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## EXECUTIVE DIRECTORS

Mr. Cheok Ho Fung *(Chairman)*
Mr. Ting Sui Ping
Mr. Ng Chi Shing *(Resigned on 18 April 2006)*
Mr. Wong Shui Hing *(Retired on 5 June 2006)*
Mr. Ho Siu Man *(Resigned on 1 March 2007)*

## NON-EXECUTIVE DIRECTORS

Mr. Tang Yok Lam, Andy
Mr. Ng Kwok Ying, Alvin
Mr. Mok Cham Hung, Chadwick *(Appointed on 4 October 2006)*

## INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Leung Shu Kin, Alfred
Mr. Wong Wing Kee
Mr. Ng Kee Sin *(Appointed on 20 March 2007)*
Mr. Look Guy *(Resigned on 21 December 2006)*

## AUDITORS

Ernst & Young
Certified Public Accountants
18th Floor, Two International Finance Centre
8 Finance Street
Central, Hong Kong

## REGISTERED OFFICE

Canon's Court, 22 Victoria Street
Hamilton HM12
Bermuda

## COMPANY SECRETARY

Mr. Fong Ching Kong, Tony

## QUALIFIED ACCOUNTANT

Mr. Fong Ching Kong, Tony

## COMPANY WEBSITE

www.topsearch.com.hk

## PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Reid Management Limited
Argyle House, 41A Cedar Avenue
Hamilton HM 12
Bermuda

## HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tengis Limited
26th Floor, Tesbury Centre
28 Queen's Road East, Hong Kong

## PRINCIPAL PLACE OF BUSINESS

3406 China Merchants Tower
Shun Tak Centre
168-200 Connaught Road Central
Hong Kong

## PRINCIPAL BANKERS

The Hongkong and Shanghai
Banking Corporation Limited
1 Queen's Road Central
Hong Kong

Citic Ka Wah Bank
9th Floor, Lippo Centre Tower 1
89 Queensway
Hong Kong

Standard Chartered Bank
Standard Chartered Bank Building
4-4A Des Voeux Road Central
Hong Kong

## FINANCIAL CALENDAR

**Half year results**
Announced on 15 September 2006

**Full year results**
Announced on 20 April 2007

## REGISTER OF MEMBERS

To be closed from 6 June 2007 (Wednesday) to 8 June 2007 (Friday)

## ANNUAL GENERAL MEETING

To be held on 8 June 2007 (Friday)

## DIVIDENDS

Interim : Nil
Final : Nil

# Business Profile

Topsearch International (Holdings) Limited ("Topsearch") and its subsidiaries (the "Group") are principally engaged in the manufacture and sale of a broad range of printed circuit boards ("PCBs"). The Group has a global customer base comprising principally Electronics Manufacturing Services ("EMS") companies and Original Equipment Manufacturer ("OEM") which are engaged in the production of a diverse range of products for personal computers ("PC") and PC-related industries, as well as the telecommunications, office components, security, instrumentation equipment and consumer products industries.

## FINANCIAL PERFORMANCE

For the year ended 31 December 2006, the Group achieved sales of HK$1,733 million representing an increase of 6% over that of last year. Operating profit before interest and tax was HK$67 million, representing a decrease of 45% as compared to HK$121 million in 2005. Profit attributable to shareholders amounted to HK$28 million, showing also a decrease of 70% as compared to HK$93 million in 2005. Basic earnings per share were 3.5 Hong Kong cents, as compared to 13.3 Hong Kong cents in 2005.

## DIVIDENDS

The Board of Directors (the "Board" or "Directors") do not recommend the payment of a final dividend for the year ended 31 December 2006.

## BUSINESS REVIEW

2006 was a challenging year for the Group. The financial performance of the Group was affected by the double digit increase in major raw materials prices, the short term costs incurred in shifting production from the Shekou plant to Shaoguan plant and the related down-size costs, and the business interruption caused by a fire accident occurred in the Shekou plant in early December 2006. These led to the reduction in output and operating profit of the Group. The Group performed breakeven in the second half of 2006 and profit attributable to shareholders was HK$28 million, the same as in our 2006 Interim Report.

During the year under review, the Group's revenue increased by 6% to approximately HK$1,733 million. Total shipment volumes in terms of square footage decreased by 7% with average sales price increased by 13% as compared with that of last year. In line with the Group's business strategy, the shipment of multi-layered boards (6-layered and above) increased by 20% over that of last year. These multi-layered boards had contributed about 46% to the Group's annual sales versus 41% in last year. Production facilities were operated at an average utilization rate of about 80%.

Gross profit of HK$269 million had decreased 15% over that of 2005. The decrease was attributed to the significant increase in raw materials prices and rising labour costs. Although a substantial amount of work has been redirected to the Shaoguan plant during the year to take advantage of cheaper labour rate there, the revision of minimum wages rates in Shenzhen, the PRC in September 2006 has resulted in a rapid and sharp increase of labor cost in Shenzhen plant, defeating our original plan of reaping reasonable savings in labour cost for the whole year. Operating profit before interest and tax margin decreased from 7.4% in 2005 to 3.9% this year. With high interest expenses, net profit margin decreased further from 5.7% in 2005 to 1.6% in 2006.

The Shaoguan plant commenced operations in April 2005. It had produced about 900,000 square feet of PCB per month by the end of 2006. It is expected that the production capacity of Shaoguan plant can be increased to 1 million square feet per month by the third quarter in 2007 with minimum further investment in capital expenditure. Total production capacity of the Group expects to be increased to 2 million square feet per month by the end of 2007 when the interruption caused by the fire accident is over.

## PROSPECTS

After the Management of the Company has taken a bold decision at the beginning of last year to implement substantial changes in its personnel structure to ensure the Company can become more competitive in a fiercely competitive market, a number of plans has been implemented for such re-organization. However, the Management has encountered many adverse factors both internally and externally affecting the operations of the Group. This year has been too eventful for us to complete such improvement plans and bring in meaningful financial performance within the fiscal year. Overall, the Management has expressed its disappointment with the outcome as it has paid great efforts during the year under review.

Despite the unsatisfactory financial results for the year, certain progress made in the new plant at Shaoguan near year end and during the first quarter of year 2007 has been very encouraging. Production yields have been drastically improved during the past few months and given the type of products that the plant is now producing, such performance should be considered very competitive in the market place and the Management is very optimistic in this new plant's prospects in securing more business from new customers and further expand its production output during the second half of 2007.

Meanwhile, although the Shekou plant has suffered certain set-backs because of the fire incident happened in early December 2006, the production capacity is expected to resume by the end of second quarter in 2007. Consequently, revenue for the Shekou plant will be gradually resumed to normal during the second half of year 2007. Operations management in the Shekou plant has also become more mature since the last organizational restructuring and the Company is confident that such maturity would allow the Company to continue to improve its profit margin through changes in its product mix, in order to face the challenge of eroding profit due to increase in raw material price.

Regarding the Tongliao plant, the outstanding construction work remained at approximately 20% of the overall project since September 2006 when it has been decided to slow down the construction progress. This project shall be resumed soon and its expected time of completion will be around the third quarter in 2007, while trial production shall start in the last quarter in 2007. Due to the relatively small scale of production of this new plant, it is expected that no significant profit contribution will be made to the Group in the year of 2007.

## APPRECIATION

On behalf of the Board, I would like to extend my gratitude and sincere appreciation to all management and staff members for their diligence and dedication, and also to our business partners and the Company's shareholders for their continuing support.

**CHEOK HO FUNG**

*Chairman and Chief Executive Officer*

Hong Kong, 20 April 2007

## MISSION STATEMENT OF CORPORATE GOVERNANCE

"We thrive to achieve a high level of corporate governance while supplying quality PCBs to the market and balancing the stakeholders' interest as our top priorities."

The Board of Directors and the Senior Management of the Company are of the opinion that during the year 2006, the Company has properly operated in accordance with the "Code on Corporate Governance Practices" (the "CG Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules") except for the deviation as stated in the section "Compliance with CG Code".

The Board of Directors is committed to the transparency, accountability and independence highlighted by the principles of the CG Code to better enhance the shareholders' value and proper management of corporate assets in the following ways:

1. Ensuring the decision-making process, risk management process, internal audit and controls, disclosure of information and the communication with stakeholders are carried out in accordance with good management practices and good compliance with the respective regulatory standards;

2. Cultivating a culture of integrity, transparency and accountability for the Company, its staff and Directors and emphasizing the importance of each of their role in such an environment; and

3. Adopting quality standards widely recognized internationally to foster quality management in every aspect of daily operations to enhance the performance and value of the Company as a whole.

## COMPLIANCE WITH CG CODE

The Directors confirm that, for the accounting year ended 31 December 2006, the Company has complied with the CG Code save for the deviation mentioned below:

1. Mr. Cheok Ho Fung is the Chairman as well as the Chief Executive Officer of the Company. Under the Code Provisions A.2.1, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive officer should be clearly established and set out in writing.

   The Directors are of the opinion that the current arrangement does not have a material adverse impact on the corporate governance of the Company.

   The Board of Directors will carry out a review in the following year and propose any amendment, if necessary, to ensure compliance with the CG Code provisions as set out in the Listing Rules.

2. Following the resignation of Mr. Look Guy and prior to the appointment of Mr. Ng Kee Sin, the Board had only two independent non-executive directors where the Company was temporarily non-compliant with with Rules 3.10 (1) and 3.21 of the Listing Rules which require (i) at least three independent non-executive directors in the board of directors of a listed issuer; (ii) at least one of the independent non-executive director must have appropriate professional qualifications or accounting or related financial management expertise; and (iii) the audit committee of the listed issuer must comprise a minimum of three members, at least one of whom is an independent non-executive director with appropriate professional qualifications or accounting of related financial management expertise during the period from 21 December 2006 to 19 March 2007.

   Mr. Ng Kee Sin has been appointed as an independent non-executive director and a member of the audit committee of the Company for an initial term of three years with effect from 20 March 2007, subject to retirement by rotation and re-election pursuant to the Bye-laws of the Company. He is entitled to annual emoluments of HK$120,000 which are determined by reference to his duties and responsibilities with the Company and the market benchmark.

   Mr. Ng has no relationship with the Group or its connected persons or their respective associates, in particular, the Chairman and the Chief Executive Officer of the Company, before joining the Group. The Company considers Mr. Ng is independent for the purpose of Rule 3.13 of the Listing Rules.

## MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS (THE "MODEL CODE")

The Company has adopted a code of conduct (the "Own Code") regarding securities transactions by Directors on terms no less exacting than the required standard set out in the Model Code.

The Company, having made specific enquiries, confirms that members of the Board have complied with the Model Code throughout the year ended 31 December 2006. Members of the senior management, who, due to their position in the Company, are likely to be in possession of unpublished price sensitive information, have also complied with the provisions of the Model Code and the Own Code.

## THE BOARD OF DIRECTORS

As the day of publication of this annual report, the Board of Directors consists of eight Directors with a variety and a balance of skills and experience in accounting, manufacturing, marketing, finance, investment and legal professions. Their brief biographical particulars are set out on pages 32 to 33 of this annual report. Members of the Board of Directors and their respective attendance to Board meetings held during the year is as follows:

| Name of Directors | Attendance |
|---|---|
| ***Executive Directors*** | |
| Mr. Cheok Ho Fung *(the Chairman and Chief Executive Officer)* | 8/8 |
| Mr. Ting Sui Ping | 8/8 |
| Mr. Ng Chi Shing *(resigned on 18 April 2006)* | 0/1 |
| Mr. Wong Shui Hing *(retired on 5 June 2006)* | 1/1 |
| Mr. Ho Siu Man *(resigned on 1 Mar 2007)* | 8/8 |
| ***Non-Executive Directors*** | |
| Mr. Tang Yok Lam, Andy | 5/5 |
| Mr. Ng Kwok Ying, Alvin | 5/5 |
| Mr. Mok Cham Hung, Chadwick *(appointed on 4 October 2006)* | 1/1 |
| ***Independent Non-Executive Directors*** | |
| Mr. Leung Shu Kin, Alfred | 4/5 |
| Mr. Wong Wing Kee | 2/5 |
| Mr. Ng Kee Sin *(appointed on 20 March 2007)* | — |
| Mr. Look Guy *(resigned on 21 December 2006)* | 5/5 |

The number of board meetings held during the relevant year was eight.

All three independent non-executive directors of the Company are considered to be independent for the prupose of Rule 3.13 of the Listing Rules.

The Company has appointed a sufficient number of independent non-executive directors in accordance with the requirements of the Listing Rules (except for the deviation from the CG Code mentioned above), one of whom has accounting and related financial management expertise. They have dedicated to provide the Company with professional advice with respect to the steady operation and development of the Company. They also exercise supervision and coordination to safeguard interests of the Company and its shareholders.

Each independent non-executive director has provided an annual confirmation of independence to the Company pursuant to Rule 3.13 of the Listing Rules. Based on such confirmation, the Group considers that all independent non-executive directors of the Company are independent for the purpose of Rule 3.13 of the Listing Rules.

There is no relationship (including financial, business, family or other material/relevant relationship(s)), among members of the Board of Directors except as disclosed below:

1. Mr. Cheok Ho Fung is the Chairman as well as the Chief Executive Officer of the Company;

2. Mr. Mok Cham Hung, Chadwick, is an Executive Director of Kingboard Chemical Holdings Limited (Stock Code: 148) which is the substantial shareholder of the Company; and

3. Mr. Leung Shu Kin, Alfred, the independent non-executive director of the Company, who is currently an Executive Director of Elegance Printing Group, the printer of the Company, who has business relationship with the Company.

All existing non-executive directors have signed letters of appointment with the Company and will be subject to retirement by rotation and re-election at the annual general meeting of the Company pursuant to the Bye-laws of the Company and the requirements of the Listing Rules. The remuneration of non-executive directors will be fixed from time to time in accordance with the Bye-laws by the Shareholders at the Company's general meetings.

## THE OPERATION OF THE BOARD OF DIRECTORS

The Board's main task is to supervise and direct the management of the Company to operate under good corporate governance in order to maximize value of the shareholders while balancing the interest of the various stakeholders. The Board of Directors holds meetings at least quarterly to monitor the performance of the Company as against the budget and to be briefed with market developments, to discuss and decide on major corporate, strategic and operational issues, and to appraise any good investment opportunities available.

The major duties performed by the Board of Directors are as follows:

1. Setting the Company's values and standards;

2. Setting the objectives of the Company and responsibilities of the Board of Directors;

3. Establishing the strategic direction for the Company;

4. Setting targets for the management;

5. Monitoring the performance of the management;

6. Supervising the annual and interim results of the Company;

7. Ensuring that a framework of prudent and effective controls are in place and to assess and manage the risk of the Group;

8. Overseeing the management of the Company's relationships with shareholders, customers, the community, interest groups and others who have a legitimate interest in the responsible conduct of the Group's business;

9. Identifying and assessing any matters involving a conflict of interest for a substantial shareholder or a Director;

10. Determining material acquisitions and disposals of assets, investments, capital, projects, authority levels, major treasury policies, risk management policies and key human resources issues; and

11. Considering and determining issues which are the responsibilities of the Board of Directors pursuant to the Company's Memorandum of Association and Bye-laws and the relevant laws and regulations in force by which the Company is governed from time to time.

The Board of Directors delegates to the management major corporate matters as stated below:

1. Preparation of the annual and interim results to be approved by the Board of Directors;

2. Execution of the corporate strategies and directions adopted by the Board of Directors;

3. Implementation of sufficient systems of internal controls and risk management procedures; and

4. Carrying out daily operations, etc.

## BOARD COMMITTEES

As an integral part of good corporate governance, the Board of Directors has established the Board Committees to oversee particular aspects of the Company's affairs. The Board Committees are governed by their respective Terms of Reference, which describe the authority and duties of the Board Committees and will be regularly reviewed and updated by the Board. The Board Committees include Audit Committee, Remuneration Committee, Nomination Committee and Executive Committee.

## AUDIT COMMITTEE

The Company's Audit Committee is composed of three Independent Non-Executive Directors and one Non-Executive Director, with the Chairman having appropriate professional qualifications and experience in financial matters as required by the Listing Rules. The Audit Committee discharges its responsibilities as follows:

1. Reviewing the interim and annual results of the Company;

2. Reviewing and monitoring the reporting, accounting, financial, risk management and internal control aspects of the Company;

3. Approving the appointment of the Company's external auditor and reviewing and discussing their audit plan and scope, and also reports and issues raised by them;

4. Reporting directly to the Board of Directors; and

5. Ensuring full access by the Corporate Governance Manager to hear directly any concerns that the Corporate Governance Department may have during the course of the department's work.

During the year ended 31 December 2006, three Audit Committee meetings were held to review the financial results and reports for the year ended 31 December 2005 and for the six months ended 30 June 2006, risk management and internal control processes, related party transactions, roles and responsibilities as well as works performed by the Corporate Governance Department, and the re-election of the external auditors. The attendance record of each member of the Audit Committee at the Audit Committee meetings is set out below:

| **Members of Audit Committee** | **Attendance** |
|---|---|
| Mr. Look Guy *(Chairman) (resigned on 21 December 2006) (Independent Non-Executive Director)* | 3/3 |
| Mr. Ng Kwok Ying, Alvin *(Member) (Non-Executive Director)* | 3/3 |
| Mr. Leung Shu Kin, Alfred *(Member) (Independent Non-Executive Director)* | 2/3 |
| Mr. Wong Wing Kee *(Member) (Independent Non-Executive Director)* | 2/3 |
| Mr. Ng Kee Sin *(Member) (appointed on 20 March 2007) (Independent Non-Executive Director)* | — |

Mr. Ng Kee Sin has been elected to be the Chairman of the Audit Committee to fill in the vacancy of Mr. Look Guy during the Audit Committee meeting held on 20 April 2007.

