	**12,263**	19,620
	26,978	19,620

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

14. EARNINGS PER SHARE

The calculation of basic earnings per share amount is based on the net profit for the year of approximately HK$55,325,000 (2005: approximately HK$48,004,000) attributable to ordinary equity holders of the Company, and 490,500,000 ordinary shares in issue during these years.

The calculation of diluted earnings per share for the year is based on the net profit for the year of HK$55,325,000 attributed to equity holders of the Company and the weighted average of 493,198,551 ordinary shares outstanding during the year, adjusted for the effects of all dilutive potential shares. The weighted average number of ordinary shares used in the calculation of diluted earnings per share is calculated based on the 490,500,000 ordinary shares in issue during the year, plus the weighted average number of 2,698,551 ordinary shares deemed to be issued at no consideration as if the share options have been exercised.

No diluted earnings per share amount for the year ended 31 December 2005 was presented as the Company did not have any dilutive potential ordinary shares.

Notes to the financial statements (continued)

For the year ended 31 December 2006

15. PROPERTY, PLANT AND EQUIPMENT

Group

	Leasehold land and buildings# HK$'000	Leasehold improvements HK$'000	Plant, machinery and moulds HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
At 31 December 2006							
At 31 December 2005 and 1 January 2006:							
Cost or valuation	196,810	26,144	89,432	21,873	11,782	19,174	365,215
Accumulated depreciation	–	(9,707)	(32,098)	(11,972)	(7,617)	–	(61,394)
Net carrying amount	196,810	16,437	57,334	9,901	4,165	19,174	303,821
At 1 January 2006, net of accumulated depreciation	196,810	16,437	57,334	9,901	4,165	19,174	303,821
Additions	2,961	9	5,106	995	3,137	9,902	22,110
Disposal/write-off	(378)	(64)	(38)	(84)	(646)	–	(1,210)
Surplus on revaluation	12,059	–	–	–	–	–	12,059
Depreciation provided during the year	(8,827)	(2,998)	(13,223)	(3,914)	(1,158)	–	(30,120)
Transfers	7,520	114	580	–	–	(8,214)	–
Exchange realignment	1,485	–	–	121	36	373	2,015
At 31 December 2006, net of accumulated depreciation	211,630	13,498	49,759	7,019	5,534	21,235	308,675
At 31 December 2006:							
Cost or valuation	211,630	26,201	94,629	22,678	12,527	21,235	388,900
Accumulated depreciation	–	(12,703)	(44,870)	(15,659)	(6,993)	–	(80,225)
Net carrying amount	211,630	13,498	49,759	7,019	5,534	21,235	308,675
Analysis of cost or valuation:							
At cost	–	13,498	49,759	7,019	5,534	21,235	97,045
At 2006 valuation	211,630	–	–	–	–	–	211,630
	211,630	13,498	49,759	7,019	5,534	21,235	308,675

15. PROPERTY, PLANT AND EQUIPMENT (continued)

Group

	Leasehold land and buildings# HK$'000	Leasehold improvements HK$'000	Plant, machinery and moulds HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
At 31 December 2005							
At 31 December 2004 and 1 January 2005:							
Cost or valuation	142,380	21,989	65,628	12,667	11,041	36,626	290,331
Accumulated depreciation	–	(6,559)	(20,222)	(9,017)	(7,133)	–	(42,931)
Net carrying amount	142,380	15,430	45,406	3,650	3,908	36,626	247,400
At 1 January 2005, net of accumulated depreciation	142,380	15,430	45,406	3,650	3,908	36,626	247,400
Additions	13,487	3,999	17,416	7,105	1,229	22,500	65,736
Write-off	–	–	(72)	(23)	(16)	(215)	(326)
Surplus on revaluation	14,474	–	–	–	–	–	14,474
Acquisition of a subsidiary	–	82	317	–	–	–	399
Depreciation provided during the year	(6,297)	(3,082)	(11,795)	(2,965)	(998)	–	(25,137)
Transfers	31,627	8	6,062	2,096	–	(39,793)	–
Exchange realignment	1,139	–	–	38	42	56	1,275
At 31 December 2005, net of accumulated depreciation	196,810	16,437	57,334	9,901	4,165	19,174	303,821
At 31 December 2005:							
Cost or valuation	196,810	26,144	89,432	21,873	11,782	19,174	365,215
Accumulated depreciation	–	(9,707)	(32,098)	(11,972)	(7,617)	–	(61,394)
Net carrying amount	196,810	16,437	57,334	9,901	4,165	19,174	303,821
Analysis of cost or valuation:							
At cost	–	16,437	57,334	9,901	4,165	19,174	107,011
At 2005 valuation	196,810	–	–	–	–	–	196,810
	196,810	16,437	57,334	9,901	4,165	19,174	303,821

