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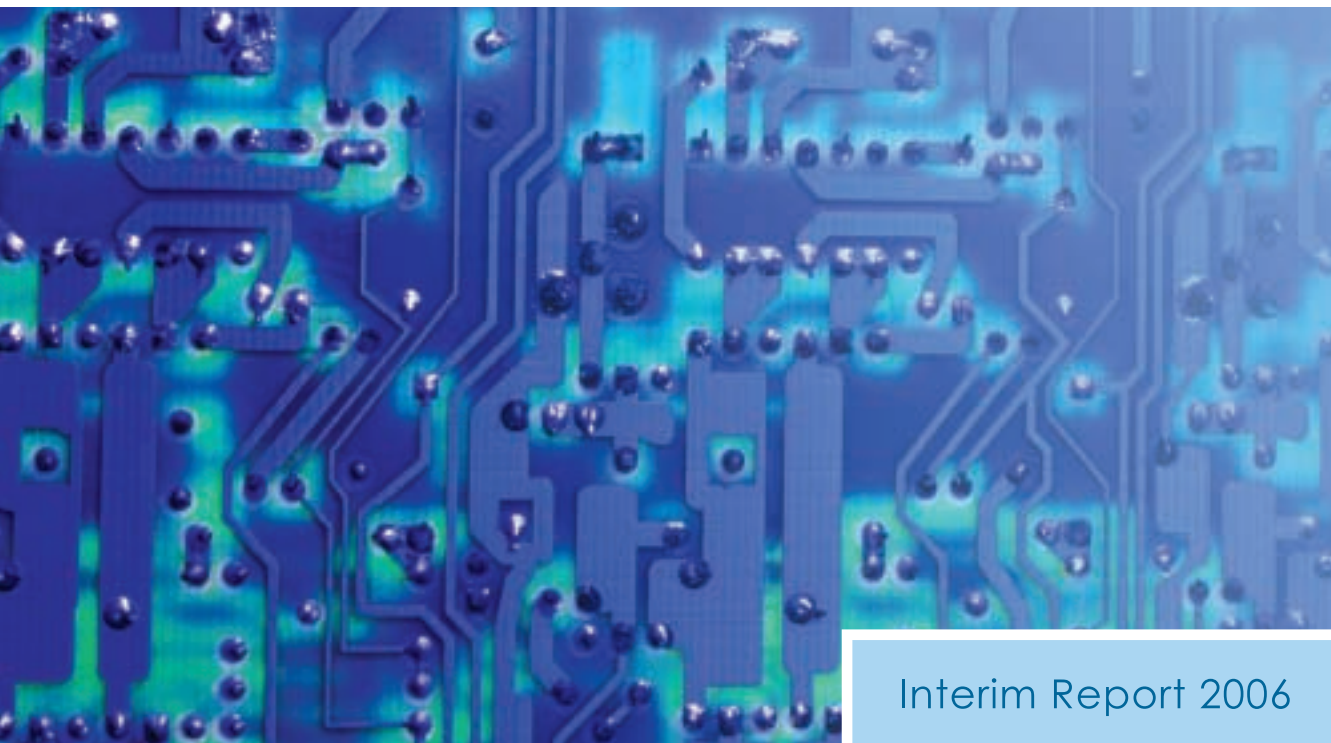
T O P S E A R C H

Topsearch International (Holdings) Limited

至卓國際(控股)有限公司*

(Incorporated in Bermuda with limited liability)

Stock code : 2323



Interim Report 2006

*For identification purposes only

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Independent Review Report



To the board of directors

Topsearch International (Holdings) Limited

(Incorporated in Bermuda with limited liability)

We have been engaged by Topsearch International (Holdings) Limited (the “Company”) to review the interim financial report of the Company and its subsidiaries (collectively “the Group”) for the six months ended 30 June 2006, as set out on pages 3 to 15.

Respective Responsibilities of Directors and Auditors

The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of the interim financial report to be in compliance with the Hong Kong Accounting Standard 34 “Interim financial reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and the relevant provisions thereof. The interim financial report is the responsibility of, and has been approved by, the directors. It is our responsibility to form an independent conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Review Work Performed

We conducted our review in accordance with Statement of Auditing Standards 700 “Engagements to review interim financial reports” issued by the HKICPA. A review consists principally of making enquiries of the Group’s management and applying analytical procedures to the interim financial report and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the interim financial report.