## AUDITORS' REMUNERATION

The Audit Committee of the Company is responsible for considering the appointment of the external auditor and reviewing any non-audit functions performed by the external auditor, including whether such non-audit functions could lead to any potential material adverse effect to the Company. During the year under review, the Group is required to pay to the Company's Auditors, Messrs Ernst & Young, the following fees:

| **Type of services provided by the external auditors** | **Fee paid/payable** *(HK$)* |
|---|---|
| *Audit services:* | |
| Audit of the annual financial statements for the year ended 31 December 2006 | 1,750,000 |
| *Non-audit services:* | |
| 1. Tax compliance | 36,000 |
| 2. Tax advisory service | 250,000 |
| | 2,036,000 |

## REMUNERATION COMMITTEE

The Remuneration Committee carries out the following duties:

1. Ensuring formal and transparent procedures for overseeing and developing policies on the remuneration packages of Directors and senior managers;

2. Assessing the achievement and performance of Executive Directors and Senior Management;

3. Approving the terms of Executive Directors service contracts; and

4. Providing effective supervision and administration of the Company's share option schemes and other share incentive schemes.

It comprises three members, the majority of whom are Independent Non-Executive Directors.

During the year ended 31 December 2006, two Remuneration Committee meetings were held to discuss and approve the directors' performance bonus for the year 2005, and the remuneration of Mr. Mok Cham Hung, Chadwick as an Non-Executive Director of the Company. The attendance record of each member of the Remuneration Committee at the Remuneration Committee meetings is set out below:

| Members of Remuneration Committee | Attendance |
|---|---|
| Mr. Leung Shu Kin, Alfred *(Chairman) (Independent Non-Executive Director)* | 2/2 |
| Mr. Tang Yok Lam, Andy *(Member) (Non-Executive Director)* | 2/2 |
| Mr. Look Guy *(Member) (resigned on 21 December 2006) (Independent Non-Executive Director)* | 2/2 |

## NOMINATION COMMITTEE

The Nomination Committee carries out the following tasks in accordance with its nomination procedures and criteria as follows:

1. Recommending and nominating candidate to fill vacancies or as addition to the Board of Directors by considering the candidates' past performance and experience, academic and working qualifications, general market conditions in accordance with the requirements set out in the Listing Rules and the Company's Bye-laws so as to make the composition of the Board of Directors filled with a variety and a balance of skills and experience; and

2. Reviewing regularly the roles of Directors by considering the issues of conflict of interest, their performance and conduct.

During the year ended 31 December 2006, the Nomination Committee had met twice and discussed the nominations of directors of the Company. The attendance record of each member of the Nomination Committee at the Nomination Committee meetings is set out below:

| Members of Nomination Committee | Attendance |
|---|---|
| Mr. Wong Wing Kee *(Chairman) (Independent Non-Executive Director)* | 0/2 |
| Mr. Leung Shu Kin, Alfred *(Member) (Independent Non-Executive Director)* | 2/2 |
| Mr. Tang Yok Lam, Andy *(Member) (Non-Executive Director)* | 2/2 |

Under the CG Code provision A.4.2, every Director should be subject to retirement by rotation at least once every three years. The Bye-laws of the Company has provided that at each annual general meeting one-third of the Directors for the time being shall retire from office by rotation such that every Director shall be subject to retirement by rotation at least once every three years.

## EXECUTIVE COMMITTEE

The Executive Committee of the Board meets regularly and operates with overall delegated authority from the Board of Directors. The Executive Committee reports through the Chairman to the Board of Directors. The Executive Committee carries out the following tasks:

1. Determining group strategy;
2. Setting targets for the management;
3. Reviewing business performance;
4. Ensuring adequate funding; and
5. Examining major investments.

| **Members of the Executive Committee** | **Attendance** |
|---|---|
| Mr. Cheok Ho Fung *(the Chairman and Chief Executive Officer)* | 13/13 |
| Mr. Ting Sui Ping | 13/13 |
| Mr. Ng Chi Shing *(resigned on 18 April 2006)* | 1/1 |
| Mr. Wong Shui Hing *(retired on 5 June 2006)* | 0/0 |
| Mr. Ho Siu Man *(resigned on 1 Mar 2007)* | 13/13 |

## CORPORATE MANAGEMENT AND INTERNAL CONTROL

**Corporate Governance Department:**

The Corporate Governance Department plays a major role in monitoring the internal corporate governance of the Group. The Department has unrestricted access to information to allow it to review all aspects of the Group's risk management and governance processes in connection with nature of compliance and legal requirements.

**Internal Audit Division:**

There is an internal audit division in the Corporate Governance Department. Under an audit plan, it conducts audits of the practices, procedures and internal controls of all business and support units. As requested by the relevant Board Committees, it also conducts ad-hoc reviews or investigations. The Corporate Governance Manager reports directly to the Chief Executive Officer and has direct access to the Audit Committee. It also has the right to consult the Audit Committee without reference to the management.

The management systems for occupational health, safe environment and quality standards have been set up. The perfection of the internal control system is properly established and the Board and senior management have paid significant attention to it. The internal audit division is responsible for overall system establishment and comprehensive perfection in corporate internal control. Key tasks of the internal audit function include:

1. Unlimited authority of access to review different aspects of the Group's business activities and internal control procedures;

2. Regular performance of the comprehensive audit of the working procedures, practices, expenses, investment, asset management of the special business unit and subsidiaries of the Group;

3. Special reviews and investigations for ad-hoc projects; and

4. Liaison with senior management and the Board of Directors on the effectiveness and efficiency of management and the assurance against material financial misstatements.

The Corporate Governance Manager meets with senior management frequently to monitor corporate governance as well as develop new processes and systems to ensure compliance and the Group's adherence to industry best practices.

**Internal Control:**

The Board of Directors holds full responsibility for the system of internal control of the Group and continuously reviews its effectiveness. The internal audit division performs investigation of the effectiveness of material processes and controls on a risk-based approach in accordance with the provisions on internal controls as set forth in the CG Code. The findings are reported to the Audit Committee. The Board of Directors, through the Audit Committee, has reviewed the effectiveness of the system of internal control for the year ended 31 December 2006.

## OPERATION RISK

The Group has implemented appropriate policies and procedures for all major operations. In particular, management closely monitors the procurement process and performs background check on the vendors. The In Process Quality Assurance Department and Reliability Department ensure the stability of the manufacturing process and control products quality. The Group also strives to promote human resources reforms and comprehensively enhances cost management. By establishing clear policies and requiring well-documented business process, the exposure to operation risks is considered minimal.

## ENVIRONMENTAL AND SOCIAL RESPONSIBILITY

The Company is committed to our society on the impact of our business to the environment and wishes to create value to the community in which we operate. We have done the following in this area:

**Environmental Policy**

Traditionally, the manufacture of PCBs is classified as a pollution industry. Because of this, the Company pledges to uphold quality management and implement policies for conserving resources and managing waste. The Company has established the following policies in compliance with environmental regulations.

1. During the stage of design, research and development, environmental impact assessment for each material or machinery is conducted prior to any purchase decision. Accordingly, such impact assessment data is considered as one of the key criteria for procurement decisions.

2. During production, consumption, delivery and waste disposal, the Company undertakes environmental protection measures through technological enhancement, usage of recycling materials and conservation of resources. Besides, minimum environmental impact approach and systematic recycling methods are employed to best protect the environment as well as the ecosystem.

3. The Company commits to fulfill and comply with national and regional environmental protection regulations and establishes self-regulating frameworks and standards accordingly.

4. Awareness for environmental protection of all staff is enhanced through environmental protection activities, training program and promotion. The concept of "Reduce", "Reuse", "Recycle" are heavily promoted. By promoting them, the Company is striving to protect the environment as well as contributing back to the society.

5. Top management is acting as a core for establishing a well-defined structure and system for environmental management by outlining corresponding responsibility, scope and policy. Besides, this environmental protection policy is always given first priority, overriding production needs wherever necessary.

6. The Company always keeps track of the development of international environmental protection legislation and ensures its environmental policy is implemented not only to comply with international standards, but also to ensure it is at the same pace as worldwide counterparts.

## ENVIRONMENTAL RESEARCH PROJECTS

Since 2001, the Company started sponsoring Tsinghua University (one of the top research and education institutions in China) for the establishment of the "Tsinghua Topsearch R&D Centre of Green Manufacturing" to achieve the following:

1. Conduct Green Manufacturing Research; and

2. Organize and promote Green Education.

Major subjects for research include:

1. Green Assessment System;

2. Green Design Theory and Methods;

3. Recycle and Reuse Technology of PCB;

4. Energy Consumption Management;

5. Green Education for Manufacturing and Industrial Ecology; and

6. Green Manufacturing Web Site.

The Company is playing a significant role in taking the Green Technologies on to the next level. It is looking forward to sharing these future technologies and is confident that a better and healthier environment can be built.

## ROHS STANDARD AND LEAD - FREE PRODUCTION

As one of the leading companies in the PCB industry, environmental protection is always one of the focused areas of the Company. The Company has been complying with the RoHS Standard "Restriction of the use of certain Hazardous Substances" ("RoHS Standard"). The RoHS Standard requires electronic manufacturing companies to use the minimum hazardous substances, such as lead, mercury, cadmium, hexavalent chromium, polybrominated biphenyls or polybrominated diphenyl ethers, which are dangerous to our environment. The RoHS Standard enables that our products produced are environmental friendly. Besides meeting the RoHS Standard, the Company is also using halogen-free materials since halogen compound is dangerous to the ozone.

The Company has already been using lead-free surface finishing production such as Organic Solderability Preservative (OSP) and Electroless Nickel Immersion Gold (ENIG), which enable our product surfaces to be lead-free. As one of the Company's long term strategies, we will continue to invest on new lead-free technology. Recently, we have invested on Immersion Silver and Immersion Tin machines, which provide better lead-free finishing production along the manufacturing lines.

In future, the Company will keep sourcing new RoHS compliance materials and lead-free surface finishing alternatives to achieve better environmental protection and provide more choices for customers.

## EDUCATION

Besides the work on environmental issues, since 1999 the Company has already financed over 120 staff in university studies. It believes that staff is the most valuable asset of the Company. It also invests heavily in training because it believes that training and further education will not only benefit the individual staff but also provide them more opportunities to make greater contributions to the Company.

Financing for eduction is not limited to staff. The Company extends it to talented young students. Since 1995, the Company has sponsored over 50 students in their Doctor's and Master's studies in South China Agricultural University and Tsinghua University. The Company may not directly benefit from it, but believes that these students can contribute more to the society if they have opportunities to further their education.

The Company is willing to take more responsibilities for society but with a view to balancing the shareholders' interests and society's benefits.

## INVESTOR RELATIONS AND COMMUNICATION

The Company continues to commit to a proactive policy of promoting investor relations and communication with shareholders and analysts. In order to further promote effective communication, the Company maintains a website (www.topsearch.com.hk) to disclose the Company's information to shareholders on a timely basis.

## SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, less than 25% of the Company's total issued share capital was held by the public as at the date of this report.

## FINANCIAL REVIEW

The Group's revenue increased by 6% to HK$1,733 million from HK$1,631 million in 2005. Operating profit before interest and tax was HK$67 million, representing a decrease of 45% over last year of HK$121 million. Profit attributable to shareholders amounted to HK$28 million, as compared to HK$93 million in 2005. Basic earnings per share were 3.5 Hong Kong cents, as compared to 13.3 Hong Kong cents in 2005.

The Group's shipment volume decreased by 7% and average sales prices increased by 13%. Material costs increased by double digit over the year as a result of higher oil prices, surge in metal prices and the appreciation of RMB. The increase of production overheads by 15% per square foot was mainly attributed to the relative fixed nature of production overheads and the low utilization of production capacities. Overall gross profit margin was dropped from 19.3% in last year to 15.5% in this year.

## LIQUIDITY AND FINANCIAL RESOURCES

The Group generally finances operations through a combination of internally generated cash flows, shareholders' equity and borrowings from banks.

As at 31 December 2006, the Group had total assets of HK$2,391 million (31 December 2005: HK$2,282 million) and interest-bearing borrowings of HK$774 million (31 December 2005: HK$786 million), representing a gearing ratio, defined as interest-bearing borrowings over total assets, of 32% (31 December 2005: 34%).

The Group's net current asset of HK$63 million (31 December 2005: HK$39 million) consisted of current assets of HK$910 million (31 December 2005: HK$922 million) and current liabilities of HK$847 million (31 December 2005: HK$883 million), representing a current ratio of 1.07 (31 December 2005: 1.04).

As at 31 December 2006, the Group's current assets consisted of HK$112 million (31 December 2005: HK$156 million) held as cash and cash equivalents, of which 5% was in HKD, 57% was in USD, 34% was in RMB and 4% in other currencies.

The Group's current assets also consisted of HK$401 million (31 December 2005: HK$438 million) trade receivables from customers. Debtors turnover days decreased to 88 days (31 December 2005: 93 days) as a result of effective credit control management.

As at 31 December 2006, the Group's inventories increased to HK$301 million (31 December 2005: HK$273 million). Inventory turnover days was 72 days (31 December 2005: 66 days), mainly as a result of an increase in material prices and an increase in Just-In-Time requirements from major customers. Trade payables decreased to HK$381 million from HK$416 million in 2005 which was in line with the increase in equity financing. Creditor turnover days was approximately 99 days (31 December 2005: 105 days).

## INTEREST-BEARING BORROWINGS

As at 31 December 2006, the Group had the interest-bearing borrowings as follows:

| | **2006** | 2005 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Amounts payable: | | |
| Within one year | **366,451** | 363,891 |
| In the second year | **278,445** | 239,816 |
| In the third to fifth year, inclusive | **128,903** | 181,906 |
| | **773,799** | 785,613 |
| *Less:* Portion classified as current liabilities | **(366,451)** | (363,891) |
| Long term portion | **407,348** | 421,722 |

Of the total interest-bearing borrowings, USD denominated loans accounted for 18% (2005: 16%) and the 82% balance were HKD denominated loans (2005: 84%). Almost all interest-bearing borrowings are charged with floating rates. The Group had maintained Hong Kong Dollar unexpired interest rate swap contract of HK$98 million (2005: HK$178 million) to hedge the HIBOR denominated loans. The Directors do not recognize a significant seasonality of borrowing requirements.

On 15 October 2006, the Group arranged a syndicated loan facility of HK$165 million with several financial institutions. The facility was a term loan facility with a tenor of 36 months from 15 October 2006. The facility was mainly used to refinance HK$100 million syndicated loan facility drawn in 2004 and for other general working capital requirements.

## FOREIGN EXCHANGE EXPOSURE

Since The People's Bank of China announced an appreciation of 2% of RMB in July 2005, RMB versus USD further appreciated 3.3% over the year under review. Approximately 39% of the Group's purchases and expenses were denominated in RMB. As the Group imported a substantial proportion of its critical raw materials and machineries from overseas which were non-RMB denominated, this would help to mitigate the full effects arising from Renminbi revaluation. Presently, the Group has not entered into any financial instrument for hedging purposes. Nevertheless, the Board will continue to monitor foreign exchange exposure in the future and will consider hedging such exposure to minimize exchange risk should the need arise.

## NUMBER AND REMUNERATION OF EMPLOYEES

As at 31 December 2006, excluding the associate, the Group had approximately 7,900 employees. For the financial year ended 31 December 2006, total staff costs amounted to HK$202 million. Under the Group's remuneration policy, employees are rewarded in line with market rate and in compliance with statutory requirements of all jurisdictions where it operates.

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants including any employees of the Group. In January 2006, a total of 9,800,000 share options were outstanding under the scheme. During the year under review, a total of 4,800,000 share options were exercised and 5,000,000 shares options were lapsed. As at 31 December 2006, no share options were outstanding under the scheme.

The Group follows a policy of encouraging its subsidiaries to send their staff to attend training classes or seminars that are related directly or indirectly to the Group's businesses.

## CONTINGENT LIABILITIES

At 31 December 2006, banking facilities of HK$797 million (31 December 2005: HK$761 million) granted to and finance lease agreements of HK$201 million (31 December 2005: HK$200 million) entered into by subsidiaries were subject to the guarantees given by the Company and were utilised to the extent of approximately HK$193 million (31 December 2005: HK$312 million) and HK$171 million (31 December 2005: HK$163 million), respectively.

On 1 March 2006, a former customer has filed a claim against one of the subsidiaries of the Company seeking incidental and consequential damages associated with the alleged failure of the products sold by the subsidiary and claimed the subsidiary for damages amounting to approximately US$8 million (approximately HK$62,400,000).

The directors, after consulting with legal counsel, are of the opinion that it is not probable that the former customer will succeed in the claim. Thus, no provision for the damages has been made in the financial statements.

## CAPITAL COMMITMENTS

As at 31 December 2006, the Group's capital commitments contracted but not provided for amounted to HK$81 million (31 December 2005: HK$146 million). All of these capital commitments were related to construction of factory building or acquisition of plant and machinery.

## OTHER COMMITMENTS

At 31 December 2006, the Group's contribution payable for the registered capital of two wholly-foreign-owned subsidiaries incorporated in the PRC totally amounted to HK$411 million (31 December 2005: HK$599 million), of which HK$278 million (31 December 2005: HK$278 million) represented investment in a subsidiary in Tongliao, Inner Mongolia of China to be payable within six months up to June 2007 and HK$132 million (31 December 2005: HK$321 million) represented investment in a subsidiary in Shaoguan, Guangdong Province of China to be payable within five years up to December 2010.

## PLACING OF EXISTING SHARES AND SUBSCRIPTION FOR NEW SHARES

Pursuant to the placing and subscription agreements both dated 3 May 2006, Inni International Inc., a substantial shareholder and controlling shareholder of the Company, placed 142,000,000 ordinary existing shares of HK$0.10 each (the "Share") in the issued share capital of the Company at HK$0.80 per share to a placing agent and, subscribed for 142,000,000 new Shares at HK$0.80 per share, resulting in a total cash consideration, before expenses, of approximately HK$114 million.