As the prepaid land premium cannot be allocated reliably between the land and buildings elements, the entire land premium are included in the cost of land and buildings as finance leases in property, plant and equipment in accordance with HKAS 17.

Notes to the financial statements (continued)

For the year ended 31 December 2006

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

The Group's leasehold land and buildings included above are held under the following lease terms:

2006	**Hong Kong**	**Mainland China**	**Total**
	HK$'000	***HK$'000***	***HK$'000***
At valuation:			
Medium term leases	**1,430**	**203,100**	**204,530**
Long term lease	**–**	**7,100**	**7,100**
	1,430	**210,200**	**211,630**

2005	Hong Kong	Mainland China	Total
	HK$'000	*HK$'000*	*HK$'000*
At valuation:			
Medium term leases	1,310	190,000	191,310
Long term lease	–	5,500	5,500
	1,310	195,500	196,810

The Group's leasehold land and buildings were revalued individually as at 31 December 2006 by Greater China Appraisal Limited ("Greater China"), an independent professionally qualified valuer, at an aggregate open market value of HK$211,630,000 based on their existing use. A revaluation surplus of HK$8,893,000 (2005: HK$10,805,000), net of deferred tax liabilities of HK$2,977,000 (2005: HK$3,413,000) (note 26), and a revaluation surplus of HK$189,000 (2005: HK$256,000) (note 7) resulting from the above valuations have been credited to the asset revaluation reserve and the consolidated income statement, respectively.

Had these leasehold land and buildings been carried at historical cost less accumulated depreciation, their carrying values would have been approximately HK$152,841,000 (2005: HK$151,565,000).

16. **INVESTMENT PROPERTIES**

	Group	
	2006	2005
	HK$'000	*HK$'000*
Carrying amount at 1 January and 31 December	**3,380**	3,380

The Group's investment properties are held under medium term leases and were revalued as at 31 December 2006 by Greater China, at HK$3,380,000 on an open market, existing use basis. The investment properties are situated in Mainland China and leased to third parties under operating leases, further details of which are included in note 32(a) to the financial statements.

Further particulars of the Group's investment properties are included on page 88 of this annual report.

17. GOODWILL

	Group	
	2006	2005
	HK$'000	*HK$'000*
At 1 January		
Cost	**35,309**	13,182
Accumulated impairment	**(9,623)**	(6,065)
Net carrying amount	**25,686**	7,117
Year ended 31 December		
Opening net book amount	**25,686**	7,117
Acquisition of a subsidiary	**–**	22,127
Impairment during the year *(note 7)*	**(1,780)**	(3,558)
Net carrying amount	**23,906**	25,686
At 31 December		
Cost	**35,309**	35,309
Accumulated impairment	**(11,403)**	(9,623)
Net carrying amount	**23,906**	25,686

Impairment testing of goodwill

The carrying amount of goodwill has been allocated to the cash-generating units for impairment test, i.e sale of light products.

The recoverable amount has been determined based on a value-in-use calculation using cash flow projections based on financial budgets covering a five-year period and approved by senior management. The discount rate applied to cash flow projection is 8.5% (2005: 11.5%) and cash flows beyond five-year period are extrapolated using a growth rate of 2% (2005: 2%) which is similar to the long term average growth rate of the lighting industry.