Review Conclusion

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six months ended 30 June 2006.

Ernst & Young

Certified Public Accountants

Hong Kong

15 September 2006

The board of directors (the “Directors”) of Topsearch International (Holdings) Limited (the “Company”) is pleased to announce the unaudited condensed consolidated interim financial statements (the “Interim Financial Statements”) of the Company and its subsidiaries (collectively the “Group”) for the six months ended 30 June 2006 (the “Period”) together with comparative figures. The Interim Financial Statements have been reviewed by the Company’s audit committee and external auditors, Ernst & Young.

Condensed Consolidated Income Statement

	<i>Notes</i>	Six months ended 30 June	
		2006 (Unaudited) <i>HK\$'000</i>	2005 (Unaudited) <i>HK\$'000</i>
REVENUE	3	865,112	777,063
Cost of sales		(712,847)	(617,160)
GROSS PROFIT		152,265	159,903
Other income	3	5,472	4,992
Selling and distribution costs		(57,749)	(55,373)
Administrative expenses		(48,433)	(44,458)
Other expenses		(2,530)	(311)
Finance costs	5	(22,510)	(9,983)
PROFIT BEFORE TAX	4	26,515	54,770
Tax	6	1,782	(3,300)
PROFIT AFTER TAX		28,297	51,470
Attributable to equity holders of the parent		28,297	51,470
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	7		
— Basic		3.8 cents	7.5 cents
— Diluted		3.8 cents	7.4 cents

Condensed Consolidated Balance Sheet

		30 June 2006 (Unaudited) HK\$'000	31 December 2005 (Audited) HK\$'000
	<i>Notes</i>		
NON-CURRENT ASSETS			
Property, plant and equipment		1,412,698	1,284,295
Prepaid land lease payments		31,740	31,769
Interest in an associate		599	527
Rental and utility deposits		2,146	3,045
Prepaid rental, long term portion		1,323	1,323
Available-for-sale financial assets		1,954	1,851
Deposits for items of property, plant and equipment		41,929	37,185
Total non-current assets		1,492,389	1,359,995
CURRENT ASSETS			
Inventories		342,456	272,918
Trade receivables	8	401,325	437,665
Prepayments, deposits and other receivables		67,519	55,137
Cash and cash equivalents	9	105,776	156,341
Total current assets		917,076	922,061
CURRENT LIABILITIES			
Trade payables	10	414,056	416,071
Other payables and accruals		75,899	92,761
Interest-bearing bank loans	11	249,877	294,453
Current portion of a shareholder's loan	12	30,000	—
Finance lease payables	13	93,126	69,438
Tax payable		12,221	9,868
Total current liabilities		875,179	882,591
NET CURRENT ASSETS		41,897	39,470
TOTAL ASSETS LESS CURRENT LIABILITIES		1,534,286	1,399,465
NON-CURRENT LIABILITIES			
Interest-bearing bank loans	11	278,325	297,361
Shareholder's loan	12	—	30,043
Finance lease payables	13	133,191	94,318
Deferred tax liabilities		33,355	37,295
Total non-current liabilities		444,871	459,017
Net assets		1,089,415	940,448
EQUITY			
Issued capital	14	85,500	71,080
Reserves		1,003,915	869,368
Total equity		1,089,415	940,448

Condensed Consolidated Cash Flow Statement

	<i>Notes</i>	Six months ended 30 June	
		2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
NET CASH INFLOW FROM OPERATING ACTIVITIES		74,304	90,488
NET CASH OUTFLOW FROM INVESTING ACTIVITIES		(112,882)	(154,175)
NET CASH INFLOW/(OUTFLOW) FROM FINANCING ACTIVITIES		(13,211)	98,035
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		(51,789)	34,348
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD		156,341	91,147
CASH AND CASH EQUIVALENTS AT END OF PERIOD		104,552	125,495
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	9	77,801	110,419
Short term time deposits	9	27,975	15,076
Bank overdrafts	11	(1,224)	—
		104,552	125,495