During the year, a bonus issue of warrants was made in the proportion of one warrant for every ten ordinary shares held by the members on the register of members on 5 June 2006, resulting in 85,455,000 warrants being issued. Each warrant entitles the holder thereof to subscribe for one ordinary share of HK$0.10 at a subscription price of HK$1.20 per share, payable in cash and subject to adjustment from 26 June 2006 to 31 October 2008.

None of the warrants were exercised during the year. At the balance sheet date, the Company had 85,455,000 warrants outstanding (31 December 2005: Nil).

## DIVIDENDS

The Directors do not recommend the payment of a final dividend for the year ended 31 December 2006 (31 December 2005: Nil).

## CLOSURE OF REGISTER OF MEMBERS

The register of Members of the Company will be closed from 6 June 2007 (Wednesday) to 8 June 2007 (Friday), both days inclusive. In order to qualify for the attendance of the forthcoming annual general meeting, transfer forms accompanied by relevant share certificates, must be lodged with the Company's Share Registrar in Hong Kong, Tengis Limited, 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong, not later than 4:30 p.m. on 5 June 2007 (Tuesday).

The Directors present their annual report together with the audited financial statements of the Company and the Group for the year ended 31 December 2006.

## PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The principal activity of the Company is investment holding. Its principal subsidiaries are engaged in the manufacturing and sale of PCBs. Details of the Company's principal subsidiaries as at 31 December 2006 are set out in note 15 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

Details of the analysis of the Group's revenue for the year by geographical location are set out in note 4 to the financial statements.

## RESULTS AND APPROPRIATIONS

The Group's results for the year ended 31 December 2006 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 44 to 99 of this annual report.

The Directors do not recommend the payment of any dividends in respect of the year.

## SUMMARY FINANCIAL INFORMATION

A summary of the published results, assets and liabilities of the Group for the last five financial years, as extracted from the audited financial statements is set out on page 100. This summary does not from part of the audited financial statements.

## SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's issued share capital and share options during the year are set out in notes 28 and 29 to the financial statements, respectively.

## RESERVES

Details of the movements in the reserves of the Company and the Group during the year are set out in note 30(b) to the financial statements and the consolidated statement of changes in equity on page 47 of this annual report, respectively.

## DISTRIBUTABLE RESERVES

At as 31 December 2006, the distributable reserves of the Company available for distribution as dividends amounted to HK$511,390,000, comprising retained earnings of HK$44,621,000 and contributed surplus of HK$466,769,000. Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus shall not be distributed to the shareholders if there are reasonable grounds for believing that:

(i) the Company is, or would after the payment be, unable to pay its liabilities as they become due; or

(ii) the realisable value of the Company's assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium account.

## PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant & equipment of the Group and the Company during the year are set out in note 13 to the financial statements.

## PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's bye-laws though there are no restrictions against such rights under the laws of Bermuda.

## PURCHASE, SALE OR REDEMPTION OF THE COMPANY's LISTED SECURITIES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the year.

## SHARE OPTION SCHEME

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who have contributed to the success of the Group's operations. Eligible participants of the Scheme include:

(i) any employee (whether full-time or part-time) of the Company, any of its subsidiaries or any entity ("Invested Entity") in which the Group holds an equity interest, including any executive director of the Company, any of such subsidiaries or any Invested Entity;

(ii) any non-executive director (including independent non-executive directors) of the Company, any of its subsidiaries or any Invested Entity;

(iii) any supplier of goods or services to any member of the Group or any Invested Entity;

(iv) any customer of the Group or any Invested Entity;

(v) any person or entity that provide research, development or other technological support to the Group or any Invested Entity;

(vi) any shareholder of any member of the Group or any Invested Entity or any holder of any securities issued by any member of the Group or any Invested Entity; and

(vii) for the purposes of the Scheme, the Options may be granted to any company wholly-owned by one or more persons belonging to any of the above classes of participants. For the avoidance of doubt, the grant of any options by the Company for the subscription of Shares or other securities of the Group to any person who fall within any of the above classes of participants shall not, by itself, unless the Directors otherwise determined, be construed as a grant of Option under the Scheme.

The basis of eligibility of any of the above class of participants to the grant of any Options shall be determined by the Directors from time to time on the basis of their contribution to the development and growth of the Group. The Scheme was conditionally adopted and approved by the shareholders of the Company on 30 May 2002 and unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of ordinary shares in respect of which options may be granted at any time under the Scheme and any other share option scheme of the Company cannot exceed 30% of the issued share capital of the Company from time to time. The total number of ordinary shares, which may be issued upon exercise of all options granted under the Scheme and any other share option scheme of the Group, must not in aggregate exceed 64,000,000 Shares, being 10% of the Shares in issue at the Listing Date. The Company may seek approval of its shareholders in general meeting to refresh the 10% limit provided that the total number of ordinary shares which may be issued upon exercise of all outstanding options granted under the Scheme and under any other share option scheme of the Group under the limit as "refreshed" must not exceed 10% of the ordinary shares in issue at the date of approval of the limit. 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, further grant in excess of this limit is subject to issue of a circular to the shareholders and shareholders' approval in a general meeting of the Company with the proposed grantees and their associates abstaining from voting.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors, other than an independent non-executive director who is a proposed grantee. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, 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, within any 12-month period up to and including the date of such grant, are subject to shareholders' approval in advance in a general meeting in which the proposed grantees must abstain from voting.

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 determinable by the directors, and will commence at any time on or after the date upon which the option is deemed to be granted and accepted and will expire not later than the 10th anniversary of that date.

The exercise price of the share options is determinable by the directors, but shall not be less than the higher of (i) the closing price of the Company's shares as stated in the Stock Exchange's daily quotation sheets on the date of the grant 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 quotation sheets for the five trading days immediately preceding the date of grant; and (iii) the nominal value of the shares on the offer date.

Apart from as disclosed above under the headings "Share option scheme" and "Directors' Interests in Shares and Share Options" below, none of the directors or their respective associates has any personal, family, corporate or other interests in the equity or debt securities of the Company or any of its associated corporations (as defined in the SDI Ordinance) or has any right to subscribe for equity or debt securities of the Company, as recorded in the register required to be kept under Section 29 of the SDI Ordinance or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

## MAJOR CUSTOMERS AND SUPPLIERS

For the financial year ended 31 December 2006, the sales of products to the largest and the five largest customers amounted to 13% (2005: 15%) and 40% (2005: 44%) of the Company's revenue respectively.

For the financial year ended 31 December 2006, the purchases of materials from the largest and the five largest suppliers amounted to 17% (2005: 14%) and 53% (2005: 40%) of the total purchases respectively.

None of the directors, their respective associates had any interest in any of the five largest customers and suppliers of the Group for the financial year ended 31 December 2006.

To the knowledge of the Directors, one of the five largest suppliers is a substantial shareholder of the Group and owned 25.01% of the issued shares of the Company as at 31 December 2006.

Save as disclosed above, none of any shareholders of the Company (which, to the knowledge of the Directors, own more than 5% of the issued share of the Company) had any interest in any of the five largest customers and suppliers of the Group for the financial year ended 31 December 2006.

## CONTINUING CONNECTED TRANSACTIONS

On 18 August 2006, the Company entered into a raw materials supply agreement ("Raw Materials Supply Agreement") in connection with the supply of raw materials by Kingboard Copper Foil (Macao Commercial Offshore) Limited and Kingboard Laminates (Macao Commercial Offshore) Limited (the "Suppliers") to the Group for a period of three years from 1 July 2006 to 30 June 2009. Kingboard Copper Foil (Macao Commercial Offshore) Limited and Kingboard Laminates (Macao Commercial Offshore) Limited are subsidiaries of Kingboard Chemical Holdings Limited ("Kingboard") (stock code: 148). Since 10 May 2006 and up to 31 December 2006, Kingboard and its subsidiaries ("Kingboard Group") had been a substantial shareholder of the Company and accordingly, was a connected person of the Company. The transactions contemplated under the Raw Materials Supply Agreement therefore constituted a continuing connected transaction ("Continuing Connected Transaction") of the Group under the Listing Rules during the year ended 31 December 2006.

An announcement ("Announcement") dated 18 August 2006 and a circular dated 11 September 2006 had been issued by the Company which provided details of the Continuing Connected Transaction in accordance with the Listing Rules. As disclosed therein, the Directors had proposed the following annual caps for the Continuing Connected Transaction ("Annual Caps") for the three years from 1 July 2006 to 30 June 2009:

| | **Annual Caps** |
|---|---|
| 1 July 2006 to 31 December 2006 | HK$82,000,000 |
| 1 January 2007 to 31 December 2007 | HK$190,000,000 |
| 1 January 2008 to 31 December 2008 | HK$228,000,000 |
| 1 January 2009 to 30 June 2009 | HK$132,500,000 |

The Raw Materials Supply Agreement and Annual Caps had been approved by shareholders of the Company at the Special General Meeting held on 29 September 2006.

During the period from 1 July 2006 to 31 December 2006, the Group's purchase of raw materials from the Suppliers amounted to approximately HK$59,668,000 and did not exceed the corresponding Annual Cap for the period from 1 July 2006 to 31 December 2006, namely an amount of HK$82,000,000.

The Continuing Connected Transaction has been reviewed by the independent non-executive directors and have confirmed that for the year ended 31 December 2006, the Continuing Connected Transaction has been entered into (i) in the ordinary and usual course of business of the Company; (ii) either on normal commercial terms or on terms no less favourable to the Company than terms available from independent third parties; and (iii) in accordance with the terms of the Raw Materials Supply Agreement governing it on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

Pursuant to Rule 14A.38 of the Listing Rules, the Company has engaged the auditors of the Company to perform certain procedures in respect of the Continuing Connected Transaction of the Group in accordance with the Hong Kong Standard on Related Services 4400 "Engagements to Perform Agreed-Upon Procedures Regarding Financial Information" issued by the Hong Kong Institute of Certified Public Accountants. The auditors have reported their factual findings on these procedures to the Board of Directors and confirmed that for the year ended 31 December 2006, the Continuing Connected Transaction (i) has received the approval of the Board of Directors of the Company; (ii) has been entered into in accordance with the terms of the Raw Materials Supply Agreement governing the Continuing Connected Transaction; and (iii) has not exceeded the Annual Cap amount for the financial year ended 31 December 2006 as set out in the Announcement.

## DISCLOSURES PURSUANT TO RULE 13.21 OF THE LISTING RULE

In accordance with the disclosure requirements of Rule 13.21 of the Listing Rules, the following disclosures are included in respect of the Company's loan agreements, which contain covenants requiring performance obligations of the controlling shareholder of the Company.

Pursuant to loan agreements between the Company and certain banks, relating to two three-year term loan facilities and two three-year syndicated loan facilities of HK$32,500,000 (2005: HK$56,000,000) and HK$375,000,000 (2005: HK$210,000,000), respectively, a termination event would arise if (i) Mr. Cheok Ho Fung, Peter, a director and controlling shareholder, and his family, collectively, cease to own beneficially directly or indirectly at least 50% of the issued share capital of the Company, or (ii) the Group fails to meet the financial covenants stipulated in the loan facilities.

## DIRECTORS

The Directors of the Company during the year and up to the date of this report were:

**Executive Directors:**

Mr. Cheok Ho Fung

Mr. Ting Sui Ping

Mr. Ng Chi Shing *(Resigned on 18 April 2006)*

Mr. Wong Shui Hing *(Retired on 5 June 2006)*

Mr. Ho Siu Man *(Resigned on 1 March 2007)*

**Non-executive Directors:**

Mr. Tang Yok Lam, Andy

Mr. Ng Kwok Ying, Alvin

Mr. Mok Cham Hung, Chadwick *(Appointed on 4 October 2006)*

**Independent Non-executive Directors:**

Mr. Leung Shu Kin, Alfred

Mr. Wong Wing Kee

Mr. Ng Kee Sin *(Appointed on 20 March 2007)*

Mr. Look Guy *(Resigned on 21 December 2006)*

Pursuant to Bye-law 99 of the Bye-laws, Mr. Ng Kwok Ying, Alvin, Mr. Tang Yok Lam, Andy and Mr. Leung Shu Kin, Alfred shall retire at the Annual General Meeting. In addition, Mr. Mok Cham Hung, Chadwick and Mr. Ng Kee Sin, being Directors appointed by the Directors after the Company's annual general meeting held on 5 June 2006, will hold office only until the Annual General Meeting pursuant to Bye-law 102(B) of the Bye-laws. All the retiring Directors, being eligible, will offer themselves for re-election.

## BIOGRAPHICAL DETAILS OF DIRECTORS

**Executive Directors**

**Mr. Cheok Ho Fung**

Mr. Cheok Ho Fung, aged 55, is the Chairman and Chief Executive Officer and founder of the Group. Mr. Cheok is responsible for overall strategic planning and the direction of the Group. With over 20 years of experience in the PCB industry, Mr. Cheok also spearheads the Group's efforts in seeking out business development, capital investment and joint venture opportunities. Prior to founding the Group in 1985, Mr. Cheok had held financial controller and various management positions in different multi-national companies involved in computers related products, application systems, motor vehicles and agricultural equipment, ship repair and oil-rig construction, business-form printing and PCB manufacturing. Mr. Cheok has been a fellow member of the Association of Chartered Certified Accountants since 1980, a member of the Chartered Institute of Management Accountants since 1981 and the Hong Kong Institute of Certified Public Accountants since 1990.

**Mr. Ting Sui Ping**

Mr. Ting Sui Ping, aged 49, is the Marketing Director of the Group overseeing all sales and marketing functions. He has over 22 years of experience in the PCB marketing. Prior to joining the Group in 2002, Mr. Ting was employed by a major PCB manufacturer in Hong Kong for over 10 years.

**Non-executive Directors**

**Mr. Tang Yok Lam, Andy**

Mr. Tang Yok Lam, Andy, aged 58, has had over 32 years international working experience in Hong Kong, Japan, London, the US and the PRC in engineering, finance and investment banking areas. Mr. Tang had held various senior executive positions in multinational companies in Hong Kong, Japan, London, the US and the PRC. Mr. Tang has been a pioneer in non-recourse project financing for major power plant in the PRC since 1994. Mr. Tang is currently the president of Inflow Finance Limited in Beijing. The Company provides various investment and strategic advisory services to both private enterprises and publicly listed companies in Greater China. Mr. Tang studied naval Architecture in Taiwan, then production management at Cambridge and earned his MBA at the Cranfield Institute of Technology (England) in 1977.

**Mr. Ng Kwok Ying, Alvin**

Mr. Ng Kwok Ying, Alvin, aged 59, was re-designated from Independent Non-Executive Director to Non-Executive Director of the Company on 22 February 2005. Mr. Ng is the founder and currently a senior partner of Ng and Partners, Solicitors. Prior to becoming a solicitor, Mr. Ng had worked in the shipping industry for 10 years. Mr. Ng graduated from the University of Hong Kong with a Bachelor of Social Science degree.

**Mr. Mok Cham Hung, Chadwick**

Mr. Mok Cham Hung, Chadwick, aged 42, joined Kingboard Chemical Holdings Limited (Stock Code: 148) ("Kingboard") together with its subsidiaries, (the "Kingboard Group") as an executive director in 2000 and is responsible for the Kingboard Group's financial management. Prior to this he worked in financial services industry for over 11 years. Mr. Mok is an associate member of the Institute of Chartered Accountants in England & Wales and a fellow member of Hong Kong Institute of Certified Public Accountants. He holds an MA in Electrical and Information Engineering from the University of Cambridge and an MBA with distinction from Imperial College, the University of London. He is also an executive director and vice-chairman of Elec & Eltek International Company Limited, a company listed in Singapore Securities Trading Limited and a subsidiary of Kingboard. Mr. Mok is responsible for the strategic planning and day-to-day management thereof.

**Independent Non-executive Directors**

**Mr. Leung Shu Kin, Alfred**

Mr. Leung Shu Kin, Alfred, aged 54, has had extensive working experience in the banking industry. For over 20 years, Mr. Leung had held various senior credit management positions in Bank of America and the First National Bank of Boston before becoming the Group General Manager of Seng Heng Bank in Macau. Currently he serves as the executive director for the Elegance Printing Group. Mr. Leung holds a Bachelor's degree in Economics and a Bachelor's degree in Commerce from the University of Windsor, Canada, a Master's degree in Business Administration from the Chinese University of Hong Kong. Mr. Leung was appointed as the Company's Independent Non-Executive Director on 1 September 2004.

**Mr. Wong Wing Kee**

Mr. Wong Wing Kee, aged 60, holds a Bachelor of Science degree in Financial Services from the University of Manchester. He is also a Fellow of The Chartered Institute of Bankers, UK (FCIB). Being Singaporean, Mr. Wong has extensive experience in the banking industry, having worked for Citibank, J.P. Morgan and DBS, and held management positions with local and regional responsibilities in audit, compliance and operational risk areas. Currently, he is the Advisor of Risk Management with a private bank in Indonesia. Mr. Wong was appointed as the Company's Independent Non-Executive Director on 1 December 2004.

**Mr. Ng Kee Sin**

Mr. Ng Kee Sin, aged 55, is currently an international associate of Golden Namsing Technology Shenzhen Co., Ltd. where he is heading its overseas operations. Mr. Ng has more than 20 years of senior management experience in Asia Pacific countries and had been the managing director of Quantum Storage Greater China Region and the director of Storage Business Unit of Compaq Computers Greater China Division. Mr. Ng holds a Bachelor of Accountancy degree from University of Singapore. He is a member of Institute of Certified Public Accountants of Singapore (ICPAS) and a fellow member of the Association of Chartered Certified Accountants.

## DIRECTORS' SERVICE CONTRACTS

On 30 May 2002, the Company entered into a service agreement with Mr. Cheok Ho Fung for an initial fixed term of three years and shall continue thereafter for successive terms of one year each commencing from the day next after the expiry of the then current terms of the service agreements. Under the service agreement with Mr. Cheok, such agreement may be terminated by either party by giving not less than six month's written notice to the other party.