Management determined the cash flow projections based on experience and their expectation for market development. The budgeted gross margins are expected to be consistent with the year under review as management do not foresee any further significant raw materials price inflation.

Impairment of goodwill of approximately HK$1,780,000 (2005: approximately HK$3,558,000) has been charged in other operating expenses on the face of the consolidated income statements.

Notes to the financial statements (continued)

For the year ended 31 December 2006

18. INTERESTS IN SUBSIDIARIES

	Company 2006 HK$'000	Company 2005 HK$'000
Unlisted shares, at cost	**43,715**	43,715
Due from subsidiaries	**209,218**	186,781
	252,933	230,496

The balances with subsidiaries for the year ended 31 December 2006 are unsecured, interest-free and are repayable at least twelve months after the balance sheet date.

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued and paid-up share/ registered capital	Percentage of equity interest attributable to the Company Direct	Indirect	Principal activities
Bright Group (BVI) Ltd.	BVI/Hong Kong	US$702 Ordinary	100	–	Investment holding
Full Scene Developments Limited	BVI/Hong Kong	US$50,000 Ordinary	–	100	Investment holding
Whole Bright Industries (HK) Limited	Hong Kong	HK$1,000 Ordinary HK$100,000 Non-voting deferred	–	100	Investment and property holding
Whole Bright Industries Limited	BVI/Mainland China	US$1 Ordinary	–	100	Trading of lighting products
Dongguan Bright Yin Huey Lighting Co., Ltd. #	Mainland China	HK$15,240,000	–	100	Design, manufacture and sale of lighting products
Willy Garden Limited	BVI/Hong Kong	US$50,000 Ordinary	–	100	Investment holding
Whole Bright Industries (Macao Commercial Offshore) Limited	Macau	MOP100,000	–	100	Trading of lighting products
Everprofit Enterprise Co., Ltd.	BVI/Hong Kong	HK$11,610,000 Ordinary	–	100	Investment holding

18. INTERESTS IN SUBSIDIARIES (continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued and paid-up share/ registered capital	Percentage of equity interest attributable to the Company Direct	Indirect	Principal activities
東莞嘉盛照明科技有限公司 #	Mainland China	HK$71,000,000	–	100	Design, manufacture and sale of lighting products
Ticko Inc.	BVI/Hong Kong	US$50,000 Ordinary	–	100	Investment holding
Newgreat Asia Limited	BVI/Hong Kong	US$50,000 Ordinary	–	100	Investment holding
Sinograce Holdings Limited	BVI/Hong Kong	US$50,000 Ordinary	–	100	Investment holding
Oriental Bright Holdings Limited	BVI/Hong Kong	US$50,000 Ordinary	–	100	Investment holding
Perfect Rich Holdings Limited	BVI/Hong Kong	US$50,000 Ordinary	–	100	Investment holding
上海瑩輝照明科技有限公司 #	Mainland China	US$12,000,000	–	100	Design, manufacture and sale of lighting products
上海瑩輝照明工程有限公司 #	Mainland China	US$2,000,000	–	100	Trading of lighting products
永瑩輝貿易(上海)有限公司 #	Mainland China	US$2,500,000	–	100	Trading of lighting products
Bright Lighting Inc.	United States of America	US$722 Ordinary	–	100	Deisgn and sale of lighting products
Bright and Best Co., Ltd	BVI/Mainland China	US$1 Ordinary	–	100	Trading of lighting products
Bright China Investments Holdings Limited	BVI/Hong Kong	US$1 Ordinary	–	100	Investment holding
Profitmark Investments Limited	BVI/Hong Kong	US$1 Ordinary	–	100	Investment holding

Notes to the financial statements (continued)

For the year ended 31 December 2006

18. INTERESTS IN SUBSIDIARIES (continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued and paid-up share/ registered capital	Percentage of equity interest attributable to the Company Direct	Indirect	Principal activities
R.A.M. Lighting Holdings Ltd.	Canada	C$1,560,100 Common	–	100	Investment holding
R.A.M. Lighting Ltd.	Canada	C$3 Common C$3,000,000 Preference	–	100	Design and distribution of lighting products

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.