Condensed Consolidated Statement of Changes in Equity

	Share capital of the Company (Unaudited) HK\$'000	Share premium account (Unaudited) HK\$'000	Share option reserve (Unaudited) HK\$'000	Contributed surplus (Unaudited) HK\$'000	Property revaluation reserve (Unaudited) HK\$'000	Exchange fluctuation reserve (Unaudited) HK\$'000	Statutory reserve fund (Unaudited) HK\$'000	Proposed final dividend (Unaudited) HK\$'000	Retained profits (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
At 1 January 2006	71,080	189,651	311	19,000	28,351	10,487	20,198	—	601,370	940,448
Issue of shares	14,420	100,709	—	—	—	—	—	—	—	115,129
Share issue expenses	—	(559)	—	—	—	—	—	—	—	(559)
Profit for the Period	—	—	—	—	—	—	—	—	28,297	28,297
Exchange adjustments	—	—	—	—	—	6,100	—	—	—	6,100
At 30 June 2006	85,500	289,801*	311*	19,000*	28,351*	16,587*	20,198*	—	629,667*	1,089,415

	Share capital of the Company (Unaudited) HK\$'000	Share premium account (Unaudited) HK\$'000	Share option reserve (Unaudited) HK\$'000	Contributed surplus (Unaudited) HK\$'000	Property revaluation reserve (Unaudited) HK\$'000	Exchange fluctuation reserve (Unaudited) HK\$'000	Statutory reserve fund (Unaudited) HK\$'000	Proposed final dividend (Unaudited) HK\$'000	Retained profits (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
At 1 January 2005	64,000	134,743	—	19,000	28,351	(59)	18,230	19,900	510,124	794,289
Issue of shares	7,070	54,846	—	—	—	—	—	—	—	61,916
Profit for the Period	—	—	—	—	—	—	—	—	51,470	51,470
Final dividend of 2004 paid	—	—	—	—	—	—	—	(19,900)	—	(19,900)
Exchange adjustments	—	—	—	—	—	(13)	—	—	—	(13)
At 30 June 2005	71,070	189,589*	—	19,000*	28,351*	(72)*	18,230*	—	561,594*	887,762

* These reserve accounts comprise the reserves of HK\$1,003,915,000 (2005: HK\$816,692,000) in the balance sheet.

Notes to Condensed Consolidated Financial Statements

30 June 2006

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 Period, the Group was involved in the manufacture and sale of printed circuit boards.

In the opinion of the directors, the parent and the ultimate holding company of the Group is Inni International Inc. (“Inni”), which is incorporated in Liberia.

2. Accounting policies

The condensed consolidated interim financial statements for the six months ended 30 June 2006 are prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting”. The accounting policies and the basis of preparation adopted in the preparation of the Interim Financial Statements are the same as those used in the preparation of the Group’s annual financial statements for the year ended 31 December 2005, except in relation to the following new and revised Hong Kong Financial Reporting Standards (“HKFRSs”), which also include HKASs and Interpretations that affect the Group and are adopted for the first time in the current period’s financial statements:

HKAS 19 Amendment	Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 39 Amendment	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 Amendment	The Fair Value Option
HKAS 39 & HKFRS 4 Amendments	Financial Guarantee Contracts
HKFRSs 1 & 6 Amendments	First-time Adoption of Hong Kong Financial Reporting Standards and Exploration for and Evaluation of Minerals Resources
HKFRS 6	Exploration for and Evaluation of Minerals Resources
HK(IFRIC)-Int 4	Determining Whether an Arrangement Contains a Lease
HK(IFRIC)-Int 5	Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
HK(IFRIC)-Int 6	Liabilities Arising from Participating in a Specific Market — Waste Electrical and Electronic Equipment

The adoption of the above new and revised HKFRSs has had no material impact on the accounting policies of the Group and the method of computation in the Group’s Interim Financial Statements.

3. Revenue and other income

Revenue represents the net invoiced value of goods sold, after allowances for returns, rebates and trade discounts. The Group’s principal activity during the Period was the manufacture and sale of printed circuit boards (“PCBs”), which is the only major business segment of the Group, with production facilities in Guangdong Province, the People’s Republic of China (the “PRC”). Accordingly, no further analysis of the Group’s revenue by business segment is provided.