On 29 August 2005, the Company entered into a service agreement with Mr. Ting Sui Ping with effect from 3 June 2005 for an initial period of three years, which is renewable thereafter. Under the service agreement with Mr. Ting, such agreement may be terminated by either party by giving not less than three months' written notice to the other party.

On 29 August 2005, a letter of appointment was issued by the Company and accepted by Mr. Leung Shu Kin, Alfred. Mr. Leung serves the Company as an independent non-executive Director with effect from 3 June 2005 to 31 August 2007, subject to retirement by rotation and re-election at the annual general meeting of the Company pursuant to the Bye-Laws of the Company. Under the letter of appointment, the appointment may be terminated by either party by giving not less than three months' written notice to the other party.

On 29 August 2005, a letter of appointment was issued by the Company and accepted by Mr. Wong Wing Kee. Mr. Wong serves the Company as an independent non-executive Director with effect from 3 June 2005 to 30 November 2007, subject to retirement by rotation and re-election at the annual general meeting of the Company pursuant to the Bye-Laws of the Company. Under the letter of appointment, the appointment may be terminated by either party by giving not less than three months' written notice to the other party.

On 29 August 2005, separate letters of appointment were issued by the Company and accepted by Mr. Tang Yok Lam, Andy and Mr. Ng Kwok Ying, Alvin respectively. Mr. Tang and Mr. Ng serve the Company as non-executive Directors with effect from 3 June 2005 for an initial period of three years, subject to retirement by rotation and re-election at the annual general meeting of the Company pursuant to the Bye-Laws of the Company. Under the letter of appointment, the appointment may be terminated by either party by giving not less than three months' written notice to the other party.

On 4 October 2006, a letter of appointment was issued by the Company and accepted by Mr. Mok Cham Hung, Chadwick. Mr. Mok serves the Company as a non-executive Director with effect from 4 October 2006 for an initial period of three years, subject to retirement by rotation and re-election at the annual general meeting of the Company pursuant to the Bye-Laws of the Company. Under the letter of appointment, the appointment may be terminated by either party by giving not less than three months' written notice to the other party.

On 20 March 2007, a letter of appointment was issued by the Company and accepted by Mr. Ng Kee Sin. Mr. Ng serves the Company as an independent non-executive Director with effect from 20 March 2007 for an initial period of three years, subject to retirement by rotation and re-election at the annual general meeting of the Company pursuant to the Bye-Laws of the Company. Under the letter of appointment, the appointment may be terminated by either party by giving not less than three months' written notice to the other party.

Save as disclosed above, none of the Directors has or is proposed to have a service agreement with the Company or any of its subsidiaries, which is not determinable within one year without payment of compensation other than statutory compensation.

## DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in note 36 to the financial statements, no contracts of significance in relation to the Group's business to which the Company, its holding or its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

## DIRECTORS' INTERESTS IN SHARES AND SHARE OPTIONS

**1. Directors' Interests in Shares**

As at 31 December 2006, the interests and short positions of the Directors in the shares, underlying shares and debentures of the Company or its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register maintained by the Company pursuant to Section 352 of the SFO or as notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers were as follows:

***(a) The Company***

| Name of director | | Nature of interest | | Number of ordinary shares held | Percentage of issued capital |
|---|---|---|---|---|---|
| Mr. Cheok Ho Fung | | Direct | Long position | 48,000,000 | 5.60% |
| | *Note* | Deemed | Long position | 432,000,000 | 50.37% |
| Total | | | | 480,000,000 | 55.97% |

*Note:* These shares are owned by Inni International Inc., a company incorporated in the Republic of Liberia. The shares of Inni International Inc. are owned as to 49% by Mr. Cheok Ho Fung and as to 51% jointly by Mr. Cheok Ho Fung and his wife.

***(b) Associated Corporation — Inni International Inc.***

| Name of director | | Nature of interest | Number of ordinary shares held | Percentage of issued capital |
|---|---|---|---|---|
| Mr. Cheok Ho Fung | | Direct | 12,250 | 49.00% |
| | *Note* | Deemed | 12,750 | 51.00% |
| | | | 25,000 | 100.00% |

*Note:* These shares are jointly owned by Mr. Cheok Ho Fung and his wife.

***(c) Subsidiary — Topsearch Industries (Holdings) Limited***

| Name of director | | Nature of interest | Number of deferred shares held | Percentage of total deferred shares issued |
|---|---|---|---|---|
| Mr. Cheok Ho Fung | | Direct | 2,000,100 | 10.00% |
| | *Note* | Deemed | 17,999,900 | 90.00% |
| Total | | | 20,000,000 | 100.00% |

*Note:* These shares are owned by Inni International Inc., a company incorporated in the Republic of Liberia. The shares of Inni International Inc. are owned as to 49% by Mr. Cheok Ho Fung and as to 51% jointly by Mr. Cheok Ho Fung and his wife.

## 2. Directors' interests in share options of the Company

As at 31 December 2006, certain of the Company's directors held share options of the Company and particulars of those outstanding share options granted under the Scheme as defined in note 29 to the financial statements were as follows:

| Name or category of participant | Number of share options: At 1 January 2006 | Number of share options: Exercised during the year | Number of share options: Expired during the year | Number of share options: At 31 December 2006 | Date of grant of share options | Exercise period of share options | Exercise price of share options *HK$ per share* | Price of Company's shares: At grant date of options *HK$ per share* | Price of Company's shares: Immediately before the exercise date *HK$ per share* | Price of Company's shares: At exercise date of options *HK$ per share* |
|---|---|---|---|---|---|---|---|---|---|---|
| Directors | | | | | | | | | | |
| Mr. Ng Chi Shing# | 1,200,000 | (600,000) | – | – | 1 Sep 04 | 6 July 2004 to 31 Decmber 2006 | 0.694 | 0.70 | 0.92 | 0.92 |
| | | (600,000) | – | – | 1 Sep 04 | 6 July 2004 to 31 Decmber 2006 | 0.694 | 0.70 | 0.84 | 0.84 |
| Mr. Wong Shui Hing# | 900,000 | (450,000) | – | – | 1 Sep 04 | 6 July 2004 to 31 Decmber 2006 | 0.694 | 0.70 | 0.92 | 0.92 |
| | | (450,000) | – | – | 1 Sep 04 | 6 July 2004 to 31 Decmber 2006 | 0.694 | 0.70 | 0.84 | 0.84 |
| Mr. Ting Sui Ping | 800,000 | (800,000) | – | – | 1 Sep 04 | 6 July 2004 to 31 Decmber 2006 | 0.694 | 0.70 | 0.88 | 0.88 |
| Mr. Tang Yok Lam, Andy | 640,000 | – | (640,000) | – | 1 Sep 04 | 6 July 2004 to 31 Decmber 2006 | 0.694 | 0.70 | – | – |
| | 1,860,000 | – | (1,860,000) | – | 12 Jan 05 | 20 December 2004 to 31 Decmber 2006 | 0.792 | 0.81 | – | – |
| | 5,400,000 | (2,900,000) | (2,500,000) | – | | | | | | |

\# Mr. Ng Chi Shing and Mr. Wong Shui Hing resigned and retired as directors on 18 April 2006 and 5 June 2006, respectively.

**3. Directors' interest in underlying shares of equity derivatives of the Company — bonus issue of warrants on the basis of one warrant for every ten existing Shares held by the Shareholders on 5 June 2006:**

| Name of director | | Nature of interest | Date of grant of share warrants | Exercise period of warrants | Subscription price of warrants | Number of warrants outstanding | Number of total underlying shares | Approximate percentage of total shareholding |
|---|---|---|---|---|---|---|---|---|
| Mr. Cheok Ho Fung | | Direct | 5 June 2006 | 26 June 2006 to 31 October 2008 | 1.20 | 4,800,000 | 4,800,000 | 0.56% |
| Inni International Inc | *Note* | Deemed | 5 June 2006 | 26 June 2006 to 31 October 2008 | 1.20 | 43,200,000 | 43,200,000 | 5.04% |
| | | | | | Total | 48,000,000 | 48,000,000 | 5.6% |

*Note:* These warrants are owned by Inni International Inc., a company incorporated in the Republic of Liberia. The shares of Inni International Inc. are owned as to 49% by Mr. Cheok Ho Fung and as to 51% jointly by Mr. Cheok Ho Fung and his wife.

Save as discussed above, none of the directors, chief executives or any of their associates had any interest or short positions in the shares, underlying shares or debentures of the Company or its associated corporations were recorded in the register required to be kept under Section 352 of the SFO as at 31 December 2006 or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as at 31 December 2006.

## SUBSTANTIAL SHAREHOLDERS

**1. Long positions in Shares:**

As at 31 December 2006, the interests or short positions of every person in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO were as follows:

| Name of shareholders | *Notes* | | | Number of ordinary shares held | Percentage of issued capital |
|---|---|---|---|---|---|
| Inni International Inc. | | Direct | Long position | 432,000,000 | 50.37% |
| Mr. Cheok Ho Fung | | Direct | Long position | 48,000,000 | 5.60% |
| | *(i)* | Deemed | Long position | 432,000,000 | 50.37% |
| | | | Total | 480,000,000 | 55.97% |
| Mrs. Cheok Chu Wai Min | *(ii)* | Deemed | Long position | 480,000,000 | 55.97% |
| Hallgain Management Limited | *(iii)* | Deemed | Long position | 214,522,000 | 25.01% |
| Kingboard Chemical Holdings | | Direct | Long position | 2,766,000 | 0.32% |
| Limited | *(iii)* | Deemed | Long position | 211,756,000 | 24.69% |
| | | | Total | 214,522,000 | 25.01% |
| Jamplan (BVI) Limited | *(iii)* | Deemed | Long position | 211,756,000 | 24.69% |
| Kingboard Investments Limited | | Direct | Long position | 211,554,000 | 24.67% |

*Notes:*

(i) The above interest in the name of Inni International Inc. was also disclosed as interest of Mr. Cheok Ho Fung in the above section headed "Directors' Interests in Shares and Share Options".

(ii) Mrs. Cheok Chu Wai Min is the spouse of Mr. Cheok Ho Fung. The shares of Inni International Inc. are owned as to 49% by Mr. Cheok Ho Fung and as to 51% jointly by Mr. Cheok Ho Fung and Mrs. Cheok Chu Wai Min. The shareholdings stated against Mr. Cheok Ho Fung and Mrs. Cheok Chu Wai Min above represented the same block of shares, which were also included as interests of Mr. Cheok Ho Fung in the above section headed "Directors' Interests in Shares and Share Options".

(iii) Kingboard Investments Limited and Kingboard Laminates Limited, holder of 211,554,000 and 202,000 shares in the Company respectively, are wholly-owned subsidiaries of Jamplan (BVI) Limited which in turn is a wholly-owned subsidiary of Kingboard Chemical Holdings Limited. Hallgain Management Limited owns 30.63% equity shares in Kingboard Chemical Holdings Limited.

**2.** Long positions in underlying shares of equity derivatives of the Company — bonus issue of warrants on the basis of one warrant for every ten existing Shares held by the Shareholders on 5 June 2006:

| Name of shareholders | *Notes* | Nature of interest | Date of grant of share warrants | Exercise period of warrants | Subscription price of warrants | Number of warrants outstanding | Number of total underlying shares | Approximate percentage of total shareholding |
|---|---|---|---|---|---|---|---|---|
| Inni International Inc. | | Direct | 5 June 2006 | 26 June 2006 to 31 October 2008 | 1.20 | 43,200,000 | 43,200,000 | 5.04% |
| Mr. Cheok Ho Fung | | Direct | 5 June 2006 | 26 June 2006 to 31 October 2008 | 1.20 | 4,800,000 | 4,800,000 | 0.56% |
| | *(i)* | Deemed | 5 June 2006 | 26 June 2006 to 31 October 2008 | 1.20 | 43,200,000 | 43,200,000 | 5.04% |
| | | | | | Total | 48,000,000 | 48,000,000 | 5.6% |
| Mrs. Cheok Chu Wai Min | *(ii)* | Deemed | 5 June 2006 | 26 June 2006 to 31 October 2008 | 1.20 | 48,000,000 | 48,000,000 | 5.6% |
| Hallgain Management Limited | *(iii)* | Deemed | 5 June 2006 | 26 June 2006 to 31 October 2008 | 1.20 | 5,874,400 | 5,874,000 | 0.68% |
| Kingboard Chemical Holdings Limited | | Direct | 5 June 2006 | 26 June 2006 to 31 October 2008 | 1.20 | 250,000 | 250,000 | 0.03% |
| | *(iii)* | Deemed | 5 June 2006 | 26 June 2006 to 31 October 2008 | 1.20 | 5,624,400 | 5,624,400 | 0.66% |
| | | | | | Total | 5,874,400 | 5,874,400 | 0.69% |
| Jamplan (BVI) Limited | *(iii)* | Deemed | 5 June 2006 | 26 June 2006 to 31 October 2008 | 1.20 | 5,624,400 | 5,624,400 | 0.66% |
| Kingboard Investments Limited | | Direct | 5 June 2006 | 26 June 2006 to 31 October 2008 | 1.20 | 5,604,200 | 5,604,200 | 0.65% |

*Notes:*

(i) The above interest in the name of Inni International Inc. was also disclosed as interest of Mr. Cheok Ho Fung in the above section headed "Directors' Interests in underlying shares of equity derivatives of the Company".

(ii) Mrs. Cheok Chu Wai Min is the spouse of Mr. Cheok Ho Fung. The shares of Inni International Inc. are owned as to 49% by Mr. Cheok Ho Fung and as to 51% jointly by Mr. Cheok Ho Fung and Mrs. Cheok Chu Wai Min. The warrant-holdings stated against Mr. Cheok Ho Fung and Mrs. Cheok Chu Wai Min above represented the same block of warrants, which were also included as interest of Mr. Cheok Ho Fung in the above section headed "Directors' Interests in underlying shares of equity derivatives of the Company".

(iii) Kingboard Investments Limited and Kingboard Laminates Limited, holder of 211,554,000 and 202,000 shares in the Company respectively, are wholly-owned subsidiaries of Jamplan (BVI) Limited which in turn is a wholly-owned subsidiary of Kingboard Chemical Holdings Limited. Hallagin Management Limited owns 30.63% equity shares in Kingboard Chemical Holdings Limited.

Save as disclosed above, no person, other than the directors and chief executive of the Company whose interests are set out in the section "Directors' interest in shares and share option" above had registered an interests or shorts positions in the shares and underlying shares of the Company as recorded under Section 336 of the SFO as at 31 December 2006.

## AUDIT COMMITTEE

The Company established an Audit Committee on 30 May 2002 with written terms of reference in compliance with the Code of Best Practice (the "Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"). The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal controls of the Group. Meetings were held to review the interim financial statements of the Company for the financial period ended 30 June 2006, and financial statements of the Company for the year ended 31 December 2006.

This Annual Report has been reviewed by the Audit Committee.

As at the date of this report, the Committee comprised three independent non-executive directors, namely Mr. Leung Shu Kin, Alfred, Mr. Wong Wing Kee and Mr. Ng Kee Sin and one non-executive director namely Mr. Ng Kwok Ying, Alvin.

## POST BALANCE SHEET EVENT

Details of the significant post balance sheet event of the Group are set out in note 38 to the financial statements.

## AUDITORS

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

On behalf of the Board

**CHEOK HO FUNG**

*Chairman and Chief Executive Officer*

Hong Kong, 20 April 2007

ERNST & YOUNG
安永會計師事務所

18th Floor
Two International Finance Centre
8 Finance Street, Central
Hong Kong

**To the shareholders of Topsearch International (Holdings) Limited**
*(Incorporated in Bermuda with limited liability)*

We have audited the financial statements of Topsearch International (Holdings) Limited set out on pages 44 to 99, which comprise the consolidated and company balance sheets as at 31 December 2006, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

## DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

## AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. Our report is made solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## OPINION

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2006 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**Ernst & Young**
*Certified Public Accountants*
Hong Kong
20 April 2007

# Consolidated Income Statement

*Year ended 31 December 2006*

| | Notes | 2006 HK$'000 | 2005 HK$'000 |
|---|---|---|---|
| REVENUE | 5 | **1,732,797** | 1,631,423 |
| Cost of sales | | **(1,464,158)** | (1,316,487) |
| Gross profit | | **268,639** | 314,936 |
| Other income and gains | 5 | **12,414** | 13,185 |
| Selling and distribution costs | | **(129,189)** | (109,166) |
| Administrative expenses | | **(84,079)** | (96,019) |
| Other expenses | | **(932)** | (2,384) |
| Finance costs | 7 | **(45,532)** | (25,765) |
| PROFIT BEFORE TAX | 6 | **21,321** | 94,787 |
| Tax | 10 | **7,017** | (1,573) |
| PROFIT FOR THE YEAR | | **28,338** | 93,214 |
| Attributable to equity holders of the parent | 11 | **28,338** | 93,214 |
| EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT | 12 | | |
| Basic | | **3.5 cents** | 13.3 cents |
| Diluted | | **3.5 cents** | 13.3 cents |