Registered as a wholly-owned foreign investment enterprise in Mainland China.

* *During the year, 北京瑩輝照明科技有限公司 and Eliance Group. Inc. was deregistered.*

19. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group 2006 HK$'000	2005 HK$'000
Listed equity investments, at fair value:		
Hong Kong	**3,169**	2,888
Elsewhere	**202**	246
	3,371	3,134

The above equity investments at 31 December 2006 and 2005 were classified as held for trading.

20. INVENTORIES

	Group	
	2006	2005
	HK$'000	*HK$'000*
Raw materials	**61,748**	52,953
Work in progress	**6,588**	2,481
Finished goods	**46,790**	54,244
	115,126	109,678

21. DISCOUNTED BILLS WITH RECOURSE

	Group	
	2006	2005
	HK$'000	*HK$'000*
Discounted bills with recourse – secured	**49,343**	–

Balance represented proceeds from banks on discounted bills at 31 December 2006 which were secured by the related bills receivable and bear interests ranging from 6.2% to 6.6% per annum. All bank loans were repayable within one year.

The Group's bank borrowing facilities amounting to approximately HK$134 million (2005 :HK$30 million), of which approximately HK$49 million (2005: HK$ NIL) has been utilised as at the balance sheet date, are supported by the corporate guarantees provided by the Company.

Included in the bank advances from discounted bills are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

	2006	2005
	US$'000	*US$'000*
US dollars	**6,342**	–

Notes to the financial statements (continued)

For the year ended 31 December 2006

22. TRADE AND BILLS RECEIVABLES

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

	Group	
	2006	2005
	HK$'000	*HK$'000*
Within 1 month	**55,849**	32,934
1 to 3 months	**37,363**	13,896
4 to 6 months	**4,753**	8,550
7 to 12 months	**1,619**	4,564
Over 1 year	**14,108**	7,492
	113,692	67,436

Included in trade receivables are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

	2006	2005
	US$'000	*US$'000*
US dollars	**11,144**	4,450

Trading terms with customers are largely on credit, except for the new customers, where trade deposits, advances or payments in advance are normally required. Invoices are normally payable within 30 to 90 days of issuance by letters of credit or on an open account basis. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are regularly reviewed by senior management. Trade receivables are non-interest bearing.

23. CASH AND CASH EQUIVALENTS AND PLEDGED TIME DEPOSITS

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Cash and bank balances	**61,668**	49,357	**76**	203
Time deposits	**2,662**	10,607	**–**	–
	64,330	59,964	**76**	203
Less: Time deposits pledged for general banking facilities granted to certain subsidiaries	**–**	(6,663)	**–**	–
	64,330	53,301	**76**	203

23. CASH AND CASH EQUIVALENTS AND PLEDGED TIME DEPOSITS (continued)

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK$31,604,000 (2005: HK$19,814,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at bank earns interest at floating rates based on daily bank deposits rates ranging from 0.7% to 2.5% per annum. Short term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The carrying amounts of the cash and cash equivalents and the pledged deposits approximate to their fair values.

24. TRADE AND BILLS PAYABLES

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

	Group	
	2006	2005
	HK$'000	*HK$'000*
1 to 3 months	**70,692**	83,271
4 to 6 months	**3,395**	3,461
7 to 12 months	**1,385**	5,200
Over 1 year	**4,827**	3,929
	80,299	95,861

The trade and bills payables are non-interest bearing and are normally settled on 60-day terms.

25. DUE TO A RELATED COMPANY

The amount due to the related company, in which certain directors of the Company have beneficial interest, is unsecured, non-interest bearing and is repayable on demand. The amount represents reimbursement payable to the related company, 瑩輝興業股份有限公司, for expenses and purchases paid on behalf of the Group.