Notes to Condensed Consolidated Financial Statements

30 June 2006

3. Revenue and other income *(Continued)*

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

	For the six months ended	
	30 June 2006 (Unaudited) <i>HK\$'000</i>	30 June 2005 (Unaudited) <i>HK\$'000</i>
Asia, excluding the PRC, Hong Kong and Taiwan	355,327	387,103
The PRC and Hong Kong	228,931	153,332
Taiwan	114,413	104,932
North America	70,011	71,426
Europe	96,430	60,270
	865,112	777,063

Note: The location of the customer is determined by the location of the entity placing the orders for the purchase of the Group's products.

The contribution to profit before tax by geographical area is substantially in line with the overall rate of contribution to revenue and accordingly a geographical analysis of contribution pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") requirements is not presented.

An analysis of other income is as follows:

	For the six months ended	
	30 June 2006 (Unaudited) <i>HK\$'000</i>	30 June 2005 (Unaudited) <i>HK\$'000</i>
Tooling income	4,539	4,595
Bank interest income	913	248
Others	20	149
	5,472	4,992

Notes to Condensed Consolidated Financial Statements

30 June 2006

4. Profit before tax

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

	For the six months ended	
	30 June 2006 (Unaudited) HK\$'000	30 June 2005 (Unaudited) HK\$'000
Cost of inventories sold	712,847	617,160
Depreciation	83,587	74,473
Amortisation of prepaid land lease payments	318	161
Foreign exchange differences, net	1,978	311
Bank interest income	(913)	(248)

5. Finance costs

	For the six months ended	
	30 June 2006 (Unaudited) HK\$'000	30 June 2005 (Unaudited) HK\$'000
Interest expenses on:		
Bank loans and overdrafts wholly repayable within five years	18,017	8,110
Shareholder's loan	660	303
Finance leases	4,928	1,970
Total interest	23,605	10,383
Less: Interest capitalised	(1,095)	(400)
	22,510	9,983

6. Tax

	For the six months ended	
	30 June 2006 (Unaudited) HK\$'000	30 June 2005 (Unaudited) HK\$'000
Current — the PRC, other than Hong Kong	2,158	5,300
Deferred tax	(3,940)	(2,000)
Total tax charge/(credit) for the Period	(1,782)	3,300

PRC corporate income tax had been provided on the assessable profits generated by a subsidiary in Shekou, the PRC, at the rate of 15% during the Period. No Hong Kong profits tax has been provided as the Group did not generate any assessable profits arising in Hong Kong in the current period.

Notes to Condensed Consolidated Financial Statements

30 June 2006

7. Earnings per share

The calculation of basic earnings per share is based on the Group's profit attributable to the ordinary equity holders of the parent of HK\$28,297,000 for the Period (2005: HK\$51,470,000) and the weighted average of 752,572,376 (2005: 689,522,099) ordinary shares in issue during the Period.

The calculation of diluted earnings per share is based on the Group's profit attributable to the ordinary equity holders of the parent of HK\$28,297,000 for the Period (2005: HK\$51,470,000). The weighted average number of ordinary shares used in the calculation is the 752,572,376 (2005: 689,522,099) weighted average number of ordinary shares in issue during the Period, as used in the basic earnings per share calculation, and the weighted average of 1,930,659 (2005: 4,276,386) ordinary shares assumed to have been issued at no consideration on the deemed exercise of all dilutive potential ordinary shares into ordinary shares.

8. Trade receivables

Credit is offered to customers following a financial assessment by the Group. Periodic reviews on the credit limits are performed with regard to the customers' established payment record. 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 addition, most of the trade receivables are covered by credit insurance policy. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing.