# Consolidated Balance Sheet

*31 December 2006*

| | Notes | 2006 HK$'000 | 2005 HK$'000 |
|---|---|---|---|
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | 13 | **1,431,532** | 1,284,295 |
| Prepaid land lease payments | 14 | **31,617** | 31,769 |
| Interest in an associate | 16 | **558** | 527 |
| Rental and utility deposits | | **2,035** | 3,045 |
| Prepaid rental, long term portion | | **1,184** | 1,323 |
| Available-for-sale financial assets | 17 | **1,758** | 1,851 |
| Other receivables | 18 | **1,755** | — |
| Deposits paid for items of property, plant and equipment | | **11,096** | 37,185 |
| Total non-current assets | | **1,481,535** | 1,359,995 |
| CURRENT ASSETS | | | |
| Inventories | 19 | **301,238** | 272,918 |
| Trade receivables | 20 | **401,244** | 437,665 |
| Prepayments, deposits and other receivables | | **95,012** | 55,137 |
| Pledged deposits | 21 | **496** | — |
| Cash and cash equivalents | 21 | **111,639** | 156,341 |
| Total current assets | | **909,629** | 922,061 |
| CURRENT LIABILITIES | | | |
| Trade payables | 22 | **381,329** | 416,071 |
| Other payables and accruals | 23 | **86,708** | 92,761 |
| Interest-bearing bank loans | 24 | **260,656** | 294,453 |
| Current portion of a shareholder's loan | 25 | **30,043** | — |
| Finance lease payables | 26 | **75,752** | 69,438 |
| Tax payable | | **12,223** | 9,868 |
| Total current liabilities | | **846,711** | 882,591 |
| NET CURRENT ASSETS | | **62,918** | 39,470 |

| | Notes | 2006 HK$'000 | 2005 HK$'000 |
|---|---|---|---|
| TOTAL ASSETS LESS CURRENT LIABILITIES | | **1,544,453** | 1,399,465 |
| NON-CURRENT LIABILITIES | | | |
| Interest-bearing bank loans | 24 | **306,350** | 297,361 |
| Non-current portion of a shareholder's loan | 25 | **—** | 30,043 |
| Finance lease payables | 26 | **100,998** | 94,318 |
| Deferred tax liabilities | 27 | **28,030** | 37,295 |
| Total non-current liabilities | | **435,378** | 459,017 |
| Net assets | | **1,109,075** | 940,448 |
| EQUITY | | | |
| **Equity attributable to equity holders of the parent** | | | |
| Issued capital | 28 | **85,760** | 71,080 |
| Reserves | 30(a) | **1,023,315** | 869,368 |
| Total equity | | **1,109,075** | 940,448 |

**Cheok Ho Fung**
*Director*

**Ting Sui Ping**
*Director*

# Consolidated Statement of Changes in Equity

*Year ended 31 December 2006*

| | | Attributable to equity holders of the parent | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Note | Issued capital HK$'000 (note 28) | Share premium account HK$'000 (note 28) | Share option reserve HK$'000 | Contributed surplus HK$'000 (note 30(a)) | Property revaluation reserve HK$'000 | Exchange fluctuation reserve HK$'000 | Statutory reserve fund HK$'000 (note 30(a)) | Retained profits HK$'000 | Proposed final dividend HK$'000 | Total HK$'000 |
| At 1 January 2005 | | 64,000 | 134,743 | – | 19,000 | 28,351 | (59) | 18,230 | 510,124 | 19,900 | 794,289 |
| Exchange realignment on translation of the financial statements of foreign entities | | – | – | – | – | – | 10,546 | – | – | – | 10,546 |
| Profit for the year | | – | – | – | – | – | – | – | 93,214 | – | 93,214 |
| Total income and expense for the year | | – | – | – | – | – | 10,546 | – | 93,214 | – | 103,760 |
| Issue of shares | 28 | 7,080 | 56,496 | – | – | – | – | – | – | – | 63,576 |
| Share issue expenses | 28 | – | (1,588) | – | – | – | – | – | – | – | (1,588) |
| Equity-settled share option arrangement | | – | – | 311 | – | – | – | – | – | – | 311 |
| Final 2004 dividend paid | | – | – | – | – | – | – | – | – | (19,900) | (19,900) |
| Transfer to the statutory reserve fund | | – | – | – | – | – | – | 1,968 | (1,968) | – | – |
| At 31 December 2005 and at 1 January 2006 | | 71,080 | 189,651 | 311 | 19,000 | 28,351 | 10,487 | 20,198 | 601,370 | – | 940,448 |
| Exchange realignment on translation of the financial statements of foreign entities | | – | – | – | – | – | 23,867 | – | – | – | 23,867 |
| Profit for the year | | – | – | – | – | – | – | – | 28,338 | – | 28,338 |
| Total income and expense for the year | | – | – | – | – | – | 23,867 | – | 28,338 | – | 52,205 |
| Issue of shares | 28 | 14,680 | 102,612 | (311) | – | – | – | – | – | – | 116,981 |
| Share issue expenses | 28 | – | (559) | – | – | – | – | – | – | – | (559) |
| Transfer to the statutory reserve fund | | – | – | – | – | – | – | 3,890 | (3,890) | – | – |
| At 31 December 2006 | | 85,760 | 291,704* | –* | 19,000* | 28,351* | 34,354* | 24,088* | 625,818* | – | 1,109,075 |

* The reserve accounts comprise the consolidated reserve of HK$1,023,315,000 (2005: HK$869,368,000) in the consolidated balance sheet.

# Consolidated Cash Flow Statement

*Year ended 31 December 2006*

| | Notes | 2006 HK$'000 | 2005 HK$'000 |
|---|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Profit before tax | | **21,321** | 94,787 |
| Adjustments for: | | | |
| Bank interest income | 5 | **(1,373)** | (1,066) |
| Depreciation | 6 | **170,207** | 155,840 |
| Loss on disposal of items of property, plant and equipment | 6 | **9,635** | 1,676 |
| Provision for obsolete inventories | 6 | **14,137** | 6,058 |
| Impairment of an available-for-sale financial asset | 6 | **93** | — |
| Finance costs | 7 | **45,532** | 25,765 |
| Recognition of prepaid land lease payments | 14 | **699** | 355 |
| Equity-settled share option expense | | **—** | 311 |
| | | **260,251** | 283,726 |
| Decrease in rental and utility deposits | | **1,070** | 20 |
| Decrease in prepaid rental, long term portion | | **185** | 150 |
| Increase in inventories | | **(41,594)** | (72,839) |
| Decrease/(increase) in trade receivables | | **36,421** | (41,602) |
| Increase in prepayments, deposits and other receivables | | **(44,646)** | (32,189) |
| Increase in an amount due from an associate | | **(31)** | (263) |
| Increase/(decrease) in trade payables | | **(46,820)** | 76,945 |
| Increase/(decrease) in other payables and accruals | | **(8,954)** | 21,329 |
| Cash generated from operations | | **155,882** | 235,277 |
| Interest received | | **1,373** | 1,066 |
| PRC taxes paid | | **(131)** | (3,195) |
| Refund of 5% of PRC corporate income tax | 10 | **—** | 472 |
| Net cash inflow from operating activities | | **157,124** | 233,620 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Purchases of items of property, plant and equipment | | **(148,417)** | (286,473) |
| Additions to land lease payments | 14 | **—** | (16,688) |
| Deposits paid for items of property, plant and equipment | | **(11,096)** | (37,185) |
| Proceeds from disposal of items of property, plant and equipment | | **101** | 457 |
| Purchase of available-for-sale financial assets | | **—** | (150) |
| Net cash outflow from investing activities | | **(159,412)** | (340,039) |

| | Notes | 2006 HK$'000 | 2005 HK$'000 |
|---|---|---|---|
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Proceeds from issue of shares | | **116,981** | 63,576 |
| Share issue expenses | 28 | **(559)** | (1,588) |
| New bank loans | | **255,000** | 235,000 |
| Repayment of bank loans | | **(253,359)** | (33,341) |
| Increase/(decrease) in trust receipt loans | | **(26,638)** | 25,179 |
| Interest paid | 7 | **(35,418)** | (23,501) |
| Interest element of finance lease rental payments | 7 | **(11,209)** | (5,521) |
| Capital element of finance lease rental payments | | **(88,972)** | (64,846) |
| Dividend paid | | **—** | (19,900) |
| Net cash inflow/(outflow) from financing activities | | **(44,174)** | 175,058 |
| NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS | | **(46,462)** | 68,639 |
| Cash and cash equivalents at beginning of year | | **156,341** | 91,147 |
| Effect of foreign exchange rate changes, net | | **2,256** | (3,445) |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | | **112,135** | 156,341 |
| ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS | | | |
| Cash and bank balances | 21 | **95,708** | 148,541 |
| Non-pledged time deposits with original maturity of less than three months when acquired | 21 | **15,931** | 7,800 |
| Time deposits with original maturity of less than three months when acquired, pledged as security for declaration charges | 21 | **496** | — |
| | | **112,135** | 156,341 |

# Balance Sheet

*31 December 2006*

| | Notes | 2006 HK$'000 | 2005 HK$'000 |
|---|---|---|---|
| NON-CURRENT ASSETS | | | |
| Interests in subsidiaries | 15 | **1,264,668** | 1,008,078 |
| CURRENT ASSETS | | | |
| Prepayments, deposits and other receivables | | **169** | 218 |
| Dividend receivable | | **25,000** | 25,000 |
| Cash and cash equivalents | 21 | **1,385** | 85 |
| Total current assets | | **26,554** | 25,303 |
| CURRENT LIABILITIES | | | |
| Other payables and accruals | 23 | **1,441** | 2,583 |
| Interest-bearing bank loans | 24 | **103,994** | 33,333 |
| Current portion of a shareholder's loan | 25 | **30,043** | — |
| Total current liabilities | | **135,478** | 35,916 |
| NET CURRENT LIABILITIES | | **(108,924)** | (10,613) |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | **1,155,744** | 997,465 |
| NON-CURRENT LIABILITIES | | | |
| Interest-bearing bank loans | 24 | **266,890** | 216,667 |
| Non-current portion of a shareholder's loan | 25 | **—** | 30,043 |
| Total non-current liabilities | | **266,890** | 246,710 |
| Net assets | | **888,854** | 750,755 |
| EQUITY | | | |
| Issued capital | 28 | **85,760** | 71,080 |
| Reserves | 30(b) | **803,094** | 679,675 |
| Total equity | | **888,854** | 750,755 |

**Cheok Ho Fung**
*Director*

**Ting Sui Ping**
*Director*

## 1. CORPORATE INFORMATION

Topsearch International (Holdings) Limited is a limited liability company incorporated in Bermuda on 12 May 1998 under the Companies Act 1981 (as amended) of Bermuda.

The principal place of business of the Company is located at Room 3406, China Merchants Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong.

During the year, the Group was involved in the manufacture and sale of printed circuit boards. Details of the principal activities of the Company's subsidiaries are set out in note 15 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

In the opinion of the directors, the holding company and the ultimate holding company of the Company is Inni International Inc. ("Inni"), which is incorporated in Liberia.

## 2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which also include Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for certain buildings and available-for-sale financial assets which have been measured at fair value. These financial statements are presented in Hong Kong dollars ("HK$") 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.

## 2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements. Except for in certain cases, giving rise to new and revised accounting policies and additional disclosures, 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 & HKFRS 4 Amendments | Financial Guarantee Contracts |
| HKAS 39 Amendment | Cash Flow Hedge Accounting of Forecast Intragroup Transactions |
| HKAS 39 Amendment | The Fair Value Option |
| HK(IFRIC)-Int 4 | Determining whether an Arrangement Contains a Lease |

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 a 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**

***Amendment for financial guarantee contracts***

This amendment has revised the scope of HKAS 39 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.

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

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

| | |
|---|---|
| HKAS 1 Amendment | Capital Disclosures |
| HKFRS 7 | Financial Instruments: Disclosures |
| HKFRS 8 | Operating Segments |
| HK(IFRIC)-Int 7 | Applying the Restatement Approach under HKAS 29 *Financial Reporting in Hyperinflationary Economies* |
| HK(IFRIC)-Int 8 | Scope of HKFRS 2 |
| HK(IFRIC)-Int 9 | Reassessment of Embedded Derivatives |
| HK(IFRIC)-Int 10 | Interim Financial Reporting and Impairment |
| HK(IFRIC)-Int 11 | HKFRS 2 — Group and Treasury Share Transactions |
| HK(IFRIC)-Int 12 | Service Concession Arrangement |

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.

HKFRS 8 shall be applied for annual periods beginning on or after 1 January 2009. The standard sets out requirements for disclosure of information about an entity's operating segments and also about the entity's products and services, the geographical areas in which it operates, and its major customers.

HK(IFRIC)-Int 7, HK(IFRIC)-Int 8, HK(IFRIC)-Int 9, HK(IFRIC)-Int 10, HK(IFRIC)-Int 11 and HK(IFRIC)-Int 12 shall be applied for annual periods beginning on or after 1 March 2006, 1 May 2006, 1 June 2006, 1 November 2006, 1 March 2007 and 1 January 2008, 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.

**Associates**

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

The Group's share of the post-acquisition results of its associate has not been equity accounted for by the Group because the amounts are not significant. The results of the associate are therefore included in the Group's income statement to the extent of dividends received and receivable. The Group's interest in the associate is treated as a non-current asset and is stated at cost less any impairment losses.

**Impairment of non-financial assets**

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories and financial assets), 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 in those expense categories consistent with the function of the impaired asset, unless the asset is carried at a revalued amount, in which case the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

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

## 2.4 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); or

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

**Property, plant and equipment and depreciation**

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

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

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

**Property, plant and equipment and depreciation** *(Continued)*

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

| | |
|---|---|
| Buildings | Over the lease terms |
| Leasehold improvements | Over the lease terms |
| Plant and machinery | 9% |
| Furniture, fixtures and equipment | 18% |
| Motor vehicles | 18% |
| Moulds, dies, test fixtures and pins | 25% |

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

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

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

Construction in progress represents a building under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds 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.

**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.

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 lessee, rentals payable under the operating leases are charged to the income statement on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

**Investments and other financial assets**

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

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

All regular way purchases and sales of financial assets are recognised on the trade date, 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.

***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.

***Available-for-sale financial assets***

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

**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.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

**Impairment of financial assets** *(Continued)*

***Assets carried at amortised cost*** *(Continued)*

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.

***Available-for-sale financial assets***

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the income statement, is transferred from equity to the income statement. Impairment losses on equity instruments classified as available for sale are not reversed through the income statement.

Impairment losses on debt instruments are reversed through the income statement, if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognised in the income statement.

**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.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

**Derecognition of financial assets** *(Continued)*

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 loans and borrowings)**

Financial liabilities including trade and other payables and interest-bearing loans and borrowings 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.

**Financial guarantee contracts**

Financial guarantee contracts in the scope of HKAS 39 are accounted for as financial liabilities. A financial guarantee contract is recognised initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial guarantee contract, except when such contract is recognised at fair value through profit or loss. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount determined in accordance with HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets*; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 *Revenue*.

**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 the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the income statement.

**Derivative financial instruments and hedging**

The Group uses derivative financial instruments such as interest rate swaps to hedge its risks associated with interest rate fluctuations. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value on derivatives that do not qualify for hedge accounting are taken directly to the income statement.

The fair value of interest rate swap contracts is determined by reference to market values for similar instruments.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

**Inventories**

Inventories are stated at the lower of cost and net realisable value.

Raw materials are valued on a weighted average basis. Work in progress and finished goods are valued at standard cost which approximates actual cost determined on a weighted average basis and comprises direct materials, direct labour and an appropriate proportion of manufacturing overheads.

Net realisable value is based on the 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.

**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 investments in subsidiaries and an associate, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

**Income tax** *(Continued)*

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

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

- in respect of deductible temporary differences associated with investments in subsidiaries and an associate, 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) tooling income, when the relevant services are rendered;

(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) tax refund, on a cash basis.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

**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. The fair value is determined by using the Black-Scholes model. 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 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.

The Group has adopted the transitional provisions of HKFRS 2 in respect of equity-settled awards and has applied HKFRS 2 only to equity-settled awards granted after 7 November 2002 that had not vested by 1 January 2005 and to those granted on or after 1 January 2005.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

**Employee benefits** *(Continued)*

***Retirement benefit schemes***

The Group operates two retirement benefit schemes for its eligible employees in Hong Kong. In accordance with the Mandatory Provident Fund Schemes Ordinance and the Occupational Retirement Schemes Ordinance, the Group's Hong Kong employees enjoy retirement benefits under either the Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") or the Mandatory Provident Fund Exempted ORSO Scheme (the "ORSO Scheme"). The assets of both schemes are held separately from those of the Group in independently administered funds. The Group's contributions to both schemes are based on a percentage of the employees' monthly salaries. When an employee leaves the ORSO Scheme prior to his/her interest in the Group's employer contributions vesting fully, the ongoing contributions payable by the Group may be reduced by the relevant amount of forfeited contributions. In respect of the MPF Scheme, the Group's employer contributions vest fully with the employees when contributed into the MPF scheme.

Employees of the Group's subsidiaries which operate in Mainland China are members of the Central Pension Scheme operated by the local municipal government. The subsidiaries are required to contribute a certain percentage of their payroll costs to the Central Pension Scheme to fund the benefits. The only obligation for the Group with respect to the Central Pension Scheme is to make the required contributions, which are charged to the income statement as they become payable in accordance with the rules of the Central Pension Scheme.

**Borrowing costs**

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

**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 dates 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 the 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.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

**Foreign currencies** *(Continued)*

The functional currencies of certain overseas subsidiaries 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 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 the exchange fluctuation reserve. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

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.

## 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:

***Depreciation***

The Group depreciates items of property, plant and equipment on the straight-line basis over their estimated useful lives, and after taking into account of their estimated residual values. The estimated useful lives reflect the directors' estimate of the periods that the Group intends to derive future economic benefits from the use of the Group's property, plant and equipment.

***Impairment of trade receivables***

The policy for provision for impairment loss of the Group is based on the evaluation of collectability and the aging analysis of accounts and on management's judgement. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each customer. If the financial conditions of customers of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

**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.

## 3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(Continued)*

**Estimation uncertainty** *(Continued)*

***Impairment of property, plant and equipment***

The Group conducts impairment reviews of property, plant and equipment whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable in accordance with the relevant accounting standards. Determining whether an asset is impaired requires an estimation of the value in use, which requires the Group to estimate the future cash flows and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. In 2006, after reviewing the business environment as well as the Group's objectives and past performance, management concluded that there was no impairment loss for property, plant and equipment. The carrying value of the Group's property, plant and equipment amounted to HK$1,431,532,000 (2005: HK$1,284,295,000).

***Deferred tax assets***

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The amount of unrecognised tax losses at 31 December 2006 was HK$8,871,000 (2005: HK$8,871,000). Further details are contained in note 27 to the financial statements.