Notes to the financial statements (continued)

For the year ended 31 December 2006

26. DEFERRED TAX

The movement in the Group's deferred tax liabilities during the year is as follows:

	Revaluation of investment properties HK$'000	Revaluation of leasehold land and buildings HK$'000	Total HK$'000
At 1 January 2005	444	7,346	7,790
Deferred tax debited to equity during the year *(note 15)*	–	3,413	3,413
At 31 December 2005 and 1 January 2006	444	10,759	11,203
Deferred tax debited to equity during the year *(note 15)*	–	2,977	2,977
At 31 December 2006	444	13,736	14,180

The Group has tax losses of HK$965,000 (2005: HK$676,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as it is considered not probable that future taxable profits will be available from these group companies against which the tax losses can be utilised.

At 31 December 2006, there was no significant unrecognised deferred tax liability (2005: Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries as the Group had no liability to additional tax should such amounts be remitted.

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

27. SHARE CAPITAL

	2006 ***HK$'000***	2005 *HK$'000*
Authorised:		
1,000,000,000 ordinary shares of HK$0.10 each	**100,000**	100,000
Issued and fully paid:		
490,500,000 ordinary shares of HK$0.10 each	**49,050**	49,050

There were no movements in either the Company's authorised or issued share capital during the year.

28. SHARE OPTION SCHEME

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include the Company's directors, including independent non-executive directors, employees, whether full-time or part-time, of the Group or any Invested Entity (as defined in the Scheme), suppliers of goods or services to the Group or any Invested Entity, customers of the Group or any Invested Entity, person or entity that provides research, development or other technological support to the Group or any Invested Entity, and any shareholder of any member of the Group or any Invested Entity or holder of securities issued by any member of the Group or any Invested Entity. The Scheme became effective on 25 April 2002 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date on which the Listing Committee of the Stock Exchange granting the listing of, and the permission to deal in, the shares to be issued pursuant to the exercise of options under the Scheme.

The total number of shares of the Company available at 31 December 2006 for issue under the Scheme is 21,000,000 shares, representing approximately 4.08% of the issued share capital of the Company as at the date of this annual report. The maximum entitlement of each eligible participant (including both exercised and outstanding options) under the Scheme is 1% of the shares of the Company in issue within any 12-month period. Any grant or further grant of share options in excess of this limit is subject to shareholders' approval in advance in a general meeting of the Company.

Each grant of share options to a director, chief executive or substantial shareholder of the Company, or to any of their associates, is subject to approval in advance by the independent non-executive directors of the Company. In addition, any grant of share options to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, resulting in the shares issued and to be issued upon exercise of all options already granted and to be granted (including options exercised, cancelled and outstanding) to such person in a 12-month period up to and including the date of such grant in excess of 0.1% of the shares of the Company in issue and with an aggregate value (based on the closing price of the Company's shares at the date of the grant) in excess of HK$5 million, is subject to shareholders' approval in advance in a general meeting of the Company.

The offer of a grant of share options may be accepted within 28 days from the date of the offer upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determined by the directors, save that such period shall not be more than 10 years from the date of the offer of the share options, subject to the provisions for early termination set out in the Scheme. There is no specific requirement that an option must be held for any minimum period before it can be exercised but the board of directors is empowered to impose at its discretion any such minimum period at the time of offering any particular option.

Notes to the financial statements (continued)

For the year ended 31 December 2006

28. SHARE OPTION SCHEME (continued)

The exercise price of the share options is determined by the directors, but shall not be less than the highest of (i) the closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheet on the date of the offer of the share options, which must be a trading day; (ii) the average closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheets for the five trading days immediately preceding the date of the offer; and (iii) the nominal value of a share of the Company.

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

All shares option expense will be settled in equity. The Group has no legal or constructive obligation to repurchase or settle the options.