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

	30 June 2006 (Unaudited) HK\$'000	31 December 2005 (Audited) HK\$'000
Current — 30 days	360,073	389,748
31 — 60 days	27,834	32,381
61 — 90 days	12,950	9,038
Over 90 days	468	6,498
	401,325	437,665

9. Cash and cash equivalents

	30 June 2006 (Unaudited) HK\$'000	31 December 2005 (Audited) HK\$'000
Cash and bank balances	77,801	148,541
Short term deposits	27,975	7,800
	105,776	156,341

Notes to Condensed Consolidated Financial Statements

30 June 2006

10. Trade payables

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

	30 June 2006 (Unaudited) HK\$'000	31 December 2005 (Audited) HK\$'000
Current — 30 days	338,753	246,198
31 — 60 days	54,412	82,243
61 — 90 days	11,588	44,673
Over 90 days	9,303	42,957
	414,056	416,071

11. Interest-bearing bank loans

	30 June 2006 (Unaudited) HK\$'000	31 December 2005 (Audited) HK\$'000
Bank overdrafts, unsecured	1,224	—
Trust receipt loans, secured	49,359	65,157
Bank loans, secured	477,619	526,657
	528,202	591,814
Analysed into:		
Bank overdrafts, trust receipt loans and short term bank loans repayable within one year or on demand	98,583	188,893
Bank loans, secured and repayable:		
Within one year	151,294	105,560
In the second year	197,118	164,028
In the third to fifth years, inclusive	81,207	133,333
	429,619	402,921
	528,202	591,814
Portion classified as current liabilities	(249,877)	(294,453)
Long term portion	278,325	297,361

The trust receipt and bank loans have effective interest rates ranging from HIBOR plus 1.125% to 1.75% per annum, with maturity in 2006 to 2009 and bear interest at floating rates.

Notes to Condensed Consolidated Financial Statements

30 June 2006

12. Shareholder's loan

The shareholder's loan was advanced by Mr. Cheek Ho Fung, 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, repayable on 15 January 2007 and is subordinated to all bank borrowings.

13. Finance lease payables

	30 June 2006 (Unaudited) HK\$'000	31 December 2005 (Audited) HK\$'000
Amounts payable:		
Within one year	104,564	74,883
In the second year	67,342	50,469
In the third to fifth years, inclusive	76,179	49,073
Total minimum finance lease payments	248,085	174,425
Future finance charges	(21,768)	(10,669)
Total net finance lease payables	226,317	163,756
Portion classified as current liabilities	(93,126)	(69,438)
Long term portion	133,191	94,318

The finance lease payables have effective interest rates ranging from HIBOR plus 1.25% to 2.25% per annum, with maturity in 2006 to 2010 and bear interest at floating rates.

14. Share capital

	30 June 2006 (Unaudited) HK\$'000	31 December 2005 (Audited) HK\$'000
Authorised:		
2,000,000,000 ordinary shares of HK\$0.1 each	200,000	200,000
Issued and fully paid:		
855,000,000 (31 December 2005: 710,800,000) ordinary shares of HK\$0.1 each	85,500	71,080

During the Period, 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 HK\$0.8 per share. On the same date, the Company placed 142,000,000 new ordinary shares of the Company to Inni at HK\$0.8 per share, resulting in a total cash consideration, before expenses, of approximately HK\$113,600,000.

Notes to Condensed Consolidated Financial Statements

30 June 2006

14. Share capital *(Continued)*

- (b) The subscription rights attaching to 2,100,000 and 100,000 share options were exercised at the subscription price of HK\$0.694 and HK\$0.72, respectively, resulting in the issue of 2,200,000 shares of HK\$0.1 each for a total cash consideration, before expenses, of approximately HK\$1,529,000.

15. Share option scheme

The following share options were outstanding under the Share Option Scheme during the Period:

Name of Directors	Number of share options			At 30 June 2006	Date of grant of share options*	Exercise period of share options	Exercise price of share options**	Share price at the date of grant***
	At 1 January 2006	Granted during the Period	Exercised during the Period					
Mr. Ng Chi Shing (Resigned on 18 April 2006)	1,200,000	—	(1,200,000)	—	1 September 2004	6 July 2004 to 31 December 2006	0.694	0.70
Mr. Wong Shui Hing (Retired on 5 June 2006)	900,000	—	(900,000)	—	1 September 2004	6 July 2004 to 31 December 2006	0.694	0.70
Mr. Ting Sui Ping	800,000	—	—	800,000	1 September 2004	6 July 2004 to 31 December 2006	0.694	0.70
Mr. Tang Yok Lam	640,000	—	—	640,000	1 September 2004	6 July 2004 to 31 December 2006	0.694	0.70
	1,860,000	—	—	1,860,000	12 January 2005	20 December 2004 to 31 December 2006	0.792	0.81
Other employees								
In aggregate	4,400,000	—	(100,000)	4,300,000	23 December 2004	23 December 2004 to 31 December 2006	0.72	0.80
Total	9,800,000	—	(2,200,000)	7,600,000				

* 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 the grant of the share options is the Stock Exchange closing price as at the date of the grant of the options.