## 4. SEGMENT INFORMATION

Segment information of the Group is presented by business segment and geographical segment. The business segment reporting basis is chosen as the primary segment reporting format as this is more relevant to the Group's internal financial reporting.

**(a) Business segments**

No further business segment information is presented as the manufacture and sale of printed circuit boards is the only major business segment of the Group.

## 4. SEGMENT INFORMATION *(Continued)*

**(b) Geographical segments**

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

The segment revenue of the Group by geographical area is analysed as follows:

| | **2006** | 2005 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Asia, excluding the People's Republic of China (the "PRC") and Taiwan | **711,556** | 712,611 |
| PRC, including Hong Kong | **456,821** | 410,360 |
| Europe | **224,838** | 132,910 |
| Taiwan | **190,498** | 238,746 |
| North America | **149,084** | 136,796 |
| | **1,732,797** | 1,631,423 |

As the Group's production facilities are all located in the Guangdong Province, the PRC, no further geographical segment information on assets and a capital expenditure is provided.

## 5. REVENUE, OTHER INCOME AND GAINS

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

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

| | **2006** | 2005 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| **Revenue** | | |
| Sale of goods | **1,732,797** | 1,631,423 |
| **Other income** | | |
| Tooling income | **8,748** | 8,915 |
| Bank interest income | **1,373** | 1,066 |
| Tax refund for reinvestment of profits in a PRC subsidiary * | **—** | 1,237 |
| Others | **282** | 605 |
| | **10,403** | 11,823 |
| **Gains** | | |
| Foreign exchange differences, net | **2,011** | 1,362 |
| | **12,414** | 13,185 |

* In the prior year, PRC corporate income tax refund was received by the Group for the reinvestment of profits earned by a PRC subsidiary as a capital contribution during the prior years.

## 6. PROFIT BEFORE TAX

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

| | Note | 2006 HK$'000 | 2005 HK$'000 |
|---|---|---|---|
| Cost of inventories sold | | **1,450,021** | 1,310,429 |
| Depreciation | *13* | **170,207** | 155,840 |
| Minimum lease payments under operating leases on land and buildings | | **9,836** | 11,339 |
| Auditors' remuneration | | **1,750** | 1,712 |
| Employee benefits expense (excluding directors' remuneration *(note 8)*): | | | |
| Wages and salaries | | **181,424** | 174,459 |
| Equity-settled share option expense | | **—** | 120 |
| Retirement scheme contributions | | **12,894** | 13,481 |
| *Less:* Forfeited contributions | | **(60)** | (82) |
| Net retirement scheme contributions * | | **12,834** | 13,399 |
| | | **194,258** | 187,978 |
| Loss on disposal of items of property, plant and equipment | | **9,635** | 1,676 |
| Provision for obsolete inventories | | **14,137** | 6,058 |
| Impairment of an available-for-sale financial asset | | **93** | — |
| Foreign exchange differences, net | | **(2,011)** | (1,362) |

* At 31 December 2006, there was no forfeited contribution available to reduce contributions to the retirement schemes in future years (2005: Nil).

## 7. FINANCE COSTS

| | Group | |
|---|---|---|
| | **2006** | 2005 |
| | ***HK$'000*** | *HK$'000* |
| Interest on: | | |
| Bank loans and overdrafts wholly repayable within five years | **34,077** | 22,589 |
| Shareholder's loan | **1,341** | 912 |
| Finance leases | **11,209** | 5,521 |
| Total interest | **46,627** | 29,022 |
| *Less:* Interest capitalised | **(1,095)** | (3,257) |
| | **45,532** | 25,765 |

## 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** | 2005 |
| | ***HK$'000*** | *HK$'000* |
| Fees | **626** | 574 |
| Other emoluments: | | |
| Salaries, allowances and benefits in kind | **7,190** | 8,084 |
| Performance related bonuses* | **407** | 996 |
| Employee share option benefits | **—** | 191 |
| Retirement scheme contributions | **575** | 754 |
| | **8,172** | 10,025 |
| | **8,798** | 10,599 |

* Certain executive directors of the Company are entitled to bonus payments which are determined as a percentage of the profit before tax of the Group.

Rental expenses amounting to HK$1,440,000 (2005: HK$1,417,000) in respect of a director's accommodation have been included in the other emoluments of directors as stated above *(note 36(a))*.

## 8. DIRECTORS' REMUNERATION *(Continued)*

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

### (a) Independent non-executive directors

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

| | **2006** | 2005 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Mr. Leung Shu Kin, Alfred | **120** | 120 |
| Mr. Wong Wing Kee | **120** | 120 |
| Mr. Ng Kwok Ying, Alvin* | **—** | 20 |
| Mr. Look Guy ** | **117** | 94 |
| | **357** | 354 |

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

# 8. DIRECTORS' REMUNERATION *(Continued)*

## (b) Executive directors and non-executive directors

| | Fees HK$'000 | Salaries, allowances and benefits in kind HK$'000 | Performance related bonuses HK$'000 | Employee share option benefits HK$'000 | Retirement scheme contributions HK$'000 | Total remuneration HK$'000 |
|---|---|---|---|---|---|---|
| **2006** | | | | | | |
| Executive directors: | | | | | | |
| Mr. Cheok Ho Fung | — | 4,226 | 232 | — | 279 | 4,737 |
| Mr. Ng Chi Shing *** | — | 432 | — | — | 43 | 475 |
| Mr. Wong Shui Hing *** | — | 432 | — | — | 43 | 475 |
| Mr. Ting Sui Ping | — | 900 | 75 | — | 90 | 1,065 |
| Mr. Ho Siu Man | — | 1,200 | 100 | — | 120 | 1,420 |
| | — | 7,190 | 407 | — | 575 | 8,172 |
| Non- executive directors: | | | | | | |
| Mr. Tang Yok Lam, Andy | 120 | — | — | — | — | 120 |
| Mr. Ng Kwok Ying, Alvin | 120 | — | — | — | — | 120 |
| Mr. Mok Cham Hung, Chadwick | 29 | — | — | — | — | 29 |
| | 269 | 7,190 | 407 | — | 575 | 8,441 |
| 2005 | | | | | | |
| Executive directors: | | | | | | |
| Mr. Cheok Ho Fung | — | 4,435 | 696 | — | 418 | 5,549 |
| Mr. Ng Chi Shing | — | 1,123 | — | 21 | 104 | 1,248 |
| Mr. Wong Shui Hing | — | 936 | — | 16 | 86 | 1,038 |
| Mr. Ting Sui Ping | — | 965 | 300 | 14 | 89 | 1,368 |
| Mr. Ho Siu Man | — | 319 | — | — | 29 | 348 |
| | — | 7,778 | 996 | 51 | 726 | 9,551 |
| Non-executive directors: | | | | | | |
| Mr. Tang Yok Lam, Andy | 120 | — | — | 140 | — | 260 |
| Mr. Ng Kwok Ying, Alvin* | 100 | — | — | — | — | 100 |
| Mr. Kwok Chi Kwong, Danny | — | 306 | — | — | 28 | 334 |
| | 220 | 8,084 | 996 | 191 | 754 | 10,245 |

## 8. DIRECTORS' REMUNERATION *(Continued)*

### (b) Executive directors and non-executive directors *(Continued)*

* Mr. Ng Kwok Ying, Alvin, formerly an independent non-executive director, has been redesignated as a non-executive director since 22 February 2005.

** Mr. Guy Look resigned as an independent non-executive director on 21 December 2006.

*** Mr. Ng Chi Shing and Mr. Wong Shui Hing resigned and retired as directors on 18 April 2006 and 5 June 2006, respectively.

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2005: Nil).

## 9. FIVE HIGHEST PAID EMPLOYEES

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

| | **Group** | |
|---|---|---|
| | **2006** | 2005 |
| | ***HK$'000*** | *HK$'000* |
| Salaries, allowances and benefits in kind | **1,575** | 958 |
| Employee share option benefits | **—** | 13 |
| Retirement scheme contributions | **144** | 84 |
| | **1,719** | 1,055 |

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** | — |
| HK$1,000,001 to HK$1,500,000 | **1** | 1 |
| | **2** | 1 |

In the prior year, share options were granted to the non-director, highest paid employee in respect of his services to the Group, further details of which are included in the disclosures in note 29 to the financial statements. The fair value of such options, which had been recognised to the income statement over the vesting period, was determined as at the date of grant and the amount included in the financial statements was included in the above non-director, highest paid employees' remuneration disclosures.

## 10. TAX

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the year (2005: Nil). No Macau profits tax has been provided as the Macau subsidiary of the Company is exempted from Macau Complementary Tax (2005: Nil). No corporate income tax was provided for a subsidiary of the Group in the Mainland China, 至卓飛高線路板（曲江）有限公司, which is under the PRC tax holiday with "a tax exemption for two years and a 50% reduction for the following three years" ("兩免三減半"). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries/jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

| | **2006** | 2005 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Group: | | |
| Current — Hong Kong | | |
| Overprovision in prior years | **—** | (185) |
| Current — Elsewhere | | |
| Charge for the year | **3,248** | 8,300 |
| Overprovision in prior years | **(1,000)** | — |
| Refund of 5% of PRC corporate income tax * | **—** | (472) |
| Deferred *(note 27)* | **(9,265)** | (6,070) |
| Total tax charge/(credit) for the year | **(7,017)** | 1,573 |

* PRC corporate income tax is provided at the rate of 15% on the profits generated by certain subsidiaries of the Company in the Mainland China. The applicable corporate income tax rate for Topsearch Printed Circuits (Shenzhen) Ltd. will be reduced to 10% from the standard rate of 15% according to the "Detailed Rules for the Implementation of the Income Tax Law of the People's Republic of China for Foreign Investment Enterprises and Foreign Enterprises" when the company is granted the status of Export Enterprise by the Shenzhen Economic Development Bureau. The status has to be certified every year based on a criterion of whether the export sales made by the company exceed 70% of the total sales in that particular year.

## 10. TAX *(Continued)*

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

| | **Group** | | | |
|---|---|---|---|---|
| | **2006** | | 2005 | |
| | ***HK$'000*** | **%** | *HK$'000* | % |
| Profit before tax | **21,321** | | 94,787 | |
| Tax at the statutory tax rate of 15% | **3,198** | **15.0** | 14,218 | 15.0 |
| Lower tax rates for other jurisdictions | **—** | **—** | (2,300) | (2.4) |
| Adjustments in respect of current tax of previous periods | **(1,000)** | **(4.7)** | (185) | (0.2) |
| Refund of 5% of profits earned in 2004 | **—** | **—** | (472) | (0.5) |
| Net profit not subject to tax | **(10,143)** | **(47.6)** | (10,451) | (11.0) |
| Expenses not deductible for tax | **928** | **4.4** | 763 | 0.8 |
| Tax charge/(credit) at the Group's effective rate | **(7,017)** | **(32.9)** | 1,573 | 1.7 |

## 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$21,677,000 (2005: HK$22,046,000) which has been dealt with in the financial statements of the Company *(note 30(b))*.

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

The calculation of basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent of HK$28,338,000 (2005: HK$93,214,000) and the weighted average number of ordinary shares of 804,415,000 (2005: 700,220,000) in issue during the year.

The calculation of diluted earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent of HK$28,338,000 (2005: HK$93,214,000). The weighted average number of ordinary shares used in the calculation is the 804,415,000 (2005: 700,220,000), the weighted average number of ordinary shares in issue during the year as used in the basic earnings per share calculation, and 1,789,000 (2005: 3,208,000), the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise of all dilutive potential ordinary shares into ordinary share. The warrants outstanding during the year had an anti-dilutive effect on the basic earnings per share.

## 13. PROPERTY, PLANT AND EQUIPMENT

**Group**

| | Buildings *HK$'000* | Leasehold improvements *HK$'000* | Construction in progress *HK$'000* | Plant and machinery *HK$'000* | Furniture, fixtures and equipment *HK$'000* | Motor vehicles *HK$'000* | Moulds, dies, test fixtures and pins *HK$'000* | Total *HK$'000* |
|---|---|---|---|---|---|---|---|---|
| **At 31 December 2006** | | | | | | | | |
| At 31 December 2005 and at 1 January 2006: | | | | | | | | |
| Cost or valuation | 349,058 | 259,208 | 23,949 | 1,323,955 | 85,774 | 15,419 | 162,605 | 2,219,968 |
| Accumulated depreciation | (10,970) | (150,883) | — | (538,068) | (65,165) | (9,180) | (161,407) | (935,673) |
| Net carrying amount | 338,088 | 108,325 | 23,949 | 785,887 | 20,609 | 6,239 | 1,198 | 1,284,295 |
| At 1 January 2006, net of accumulated depreciation | 338,088 | 108,325 | 23,949 | 785,887 | 20,609 | 6,239 | 1,198 | 1,284,295 |
| Additions | 1,634 | 6,894 | 122,637 | 144,167 | 1,600 | 1,943 | 9,788 | 288,663 |
| Disposals | — | (249) | — | (9,440) | (32) | (15) | — | (9,736) |
| Depreciation provided during the year | (12,693) | (16,806) | — | (122,817) | (6,047) | (1,783) | (10,061) | (170,207) |
| Transfers | 98,102 | — | (98,102) | — | — | — | — | — |
| Exchange realignment | 10,397 | 3,755 | 834 | 22,712 | 579 | 198 | 42 | 38,517 |
| At 31 December 2006, net of accumulated depreciation | 435,528 | 101,919 | 49,318 | 820,509 | 16,709 | 6,582 | 967 | 1,431,532 |
| At 31 December 2006: | | | | | | | | |
| Cost or valuation | 460,313 | 271,726 | 49,318 | 1,482,788 | 87,680 | 15,980 | 178,056 | 2,545,861 |
| Accumulated depreciation | (24,785) | (169,807) | — | (662,279) | (70,971) | (9,398) | (177,089) | (1,114,329) |
| Net carrying amount | 435,528 | 101,919 | 49,318 | 820,509 | 16,709 | 6,582 | 967 | 1,431,532 |
| Analysis of cost or valuation: | | | | | | | | |
| At cost | 258,636 | 271,726 | 49,318 | 1,482,788 | 87,680 | 15,980 | 178,056 | 2,344,184 |
| At 31 December 2004 valuation | 201,677 | — | — | — | — | — | — | 201,677 |
| | 460,313 | 271,726 | 49,318 | 1,482,788 | 87,680 | 15,980 | 178,056 | 2,545,861 |

## 13. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

**Group** *(Continued)*

| | Buildings HK$'000 | Leasehold improvements HK$'000 | Construction in progress HK$'000 | Plant and machinery HK$'000 | Furniture, fixtures and equipment HK$'000 | Motor vehicles HK$'000 | Moulds, dies, test fixtures and pins HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|---|
| **At 31 December 2005** | | | | | | | | |
| At 1 January 2005: | | | | | | | | |
| Cost or valuation | 201,677 | 249,566 | 20,061 | 1,071,806 | 80,947 | 11,062 | 147,255 | 1,782,374 |
| Accumulated depreciation | — | (133,113) | — | (434,150) | (56,816) | (7,738) | (145,892) | (777,709) |
| Net carrying amount | 201,677 | 116,453 | 20,061 | 637,656 | 24,131 | 3,324 | 1,363 | 1,004,665 |
| At 1 January 2005, net of accumulated depreciation | 201,677 | 116,453 | 20,061 | 637,656 | 24,131 | 3,324 | 1,363 | 1,004,665 |
| Additions | 82,142 | 14,078 | 67,762 | 238,625 | 4,194 | 4,294 | 12,517 | 423,612 |
| Disposals | — | (1,838) | — | (247) | (48) | — | — | (2,133) |
| Depreciation provided during the year | (10,478) | (22,582) | — | (100,564) | (8,103) | (1,405) | (12,708) | (155,840) |
| Transfers | 61,636 | — | (64,260) | 2,483 | 141 | — | — | — |
| Exchange realignment | 3,111 | 2,214 | 386 | 7,934 | 294 | 26 | 26 | 13,991 |
| At 31 December 2005, net of accumulated depreciation | 338,088 | 108,325 | 23,949 | 785,887 | 20,609 | 6,239 | 1,198 | 1,284,295 |
| At 31 December 2005: | | | | | | | | |
| Cost or valuation | 349,058 | 259,208 | 23,949 | 1,323,955 | 85,774 | 15,419 | 162,605 | 2,219,968 |
| Accumulated depreciation | (10,970) | (150,883) | — | (538,068) | (65,165) | (9,180) | (161,407) | (935,673) |
| Net carrying amount | 338,088 | 108,325 | 23,949 | 785,887 | 20,609 | 6,239 | 1,198 | 1,284,295 |
| Analysis of cost or valuation: | | | | | | | | |
| At cost | 147,381 | 259,208 | 23,949 | 1,323,955 | 85,774 | 15,419 | 162,605 | 2,018,291 |
| At 31 December 2004 valuation | 201,677 | — | — | — | — | — | — | 201,677 |
| | 349,058 | 259,208 | 23,949 | 1,323,955 | 85,774 | 15,419 | 162,605 | 2,219,968 |

## 13. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

The Group's buildings are situated in the Mainland China and are held under lease terms of 30 to 50 years and certain of the buildings have been pledged to a bank to secure the long term bank loans granted to the Group *(note 24)*.

The Group's buildings stated at valuation were revalued at 31 December 2004, by DTZ Debenham Tie Leung Limited, independent professionally qualified valuers, at an aggregate open market value of HK$201,677,000 based on their existing use. No further revaluation has been performed as in the opinion of the directors, no material change in valuation is expected for industrial buildings. The resulting revaluation surplus of HK$5,519,000 had been credited to the property revaluation reserve in 2004. The Group's buildings stated at cost represented additions in 2005 and 2006. In the opinion of the directors, the carrying values of these buildings approximate to their fair values as at the balance sheet date.

Had the Group's buildings been stated at historical cost less accumulated depreciation and impairment losses, their carrying amounts as at 31 December 2006 would have been approximately HK$411,916,000 (2005: HK$312,177,000).