The particulars in relation to share option scheme of the Company are disclosed as follows:

				Number of share options			
	Date of grant	Exercise price	Exercisable period	Outstanding at 1 January 2006	Granted during the year	Exercised/ Cancelled/ Lapsed during the year	Outstanding at 31 December 2006
Directors:							
Mr. Pak Ping Chun	2 Mar 2006	HK$0.56	3 Mar 2006 – 2 Mar 2007	–	4,500,000	–	4,500,000
Mr. Yang Hsien Lin	2 Mar 2006	HK$0.56	3 Mar 2006 – 2 Mar 2007	–	4,500,000	–	4,500,000
				–	9,000,000	–	9,000,000
Employees:							
Mr. Lin Hua-Yin, Alex	2 Mar 2006	HK$0.56	3 Mar 2006 – 2 Mar 2007	–	4,000,000	–	4,000,000
Mr. Nugraha Soemampauw	2 Mar 2006	HK$0.56	3 Mar 2006 – 2 Mar 2007	–	4,000,000	–	4,000,000
Mr. Cheung Yau Man	2 Mar 2006	HK$0.56	3 Mar 2006 – 2 Mar 2007	–	3,500,000	–	3,500,000
Mr. Chiang Yu Lung	2 Mar 2006	HK$0.56	3 Mar 2006 – 2 Mar 2007	–	3,500,000	–	3,500,000
				–	15,000,000	–	15,000,000
				–	24,000,000	–	24,000,000

28. SHARE OPTION SCHEME (continued)

The fair value of the share options granted during the year was calculated using the Black-Scholes option pricing model. The inputs into the model are as follows:

	2006
Share price per share at grant date	**HK$0.56**
Exercise price	**HK$0.56**
Expected volatility	**24.41%**
Expected life	**1 year**
Risk free rate	**4.03%**
Expected dividend yield	**0%**
Fair value per option	**HK$0.065**

Expected volatility was determined by using the historical volatility of the Company's share price over past year. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations. Risk free rate was reference to the approximate yield of the 12-month Exchange Fund Bill traded on 2 March 2006.

The Group recognised the total expense of approximately HK$1,560,000 for the year ended 31 December 2006 (2005: Nil) in relation to the share options granted by the Company, of which approximately HK$974,000 (2005: Nil) was related to options granted to the Group's employees and shown as staff costs, and the remaining balance represents share option expense for directors.

Subsequent to the balance sheet date, on 12 February 2007, all the 24,000,000 share options granted by the Company were exercised by the directors and employees. Accordingly, the Group had no share options outstanding under the Scheme at the date of this annual report.

29. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 39 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 in 1999 over the nominal value of the Company's shares issued in exchange therefor.

Notes to the financial statements (continued)

For the year ended 31 December 2006

29. RESERVES (continued)

(b) Company

	Share based payment reserve	Share premium account	Contributed surplus	Retained profits	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2005	–	54,252	43,515	94,983	192,750
Net profit for the year	–	–	–	47,189	47,189
Proposed final 2005 dividend	–	–	–	(19,620)	(19,620)
At 31 December 2005 and 1 January 2006	–	54,252	43,515	122,552	220,319
Net profit for the year	–	–	–	95,322	95,322
Interim 2006 dividend	–	–	–	(14,715)	(14,715)
Proposed final 2006 dividend	–	–	–	(12,263)	(12,263)
Recognition of equity-settled share based payments *(note 28)*	1,560	–	–	–	1,560
	1,560	54,252	43,515	190,896	290,223

The Company's contributed surplus represents the excess of the fair value of the shares of the subsidiaries acquired pursuant to the Group reorganisation in 1999, over the nominal value of the Company's shares issued in exchange therefor. Under the Companies Act 1981 of Bermuda, the Company may make distributions to its members out of its contributed surplus in certain circumstances.

30. CONTINGENT LIABILITIES

At the balance sheet date, the Group and the Company had no significant contingent liabilities (2005: Nil).