Notes to Condensed Consolidated Financial Statements

30 June 2006

15. Share option scheme *(Continued)*

At the balance sheet date, the Company had 7,600,000 share options outstanding under the Scheme, which represented approximately 0.89% of the Company's shares in issue as at that date. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 7,600,000 additional ordinary shares of the Company and additional share capital of HK\$760,000 and share premium of HK\$4,808,480 before issue expenses.

16. Warrants

Pursuant to the ordinary resolution passed on 5 June 2006, the Company issued bonus warrants on the basis of one warrant for every ten existing ordinary shares held by the shareholders on 5 June 2006. The warrant holders are entitled to subscribe for new shares at the initial subscription price of HK\$1.20 during the subscription period from 26 June 2006 to 31 October 2008.

None of the warrants were exercised during the Period.

17. Contingent liabilities

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 failures of the products sold by the subsidiary and claimed the subsidiary for damages amounting to approximately US\$8 million.

The directors, after consulting the 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 lawsuit has been made in the Interim Financial Statements.

18. Commitments

(a) Capital commitments

	30 June 2006 (Unaudited) HK\$'000	31 December 2005 (Audited) HK\$'000
Authorised and contracted for:		
Commitments in respect of the construction of factory buildings	63,375	121,476
Commitments in respect of acquisition of plant and machinery	8,120	24,027
	71,495	145,503

Notes to Condensed Consolidated Financial Statements

30 June 2006

18. Commitments *(Continued)*

(b) Other commitments

At 30 June 2006, the Group's capital contribution committed to two wholly-foreign-owned subsidiaries incorporated in the PRC amounted to HK\$599,450,000 (31 December 2005: HK\$599,450,000), of which HK\$278,460,000 (31 December 2005: HK\$278,460,000) represents investment in a subsidiary in Tongliao, Inner Mongolia of the PRC and HK\$320,990,000 (31 December 2005: HK\$320,990,000) represents investment in a subsidiary in Shaoguan, Guangdong, the PRC.

19. Related party transactions

(a) The Group had the following transaction with a related company during the Period:

	For the six months ended	
	30 June 2006 (Unaudited) HK\$'000	30 June 2005 (Unaudited) HK\$'000
Rental expenses paid to a company in which a director has beneficial interest	720	692

The monthly rental rate was HK\$120,000 with effect from 22 May 2005 (before 22 May 2005: HK\$115,000) for a period of three years. Market rental valuation report is provided by an independent professional valuer on 18 July 2005.

(b) Outstanding balances with related parties:

- (i) The amount due from the Group's associate of HK\$499,000 (31 December 2005: HK\$427,000) is unsecured, interest-free and has no fixed terms of repayment.
- (ii) Details of the shareholder's loan as at the balance sheet date are included in note 12 to the Interim Financial Statements.

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

	For the six months ended	
	30 June 2006 (Unaudited) HK\$'000	30 June 2005 (Unaudited) HK\$'000
Short-term employee benefits	4,021	3,981
Post-employment benefits	390	377
Total compensation paid to key management personnel	4,411	4,358

Management Discussion and Analysis

Review of operating environment

In the first half of the year, shipment volumes, in terms of square footage, decreased by about 3%, as compared with the same period last year. Production reached an average utilization rate of about 80%.

During the first half of 2006, major raw material prices surged by double digit. Despite the significant increase in material prices, the PCB market would only accept a moderate price increase in the products in which the Group is producing.

In line with the Group's business strategy, the growth in sales of multi-layered boards (6-layered and above) in the first half of 2006 progressed well. The shipment level for multi-layered boards, which provide higher margins, increased by about 36% in the first half of 2006 against the corresponding period last year. Currently, multi-layered boards contribute about 47% of the Group's sales.

As a result of the aforesaid factors, the average sales price in the first half of 2006 went up by about 14% and total revenue reached HK\$865 million, representing an increase of 11% over last year.