Prior to its transfer to buildings, the carrying amount of construction in progress included capitalised interest of HK$14,726,000 (2005: HK$13,631,000).

The net book value of the Group's fixed assets held under finance leases included in the total amount of plant and machinery at 31 December 2006 amounted to HK$305,904,000 (2005: HK$235,510,000). These items of plant and machinery were pledged to the respective banks as security for the finance lease facilities granted to the Group.

## 14. PREPAID LAND LEASE PAYMENTS

| | **Group** | |
|---|---|---|
| | **2006** | 2005 |
| | ***HK$'000*** | *HK$'000* |
| Carrying amount at 1 January | **32,456** | 16,123 |
| Additions | **—** | 16,688 |
| Recognised during the year | **(699)** | (355) |
| Exchange realignment | **559** | — |
| Carrying amount at 31 December | **32,316** | 32,456 |
| Current portion included in prepayments, deposits and other receivables | **(699)** | (687) |
| Non-current portion | **31,617** | 31,769 |

The leasehold land is held under a lease term of 50 years, situated in the Mainland China and has been pledged to a bank to secure the long term bank loans granted to the Group *(note 24)*.

## 15. INTERESTS IN SUBSIDIARIES

| | Company 2006 HK$'000 | 2005 HK$'000 |
|---|---|---|
| Unlisted shares, at cost | **467,769** | 467,769 |
| Due from subsidiaries | **796,899** | 540,309 |
| | **1,264,668** | 1,008,078 |

The amounts due from subsidiaries are unsecured, interest-free and have no fixed terms of repayment. In the opinion of the Company's directors, these advances are considered as quasi-equity loans to the subsidiaries. The carrying amounts of these balances due from subsidiaries approximate to their fair values.

Particulars of the subsidiaries are as follows:

| Name | Place of incorporation/ registration and operations | Nominal value of issued ordinary/ registered share capital | Percentage of equity attributable to the Company | Principal activities |
|---|---|---|---|---|
| **Directly held** | | | | |
| Topsearch Industries (BVI) Limited* | British Virgin Islands | Ordinary US$50,000 | 100 | Investment holding |
| **Indirectly held** | | | | |
| Topsearch Industries (Holdings) Limited | Hong Kong | Ordinary HK$1,000 Deferred non-voting ** HK$20,000,000 | 100 | Investment holding |
| Topsearch Printed Circuits (HK) Limited | Hong Kong | Ordinary HK$10,000,000 | 100 | Investment holding |
| Topsearch Printed Circuits Macao Commercial Offshore Company Limited | Macau | Ordinary MOP100,000 | 100 | Sale of printed circuit boards |

## 15. INTERESTS IN SUBSIDIARIES *(Continued)*

| Name | Place of incorporation/ registration and operations | Nominal value of issued ordinary/ registered share capital | Percentage of equity attributable to the Company | Principal activities |
|---|---|---|---|---|
| **Indirectly held** *(Continued)* | | | | |
| Topsearch Printed Circuits (Shenzhen) Ltd.@ | PRC/ Mainland China | Registered paid-up capital US$50,000,000 | 100 | Manufacture of printed circuit boards |
| Topsearch Marketing (S) Pte. Ltd.* | Singapore | Ordinary shares SG$1,000 | 100 | Provision of marketing services |
| Topsearch Marketing (U.K.) Limited* | United Kingdom | Ordinary shares £2 | 100 | Provision of marketing services |
| TPS Marketing (M) Sdn. Bhd.* | Malaysia | Ordinary shares RM2 | 100 | Provision of marketing services |
| Topsearch Marketing (USA) Inc.* | USA | Ordinary shares US$1,000 | 100 | Provision of marketing services |
| Topsearch Marketing (Taiwan) Limited* | Taiwan | Ordinary shares NT1,000,000 | 100 | Provision of marketing services |
| Topsearch Printed Circuits Korea Co., Ltd.* | Republic of Korea | Ordinary shares WON50,000,000 | 100 | Provision of marketing services |
| 可立身物業管理(深圳)有限公司*@ | PRC/ Mainland China | Registered paid-up capital HK$1,000,000 | 100 | Provision of property management services |

## 15. INTERESTS IN SUBSIDIARIES *(Continued)*

| Name | Place of incorporation/ registration and operations | Nominal value of issued ordinary/ registered share capital | Percentage of equity attributable to the Company | Principal activities |
|---|---|---|---|---|
| **Indirectly held** *(Continued)* | | | | |
| 至卓飛高線路板(曲江)有限公司@ | PRC/ Mainland China | Registered capital US$62,000,000 | 100 | Manufacture of printed circuit boards |
| 天祥綜合服務(深圳)有限公司 *@ | PRC/ Mainland China | Registered capital HK$1,000,000 | 100 | Provision of catering and cleaning services |
| 至卓飛高線路板(通遼)有限公司*@ | PRC/ Mainland China | Registered capital US$42,000,000 | 100 | Manufacture of printed circuit boards |
| Wealthstar International Limited* | British Virgin Islands | Ordinary shares US$50,000 | 100 | Investment holding |
| 至卓飛高進出口貿易(深圳)有限公司*@ | PRC/ Mainland China | Registered paid-up capital HK$500,000 | 100 | Sale of printed circuit boards |

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

** The non-voting deferred shares carry no rights to dividends, no rights to attend or vote at general meetings and no rights to receive any surplus assets in a return of capital on a winding-up unless a sum of HK$500,000,000,000,000 has been distributed to each of the holder of the ordinary shares.

@ Registered as wholly-foreign-owned enterprises under PRC law.

## 16. INTEREST IN AN ASSOCIATE

| | Group | |
|---|---|---|
| | **2006** | 2005 |
| | ***HK$'000*** | *HK$'000* |
| Unlisted shares, at cost | **100** | 100 |
| Due from an associate | **458** | 427 |
| | **558** | 527 |

The amount due from an associate is unsecured, interest-free and has no fixed terms of repayment. The carrying amount of the amount due from the associate approximates to its fair value.

Particulars of the associate are as follows:

| Company | Particulars of issued shares held | Place of incorporation | Percentage of ownership interest attributable to the Group | Principal activity |
|---|---|---|---|---|
| Topsearch PCB Marketing (Thailand) Co., Ltd.* | Ordinary shares of THB100 each | Thailand | 49 | Provision of marketing services |

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

The operating results of the associate have not been equity accounted for by the Group because the amounts were not significant. Accordingly, the Group's interest in the associate is stated at cost less impairment losses at the balance sheet date.

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

| | **2006** | 2005 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Assets | **306** | 662 |
| Liabilities | **(545)** | (692) |
| Revenues | **997** | 914 |
| Loss | **(209)** | (77) |

## 17. AVAILABLE-FOR-SALE FINANCIAL ASSETS

| | Group | |
|---|---|---|
| | **2006** | 2005 |
| | ***HK$'000*** | *HK$'000* |
| Club debentures, at fair value | **1,758** | 1,851 |

During the year, impairment loss of the Group's available-for-sale financial assets recognised in the income statement amounted to HK$93,000 (2005: Nil). The fair values of the club debentures are based on recent transaction prices.

## 18. OTHER RECEIVABLES

Other receivables represent claims receivable from a supplier, which are unsecured, interest-free and repayable by 20 monthly instalments commencing from 1 August 2006. The amount repayable within one year has been classified as a current asset under prepayments, deposits and other receivables. The fair value of the other receivables is approximately HK$1,638,000.

## 19. INVENTORIES

| | Group | |
|---|---|---|
| | **2006** | 2005 |
| | ***HK$'000*** | *HK$'000* |
| Raw materials | **143,601** | 140,849 |
| Work in progress | **80,126** | 64,148 |
| Finished goods | **99,892** | 78,922 |
| | **323,619** | 283,919 |
| *Less:* Provision | **(22,381)** | (11,001) |
| | **301,238** | 272,918 |

## 20. TRADE RECEIVABLES

Credit is offered to customers following a financial assessment by the Group. Periodic reviews of credit limits are performed with regard to the customers' established payment records. The Group's credit period varies and depends on individual trade customers, ranging from 30 to 120 days. The Group closely monitors its outstanding trade receivables. 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.

## 20. TRADE RECEIVABLES *(Continued)*

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

| | Group | |
|---|---|---|
| | **2006** | 2005 |
| | ***HK$'000*** | *HK$'000* |
| Current to 30 days | **349,848** | 389,748 |
| 31 to 60 days | **30,958** | 32,381 |
| 61 to 90 days | **12,077** | 9,038 |
| Over 90 days | **8,361** | 6,498 |
| | **401,244** | 437,665 |

At as 31 December 2005, trade receivables of HK$38,736,000 were assigned to a bank to secure bank loans drawn *(note 24)*.

## 21. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

| | Group | | Company | |
|---|---|---|---|---|
| | **2006** | 2005 | **2006** | 2005 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Cash and bank balances | **95,708** | 148,541 | **1,385** | 85 |
| Time deposits | **16,427** | 7,800 | **—** | — |
| | **112,135** | 156,341 | **1,385** | 85 |
| *Less:* Time deposits pledged for declaration charges | **(496)** | — | **—** | — |
| Cash and cash equivalents | **111,639** | 156,341 | **1,385** | 85 |

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK$37,443,000 (2005: HK$66,083,000). 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.

## 21. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS *(Continued)*

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 to their fair values.

## 22. TRADE PAYABLES

An aged analysis of the trade payables as at the balance sheet date, based on the date of receipt of the respective goods and services, is as follows:

| | Group | |
|---|---|---|
| | **2006** | 2005 |
| | ***HK$'000*** | *HK$'000* |
| Current to 30 days | **269,169** | 246,198 |
| 31 to 60 days | **44,988** | 82,243 |
| 61 to 90 days | **22,913** | 44,673 |
| Over 90 days | **44,259** | 42,957 |
| | **381,329** | 416,071 |

Included in the trade payables are trade payables of HK$37,972,000 (2005: Nil) due to related companies which are repayable within 60 days, which represent similar credit terms to those offered by the related companies to their major customers.

The trade payables are non-interest-bearing and are normally settled on terms of 60 days to 120 days.

## 23. OTHER PAYABLES AND ACCRUALS

| | Group | | Company | |
|---|---|---|---|---|
| | **2006** | 2005 | **2006** | 2005 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Other payables | **23,723** | 38,871 | **129** | 30 |
| Accruals | **62,985** | 53,890 | **1,312** | 2,553 |
| | **86,708** | 92,761 | **1,441** | 2,583 |

Other payables are non-interest-bearing and have an average term of three months.

## 24. INTEREST-BEARING BANK LOANS

| Group | 2006 | | | 2005 | | |
|---|---|---|---|---|---|---|
| | **Effective interest rate (%)** | **Maturity** | ***HK$'000*** | Effective interest rate *(%)* | Maturity | *HK$'000* |
| **Current** | | | | | | |
| Trust receipt loans - secured | **HIBOR+ 1.125 to 2.5** | **2007** | **38,519** | HIBOR+ 1.125 to 1.75 | 2006 | 65,157 |
| Bank loans — unsecured | **HIBOR+ 1.125 to 1.75** | **2007** | **55,000** | HIBOR+ 1.125 to 1.75 | 2006 | 123,736 |
| Long term bank loans — secured | **HIBOR+ 1.15 to 2** | **2007** | **167,137** | HIBOR+ 1.5 to 2 | 2006 | 105,560 |
| | | | **260,656** | | | 294,453 |
| **Non-current** | | | | | | |
| Long term bank loans — secured | **HIBOR+ 1.15 to 2** | **2008 — 2009** | **306,350** | HIBOR+ 1.5 to 2 | 2007 — 2008 | 297,361 |
| | | | **567,006** | | | 591,814 |

| Company | 2006 | | | 2005 | | |
|---|---|---|---|---|---|---|
| | **Effective interest rate (%)** | **Maturity** | ***HK$'000*** | Effective interest rate *(%)* | Maturity | *HK$'000* |
| **Current** | | | | | | |
| Long term bank loans — secured | **HIBOR+ 1.15 to 1.25** | **2007** | **103,994** | HIBOR+ 1.25 | 2006 | 33,333 |
| **Non-current** | | | | | | |
| Long term bank loans — secured | **HIBOR+ 1.15 to 1.25** | **2008 — 2009** | **266,890** | HIBOR+ 1.25 | 2007 — 2008 | 216,667 |
| | | | **370,884** | | | 250,000 |

## 24. INTEREST-BEARING BANK LOANS *(Continued)*

| | Group | | Company | |
|---|---|---|---|---|
| | **2006** | 2005 | **2006** | 2005 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Analysed into: | | | | |
| Trust receipt loans and short term bank loans repayable within one year or on demand | **93,519** | 188,893 | **—** | — |
| Bank loans, secured and repayable: | | | | |
| Within one year | **167,137** | 105,560 | **103,994** | 33,333 |
| In the second year | **222,782** | 164,028 | **185,442** | 108,333 |
| In the third to fifth years, inclusive | **83,568** | 133,333 | **81,448** | 108,334 |
| | **473,487** | 402,921 | **370,884** | 250,000 |
| | **567,006** | 591,814 | **370,884** | 250,000 |
| Portion classified as current liabilities | **(260,656)** | (294,453) | **(103,994)** | (33,333) |
| Long term portion | **306,350** | 297,361 | **266,890** | 216,667 |

The bank loans and other banking facilities of the Group are secured by:

(i) cross-corporate guarantees by the Company and certain subsidiaries of HK$218,484,000 (2005: HK$185,501,000); and

(ii) certain buildings and leasehold land held by the Group *(notes 13 and 14)*.

In the prior year, the bank loans were also secured by the assignment of certain trade receivables of a subsidiary *(note 20)*. The security by certain buildings and leasehold land held by the Group was released subsequent to the balance sheet date on 26 January 2007.

Pursuant to loan agreements between the Company and certain banks, relating to two three-year term loan facilities and two three-year syndicated loan facility of HK$32,500,000 (2005: HK$56,000,000) and HK$375,000,000 (2005: HK$210,000,000), respectively, a termination event would arise if (i) Mr. Cheok Ho Fung, Peter, a director and controlling shareholder, and his family, collectively, cease to beneficially own directly or indirectly at least 50% of the issued share capital of the Company, or (ii) the Group fails to meet the financial covenants stipulated in the agreements of the loan facilities.

## 24. INTEREST-BEARING BANK LOANS *(Continued)*

Except for trust receipt loans of HK$38,519,000 (2005: HK$38,736,000) which are denominated in United states dollars, all borrowings are denominated in Hong Kong dollar. All the borrowings bear interest at floating rate and their carrying amounts approximate to their fair values.

At 31 December 2006, the Group had interest rate swap agreements in place with a notional amount of HK$98,167,000 (2005: HK$177,500,000) to hedge its bank borrowings. The change in fair value of the interest rate swaps was not significant to the Group's consolidated income statement and balance sheet.

## 25. SHAREHOLDER'S LOAN

| | **Group and Company** | |
|---|---|---|
| | **2006** | 2005 |
| | ***HK$'000*** | *HK$'000* |
| Loan from a controlling shareholder, | | |
| unsecured and repayable: | | |
| Within one year | **30,043** | — |
| In the second year | **—** | 30,043 |
| | **30,043** | 30,043 |
| Portion classified as current liabilities | **(30,043)** | — |
| Long term portion | **—** | 30,043 |

The shareholder's loan is advanced by Mr. Cheok Ho Fung, Peter, a director and controlling shareholder of the Company pursuant to the loan agreement dated 17 September 2003. The loan is unsecured, bears interest at HIBOR and is subordinated to all the bank borrowings.

Pursuant to the addendum to the loan agreement dated 13 December 2005, the repayment period of the loan was extended to 15 January 2007. The loan has been fully repaid subsequent to the balance sheet date.

The fair value of the shareholder's loan, calculated by discounting the expected future cash flows at the prevailing interest rate, was HK$30,043,000 as at 31 December 2006 (2005: HK$28,563,000).

## 26. FINANCE LEASE PAYABLES

The Group leases certain of its plant and machinery for its printed circuit board business. These leases are classified as finance leases and have remaining lease terms ranging from one month to four years.

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

| 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 | **84,508** | 74,883 | **81,993** | 73,828 |
| In the second year | **59,258** | 50,469 | **53,816** | 47,460 |
| In the third to fifth years, inclusive | **48,262** | 49,073 | **40,941** | 42,468 |
| Total minimum finance lease payments | **192,028** | 174,425 | **176,750** | 163,756 |
| Future finance charges | **(15,278)** | (10,669) | | |
| Total net finance lease payables | **176,750** | 163,756 | | |
| Portion classified as current liabilities | **(75,752)** | (69,438) | | |
| Non-current portion | **100,998** | 94,318 | | |

Out of the balance, finance lease payables totalling HK$94,068,000 (2005: HK$63,203,000) are denominated in United states dollar, the remaining payables are denominated in Hong Kong dollar. The finance lease payables have an effective interest rate of HIBOR plus 1.25% to 2% per annum, with maturity in 2007 to 2010, bear interest at floating interest rates and their carrying amounts approximate to their fair values.

## 27. DEFERRED TAX

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

| **Group** | **Depreciation allowance in excess of related depreciation** | **Revaluation of buildings** | **Others** | **Total** |
|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| At 1 January 2005 | 38,362 | 5,003 | — | 43,365 |
| Deferred tax credited to the income statement during the year *(note 10)* | (6,070) | — | — | (6,070) |
| At 31 December 2005 and 1 January 2006 | 32,292 | 5,003 | — | 37,295 |
| Deferred tax credited to the income statement during the year *(note 10)* | (7,301) | — | (1,964) | (9,265) |
| At 31 December 2006 | 24,991 | 5,003 | (1,964) | 28,030 |

The Group has tax losses arising in Hong Kong of HK$8,871,000 (2005: HK$8,871,000) that are available indefinitely for offsetting against future taxable profits of the company in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in a subsidiary that has been loss-making for some time.

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 or associate as the Group has 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.