31. FINANCIAL GUARANTEE CONTRACTS

The Company has executed guarantees amounting to approximating HK$134 million (2005: HK$30 million) with respect to general banking facilities granted to certain subsidiaries of the Company. Under the guarantees, the Company would be liable to pay the bank if the bank is unable to recover the loan. At the balance sheet date, no provision for the Company's obligation under the guarantee contract has been made as the directors considered that it was not probable that the repayment of the loan would be in default.

32. COMMITMENTS

At the balance sheet date, the Group had the following outstanding commitments:

(a) Operating lease commitments

As lessor

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

At the balance sheet date, 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	**338**	332
In the second to fifth years, inclusive	**18**	24
	356	356

Notes to the financial statements (continued)

For the year ended 31 December 2006

32. **COMMITMENTS** (continued)

(a) **Operating lease commitments** (continued)

As lessee

The Group leases certain of its office equipment, office premises, staff quarters and warehouses under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to five years.

At the balance sheet date, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group					
	2006			2005		
	Office equipment	**Office premises, staff quarters and warehouses**	**Total**	Office equipment	Office premises, staff quarters and warehouses	Total
	HK$'000	***HK$'000***	***HK$'000***	*HK$'000*	*HK$'000*	*HK$'000*
Within one year	**16**	**4,246**	**4,262**	30	3,541	3,571
In the second to fifth years, inclusive	**3**	**2,713**	**2,716**	19	4,265	4,284
	19	**6,959**	**6,978**	49	7,806	7,855

(b) **Capital commitments**

At the balance sheet date, the Group had the following capital commitments:

	Group	
	2006	2005
	HK$'000	*HK$'000*
Contracted, but not provided for:		
Purchase of equipment	**32**	71
Construction of a factory	**27,370**	2,412
	27,402	2,483

At the balance sheet date, the Company had no significant commitments (2005: Nil).

33. RELATED PARTY TRANSACTIONS

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

(a) The Group paid hotel room charges and food and beverage charges to a related company, which is beneficially owned by certain directors of the Company, for an aggregate amount of approximately HK$807,000 (2005: HK$1,062,000) for the provision of services to the Group's business partners and business associates during their visits to the Group's factory in Mainland China. In the opinion of the directors, these transactions represented the acquisition of consumer goods and services in the ordinary and normal course of business of the Group on terms similar to those offered by such related company to independent third parties.

(b) During the year, Mr. Hsu Shui Sheng, director of the Company, had provided the Group with a loan of HK$32,000,000 (2005: HK$10,000,000). The loan was wholly repaid during the year with a total interest expense of HK$324,000 (note 8), charged at 5.78% per annum.

(c) Compensation of key management personnel of the Group:

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

	2006	2005
	HK$'000	*HK$'000*
Short term employee benefits	**10,085**	9,598
Share-based payment	**586**	–
	10,671	9,598

Further details of directors' emoluments are included in note 9 to the financial statements.

Notes to the financial statements (continued)

For the year ended 31 December 2006

34. DERIVATIVE FINANCIAL INSTRUMENTS

As at the year end, the Group has certain outstanding foreign currency forward contracts in the total amount of approximately HK$250 million (2005: HK$310 million). These contracts have maturity dates varying from 12 January 2007 to 12 December 2007 (2005 : 27 January 2006 to 12 December 2006).

The fair value of the foreign forward exchange contracts are not material to these financial statements.

The fair value gains of the derivatives are not material to these financial statements because of the immaterial fluctuation of the contracted forward exchange rates.

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

Foreign currency risk

The majority of the Group's trade and bills receivables and trade and bills payables are denominated in the US dollar. Due to the fact that the Hong Kong dollar is pegged to the US dollar, the Group's exposure to foreign currency risk is low. During the year under review, the Group did not issue any financial instruments for hedging purposes.

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk

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

The Group's trade and other receivables are actively monitored to avoid significant concentrations of credit risk.

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

Liquidity risk

The Group's objective is to ensure adequate funds to meet commitments associated with its financial liabilities. Cash flows are closely monitored on an ongoing basis. The Group will raise funds from the realisation of its assets if required.

36. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 18 April 2007.