In view of the continuous rise in manufacturing costs in Shenzhen, the Group continues to shift production from the Shekou plant to Shaoguan plant. Although the shifting of production has been conducted in a planned and orderly manner, the move resulted in the Company having to incur short term costs. For Shaoguan plant, it is the learning curve experienced by the new local team whereas, for Shekou plant there has been down-sizing pain. This has led to the reduction in output and operating profit of the Group in the period under review. The Management is of the opinion that when the relocation is complete and both plants are running smoothly, the performance of the Group will be improved tremendously.

The Group continues to invest resources into upgrading its technical capabilities and enhanced its marketing efforts to expand market coverage and further improve product mix.

Review of financial performance

Compared to the results in the same period in 2005, the Group's revenue increased by 11% to approximately HK\$865 million, profit attributable to shareholders decreased by 45% to approximately HK\$28 million, and earnings per share decreased to HK3.8 cents in the first half of 2006.

The Group's shipment levels decreased by 3% with the average sales price increased by 14%. The average cost of materials increased by 17% mainly due to the increase in cost of major raw materials. The overall gross profit margin decreased to 18% in the first half of 2006 as compared to 21% in the first half of 2005. Administrative expenses, selling and distribution costs and other expenses collectively increased by 9%, compared to the same period in 2005, to approximately HK\$109 million.

The Group neither held any significant non-consolidated investments nor underwent any material acquisitions or disposals of subsidiaries and associates during the first half of 2006.

Foreign exchange exposure

Sales of the Group's products are principally denominated in US dollars and the purchases of materials and payments of operational expenses are mainly denominated in US dollars ("USD"), HK dollars ("HKD") and Renminbi ("RMB"). Taking into account the Group's operational and capital requirements in the aforesaid currencies, the Group has minimal risk in the event of fluctuation of exchange rates of USD, HKD and RMB.

Management Discussion and Analysis

Currently, the Group does not have a foreign currency hedging policy and its foreign exchange gains and losses over past few years were relatively low. The Directors will continue to monitor foreign exchange exposure in the future and will consider hedging such exposure to minimise exchange risk should the need arise.

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 30 June 2006, the Group had total assets of approximately HK\$2,409 million (31 December 2005: HK\$2,282 million) and interest-bearing borrowings of approximately HK\$785 million (31 December 2005: HK\$786 million), representing a gearing ratio, defined as interest-bearing borrowings over total assets, of approximately 33% (31 December 2005: 34%).

The Group's net current assets of approximately HK\$42 million (31 December 2005: HK\$39 million) consisted of current assets of approximately HK\$917 million (31 December 2005: HK\$922 million) and current liabilities of approximately HK\$875 million (31 December 2005: HK\$883 million), representing a current ratio of approximately 1.05 (31 December 2005: 1.04).

As at 30 June 2006, the Group's current assets consisted of approximately HK\$106 million (31 December 2005: HK\$156 million) held as cash and bank balances, of which 24% in HKD, 57% in USD, 16% in RMB and 3% in other currencies.

As at 30 June 2006, bank loans and other banking facilities of the Group were secured by:

- (a) the assignment of certain trade receivables of a subsidiary;
- (b) cross-corporate guarantees by the Company and certain subsidiaries; and
- (c) certain land and buildings held by the Group.

Interest-bearing borrowings

As at 30 June 2006, the Group had interest-bearing borrowings as follows:

	30 June 2006 (Unaudited) HK\$'000	31 December 2005 (Audited) HK\$'000
Amounts payable:		
Within one year	373,003	363,891
In the second year	262,271	239,816
In the third to fifth years, inclusive	149,245	181,906
	784,519	785,613
Less: Portion classified as current liabilities	(373,003)	(363,891)
Long term portion	411,516	421,722

Management Discussion and Analysis

Of the total interest-bearing borrowings, HKD denominated loans accounted for 80% (2005: 84%) and USD for 20% (2005: 16%) as at 30 June 2006. Almost all interest-bearing borrowings are charged with floating rates. There is no significant variation on borrowing requirements of the Group due to seasonality.