## 28. SHARE CAPITAL

**Shares**

| | **2006** | 2005 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Authorised: | | |
| 2,000,000,000 ordinary shares of HK$0.10 each | **200,000** | 200,000 |
| Issued and fully paid: | | |
| 857,600,000 (2005: 710,800,000) ordinary shares of HK$0.10 each | **85,760** | 71,080 |

During the year, the movements in share capital were as follows:

(a) Pursuant to the share placing agreement dated 3 May 2006, Inni placed 142,000,000 ordinary shares of the Company to a placing agent at a price of HK$0.8 per share. On the same date, the Company issued 142,000,000 new ordinary shares of the Company to Inni at a price of HK$0.8 per share, resulting in a total cash consideration, before expenses, of approximately HK$113,600,000.

(b) The subscription rights attaching to 2,900,000 and 1,900,000 share options were exercised at the subscription prices of HK$0.694 and HK$0.72 per share *(note 29)*, respectively, resulting in the issue of 4,800,000 shares of HK$0.1 each for a total cash consideration, before expenses, of HK$3,381,000. At the same time, share option reserve of HK$311,000 in relation to the share options exercised was transferred to the share premium account.

## 28. SHARE CAPITAL *(Continued)*

A summary of the transactions during the year with reference to the above movements in the Company's issued ordinary share capital is as follows:

| | Number of shares in issue | Issued capital HK$'000 | Share premium account HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| At 1 January 2005 | 640,000,000 | 64,000 | 134,743 | 198,743 |
| Placement | 70,000,000 | 7,000 | 56,000 | 63,000 |
| Share options exercised | 800,000 | 80 | 496 | 576 |
| | 70,800,000 | 7,080 | 56,496 | 63,576 |
| Share issue expenses | — | — | (1,588) | (1,588) |
| At 31 December 2005 and 1 January 2006 | 710,800,000 | 71,080 | 189,651 | 260,731 |
| Placement *(a)* | 142,000,000 | 14,200 | 99,400 | 113,600 |
| Share options exercised *(b)* | 4,800,000 | 480 | 3,212 | 3,692 |
| | 146,800,000 | 14,680 | 102,612 | 117,292 |
| Share issue expenses | — | — | (559) | (559) |
| At 31 December 2006 | 857,600,000 | 85,760 | 291,704 | 377,464 |

**Share options**

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

**Warrants**

During the year on 5 June 2006, a bonus issue of warrants was made in the proportion of one warrant for every ten shares held by the members on the register of members on 5 June 2006, resulting in 85,455,000 warrants being issued. Each warrant entitles the holder thereof to subscribe for one ordinary share of HK$0.1 at a subscription price of HK$1.20 per share, payable in cash and subject to adjustment from 26 June 2006 to 31 October 2008.

None of the warrants were exercised during the year. At the balance sheet date, the Company had 85,455,000 warrants outstanding. The exercise in full of such warrants would, under the present capital structure of the Company, result in the issue of 85,455,000 additional shares of HK$0.1 each.

## 29. 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 any employees, non-executive directors and customers of the Group, any of its subsidiaries, or any entities in which the Group holds an equity interest ("Invested Entities"), suppliers of goods or services and persons or entities that provide research, development or other technological support to the Group, any of its subsidiaries, or any Invested Entities, and any shareholder of the Group, its subsidiaries or Invested Entities. The number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme and any other share option scheme of the Company must not exceed 30% of the issued share capital of the Company from time to time. The Scheme was adopted on 30 May 2002 and became effective on 21 June 2002 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

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 on 30 May 2002. 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.

The offer of a grant of share options may be accepted within 28 days after the date of offer and upon payment of a nominal consideration of HK$1.00 in total by the grantee. The exercise period of the share options commences from the grant date to 31 December 2006, on the condition that 50% of the options would be exercised by 30 November 2006.

The exercise price of 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 offer of the share options; (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of offer; and (iii) the nominal value of a share.

## 29. SHARE OPTION SCHEME *(Continued)*

The movement of share options granted under the Scheme was as follows:

| Name or category of participant | Number of share options: At 1 January 2006 | Exercised during the year | Expired during the year | At 31 December 2006 | Date of grant of share options* | Exercise period of share options | Exercise price of share options** HK$ per share | Price of Company's shares***: At grant date of options HK$ per share | Immediately before the exercise date HK$ per share | At exercise date of options HK$ per share |
|---|---|---|---|---|---|---|---|---|---|---|
| **Directors** | | | | | | | | | | |
| Mr. Ng Chi Shing# | 1,200,000 | (600,000) | – | – | 1 Sep 04 | 6 Jul 04 to 31 Dec 06 | 0.694 | 0.70 | 0.92 | 0.92 |
| | | (600,000) | – | – | 1 Sep 04 | 6 Jul 04 to 31 Dec 06 | 0.694 | 0.70 | 0.84 | 0.84 |
| Mr. Wong Shui Hing# | 900,000 | (450,000) | – | – | 1 Sep 04 | 6 Jul 04 to 31 Dec 06 | 0.694 | 0.70 | 0.92 | 0.92 |
| | | (450,000) | – | – | 1 Sep 04 | 6 Jul 04 to 31 Dec 06 | 0.694 | 0.70 | 0.84 | 0.84 |
| Mr. Ting Sui Ping | 800,000 | (800,000) | – | – | 1 Sep 04 | 6 Jul 04 to 31 Dec 06 | 0.694 | 0.70 | 0.88 | 0.88 |
| Mr. Tang Yok Lam, Andy | 640,000 | – | (640,000) | – | 1 Sep 04 | 6 Jul 04 to 31 Dec 06 | 0.694 | 0.70 | – | – |
| | 1,860,000 | – | (1,860,000) | – | 12 Jan 05 | 20 Dec 04 to 31 Dec 06 | 0.792 | 0.81 | – | – |
| | 5,400,000 | (2,900,000) | (2,500,000) | – | | | | | | |
| **Other employees** | | | | | | | | | | |
| In aggregate | 4,400,000 | (1,900,000) | (2,500,000) | – | 23 Dec 04 | 23 Dec 04 to 31 Dec 06 | 0.72 | 0.80 | 0.84 to 0.88 | 0.84 to 0.88 |
| Total | 9,800,000 | (4,800,000) | (5,000,000) | – | | | | | | |

* The vesting period of the share option is from the date of grant until the commencement of the exercise period.

** The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

*** The price of the Company's shares disclosed as at the date of grant of the share options is the Stock Exchange closing price on the trading day immediately prior to the date of grant of the options. The price of the Company's shares disclosed immediately before the exercise date of the share options is the weighted average of the Stock Exchange closing prices immediately before the dates on which the options were exercised over all of the exercises of options within the disclosure line.

# Mr. Ng Chi Shing and Mr. Wong Shui Hing resigned and retired as directors on 18 April 2006 and 5 June 2006, respectively.

## 29. SHARE OPTION SCHEME *(Continued)*

An offer of a grant of share options may be accepted in writing within 28 days after the date of offer and upon payment of a nominal consideration of HK$1.0 in total by the grantee. The exercise period of the share options commenced from the grant date to 31 December 2006, on the condition that 50% of the options would be exercised by 30 November 2006.

The 4,800,000 share options exercised during the year resulted in the issue of 4,800,000 ordinary shares of the Company and new share capital of HK$480,000 and share premium of HK$2,901,000 (before issue expenses), as further detailed in note 28(b) to the financial statements.

At the balance sheet date, no share options were outstanding under the Scheme.

## 30. RESERVES

**(a) Group**

The contributed surplus of the Group represents the difference between the nominal value of the share capital of the subsidiaries acquired as a result of the Group reorganisation, over the nominal value of the Company's shares issued in exchange therefor, net of HK$100,000 being 1,000,000 shares issued nil paid upon the incorporation of the Company.

In accordance with the relevant PRC regulations applicable to wholly-foreign-owned enterprises, the Company's PRC subsidiaries are required to appropriate an amount of not less than 10% of their profits after tax to the statutory reserve fund, which may be used to increase the paid-up capital of the PRC subsidiaries.

**(b) Company**

| | Notes | Share premium account HK$'000 | Share option reserve HK$'000 | Contributed surplus HK$'000 | Retained profits HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|
| At 1 January 2005 | | 134,743 | — | 466,769 | 898 | 602,410 |
| Issue of shares | *28* | 56,496 | — | — | — | 56,496 |
| Share issue expenses | *28* | (1,588) | — | — | — | (1,588) |
| Equity-settled share option arrangement | | — | 311 | — | — | 311 |
| Profit for the year | *11* | — | — | — | 22,046 | 22,046 |
| At 31 December 2005 and 1 January 2006 | | 189,651 | 311 | 466,769 | 22,944 | 679,675 |
| Issue of shares | *28* | 102,612 | (311) | — | — | 102,301 |
| Share issue expenses | *28* | (559) | — | — | — | (559) |
| Profit for the year | *11* | — | — | — | 21,677 | 21,677 |
| At 31 December 2006 | | 291,704 | — | 466,769 | 44,621 | 803,094 |

## 30. RESERVES *(Continued)*

**(b) Company** *(Continued)*

The contributed surplus of the Company represents the difference between the consolidated net asset value of Topsearch Industries (BVI) Limited on 30 April 2002 when its entire issued share capital was acquired by the Company pursuant to the Group reorganisation, and the nominal amount of the Company's shares issued in consideration for such acquisition, net of HK$100,000 being 1,000,000 shares issued nil paid upon the incorporation of the Company. Under the Companies Act 1981 (as amended) of Bermuda, the contributed surplus of the Company is distributable to shareholders under certain conditions. In addition, the share premium account of the Company can be distributed in the form of fully paid bonus shares.

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.

## 31. NOTE TO THE CONSOLIDATED CASH FLOW STATEMENT

**Major non-cash transaction**

During the year, the Group entered into finance lease arrangements in respect of property, plant and equipment with a total capital value at the inception of the leases of HK$101,966,000 (2005: HK$113,771,000).

## 32. CONTINGENT LIABILITIES

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

| | Group | | Company | |
|---|---|---|---|---|
| | **2006** | 2005 | **2006** | 2005 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Guarantees given to banks for facilities granted to subsidiaries | **—** | — | **797,494** | 761,176 |
| Guarantees given to lessors for finance lease agreements entered into by subsidiaries | **—** | — | **201,175** | 199,816 |
| | **—** | — | **998,669** | 960,992 |

At 31 December 2006, the banking facilities granted to and finance lease agreements entered into by subsidiaries subject to the above guarantees given by the Company were utilised to the extent of approximately HK$193,426,000 (2005: HK$312,108,000) and HK$171,397,000 (2005: HK$163,384,000), respectively.

## 32. CONTINGENT LIABILITIES *(Continued)*

(b) On 1 March 2006, a former customer has filed a claim against one of the subsidiaries of the Company seeking incidental and consequential damages associated with the alleged failure of the products sold by the subsidiary and claimed the subsidiary for damages amounting to approximately US$8 million (approximately HK$62,400,000).

The directors, after consulting with legal counsel, are of the opinion that it is not probable that the former customer will succeed in the claim. Thus, no provision for the damages has been made in the financial statements.

## 33. PLEDGE OF ASSETS

Details of the Group's bank loans and other banking facilities, which are secured by the assets of the Group, are included in note 24 to the financial statements.

## 34. OPERATING LEASE ARRANGEMENTS

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

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

| | **Group** | |
|---|---|---|
| | **2006** | 2005 |
| | ***HK$'000*** | *HK$'000* |
| Within one year | **5,506** | 5,068 |
| In the second to fifth years, inclusive | **679** | 2,037 |
| | **6,185** | 7,105 |

## 35. COMMITMENTS

In addition to the operating lease commitments detailed in note 34 above, the Group had the following commitments at the balance sheet date:

### (a) Capital commitments

| | Group | |
|---|---|---|
| | **2006** | 2005 |
| | ***HK$'000*** | *HK$'000* |
| Authorised, and contracted for: | | |
| The construction of factory buildings | **69,707** | 121,476 |
| The acquisition of plant and machinery | **11,387** | 24,027 |
| | **81,094** | 145,503 |

### (b) Other commitment

At 31 December 2006, the Group's capital contribution committed to two wholly-owned subsidiaries established in the PRC amounted to HK$410,587,000 (2005: HK$599,450,000), of which HK$278,460,000 (2005: HK$278,460,000) represents investment in a subsidiary in Tongliao, Inner Mongolia of the PRC and HK$132,127,000 (2005: HK$320,990,000) represents investment in a subsidiary in Shaoguan, Guangdong, the PRC.

## 36. RELATED PARTY TRANSACTIONS

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

| | | **2006** | 2005 |
|---|---|---|---|
| | *Notes* | ***HK$'000*** | *HK$'000* |
| Rental expenses paid to Keentop Investment Limited ("Keentop") | *(i)* | **1,440** | 1,417 |
| Purchases of raw materials from a group which held 25% equity interest in the Company | *(ii)* | **9,980** | — |
| Interest on a shareholder's loan | *(iii)* | **1,341** | 912 |
| Marketing service fee paid to an associate | *(iv)* | **985** | 915 |

## 36. RELATED PARTY TRANSACTIONS *(Continued)*

(a) *(Continued)*

*Notes:*

(i) The rental expenses paid to Keentop, which is beneficially owned by Mr. Cheok Ho Fung, Peter, a director of the Company, and his spouse, related to a property leased as their residence. The monthly rental of HK$115,000 for the period from 22 May 2002 to 21 May 2005 was based on the tenancy agreement entered into between both parties. Pursuant to a further tenancy agreement entered into on 20 August 2005, the monthly rental was HK$120,000 for the period from 22 May 2005 to 21 May 2008 (with an option to renew for a further term of three years), which was based on a market rental valuation provided by an independent professionally qualified valuer in July 2005.

(ii) The directors consider that the purchases of raw materials were made according to the published prices and conditions similar to those offered to the major customers of the suppliers. The balance owing to the suppliers, which became related parties of the Company during the year, was HK$37,970,000 as at the balance sheet date.

(iii) Interest expense was charged at HIBOR for the shareholder's loan granted by Mr. Cheok Ho Fung, Peter *(note 25)*.

(iv) Marketing service fee was paid at prices mutually agreed between the parties for support services provided by an associate.

The above related party transactions also constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules. For item (ii), the purchases covered a period only from the Group became an associate of the suppliers.

(b) Outstanding balances with related parties:

(i) Details of the Group's amount due from its associate and shareholder's loan as at the balance sheet date are included in notes 16 and 25 to the financial statements, respectively.

(ii) Details of the Group's trade balance with a related company as at the balance sheet date are disclosed in note 22 to the financial statements.

(c) Details of the compensation of key management personnel of the Group are disclosed in notes 8 and 9 to the financial statements.

## 37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

The Group also enters into derivative transactions, including principally interest rate swaps. The purpose is to manage the interest rate risk arising from the Group's sources of finance.

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

## 37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

The main risks arising from the Group's financial instruments are cash flow interest rate risk, foreign currency risk, credit risk and liquidity risk. The board reviews and agrees policies for managing each of these risks and they are summarised below. The Group's accounting policies in relation to derivatives are set out in note 2.4 to the financial statements.

**Cash flow interest rate risk**

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

The Group's policy is to manage its interest cost using interest rate swaps, in which the Group agrees to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed-upon notional principal amount. At 31 December 2006, after taking into account the effect of the interest rate swaps, approximately 30% (2005: 44%) of the Group's long term debt obligations bore interest at fixed rates.

**Foreign currency risk**

The Group has transactional currency exposures. Such exposures arise from sales or purchases by operating units in currencies other than the units' functional currency. Most of the Group's sales are denominated in United States dollar. As the Hong Kong dollar is pegged to the United States dollar, the Group does not hedge its foreign currency risk. Almost 61% of the Group's purchases and expenses are denominated in the unit's functional currency or United States dollars, while approximately 39% of the Group's purchases and expenses are denominated in RMB. The Group currently does not have a foreign currency hedging policy. However, management closely monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

**Credit risk**

The Group has policies in place to ensure that sales of products are made to customers with an appropriate credit history. The Group mainly trades with recognised and creditworthy third parties. It is the Group's policy that credit terms are granted subject to in-depth credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and substantially covered by credit insurance. In this regard, the management of the Company considers that the Group's credit risk is minimal.

With respect to credit risk arising from the other financial assets of the Group, which comprise cash and cash equivalents, available-for-sale financial assets and certain derivative instruments, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

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

## 37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

**Liquidity risk**

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, bank loans, other interest-bearing loans and finance leases. The Group maintains good business relations with its bankers and ensures compliance with covenants as stipulated in the loan and finance lease agreements.

## 38. POST BALANCE SHEET EVENT

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 Tax 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.

## 39. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 20 April 2007.

## RESULTS

| | Year ended 31 December | | | | |
|---|---|---|---|---|---|
| | **2006** | 2005 | 2004 | 2003 | 2002 |
| | ***HK$'000*** | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Revenue | **1,732,797** | 1,631,423 | 1,313,000 | 1,159,339 | 1,041,298 |
| Profit before tax | **21,321** | 94,787 | 81,392 | 41,203 | 57,764 |
| Tax | **7,017** | (1,573) | 7,564 | (8,700) | (9,927) |
| Profit for the year attributable to equity holders of the parent | **28,338** | 93,214 | 88,956 | 32,503 | 47,837 |

## ASSETS AND LIABILITIES

| | As at 31 December | | | | |
|---|---|---|---|---|---|
| | **2006** | 2005 | 2004 | 2003 | 2002 |
| | ***HK$'000*** | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Total assets | **2,391,164** | 2,282,056 | 1,763,010 | 1,557,005 | 1,323,940 |
| Total liabilities | **(1,282,089)** | (1,341,608) | (968,721) | (849,926) | (643,533) |
| Total net assets | **1,109,075** | 940,448 | 794,289 | 707,079 | 680,407 |

*Note:*

(i) The results for the year ended and the total assets and total liabilities as at 31 December 2006, 2005, 2004, 2003 and 2002 have been extracted from the audited consolidated financial statements of the respective years.