Prospects

As reported earlier in our last statement on 7 April 2006 in our 2005 Annual Report, the Group has continued to shift production from Shekou plant to Shaoguan plant during the first half of 2006. And by August 2006, the Shaoguan plant's production has reached 80% of the expected 1 million sq. ft.. The short-fall is mainly due to difficulties encountered while relocating certain used equipment from Shekou plant to Shaoguan plant. Performance of the relocated equipments, stability in production process, and the required increases in quality level due to the higher sales mix of multi-layer products have caused the output level of the new plant to reduce while the equipment was being fine-tuned.

Accordingly, production output target of Shaoguan to achieve 1 million sq. ft. per month will be postponed to the end of this year and we will target to increase the output further by the first half of 2007. These difficulties encountered have directly affected the financial performance of the Group during the first half of 2006. Meanwhile, restructure of the Group's organisation in both plants since March 2006 has started to achieve substantial savings in operating overheads by June 2006 and such savings would be reflected in the second half of 2006. The Group is also continuing to strengthen its total quality system. Substantial resources will be allocated in this area during the ensuing six months, with an aim to attain a stable production process and perfect the reliability of its products.

Because of the issues encountered during the plant relocation and the organisation restructure, progress of the Tongliao plant construction has been slowed down so that our Management team can focus on solving the issues.

Number and remuneration of employees

As at 30 June 2006, excluding the associate, the Group had approximately 7,303 staff (31 December 2005: 7,500), of which 71 (31 December 2005: 90) were employed in Hong Kong, 7,198 (31 December 2005: 7,372) in the PRC and 34 (31 December 2005: 38) in various overseas marketing offices. 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 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

As at 30 June 2006, the Group had no material contingent liabilities other than as set out in note 17 to the Interim Financial Statements.

Capital commitments

As at 30 June 2006, the Group's capital commitments contracted but not provided for amounted to HK\$71 million (31 December 2005: HK\$146 million). All of these capital commitments were related to construction of factory buildings and acquisition of plant and machinery.

Dividends

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2006 (30 June 2005: Nil).

Disclosure of Additional Information

Directors' Interest in Contracts

Save as disclosed in note 19 to the Interim Financial Statements, no contracts of significance in relation to the Group's business to which the Company or its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted any time during the Period or up to the date of the Interim Financial Statements.

Directors' Interests in Shares and Share Options

1. Directors' Interests in Shares

As at 30 June 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 were as follows:

(a) The Company

Name of director	Nature of interest		Number of ordinary shares held	Approximate percentage of issued capital
Mr. Cheok Ho Fung	Direct	Long position	48,000,000	5.61%
	Deemed (Note)	Long position	432,000,000	50.53%
	Total		480,000,000	56.14%

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	Approximate percentage of issued capital
Mr. Cheok Ho Fung	Direct		12,250	49.00%
	Deemed (Note)		12,750	51.00%
			25,000	100.00%

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

Disclosure of Additional Information

Directors' Interests in Shares and Share Options *(Continued)*

1. Directors' Interests in Shares *(Continued)*

(c) Subsidiary - Topsearch Industries (Holdings) Limited

Name of director	Nature of interest	Number of non-voting deferred shares held	Approximate percentage of issued shares capital
Mr. Cheek Ho Fung	Direct	2,000,100	10.00%
	Deemed <i>(Note)</i>	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. Cheek Ho Fung and as to 51% jointly by Mr. Cheek Ho Fung and his wife.

2. Directors' Interests in Share Options of the Company

As at 30 June 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 15 to the Interim Financial Statements were as follows:

Name of Directors	Number of share options			Date of grant of share options	Exercise period of share options	Exercise price of share options	Share price at the date of grant
	At 1 January 2006	Granted during the Period	At 30 June 2006				
Mr. Ting Sui Ping	800,000	—	800,000	1 September 2004	6 July 2004 to 31 December 2006	0.694	0.70
Mr. Tang Yok Lam	640,000	—	640,000	1 September 2004	6 July 2004 to 31 December 2006	0.694	0.70
	1,860,000	—	1,860,000	12 January 2005	20 December 2004 to 31 December 2006	0.792	0.81
	3,300,000	—	3,300,000				

Disclosure of Additional Information

Directors' Interests in Shares and Share Options *(Continued)*

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	Date of grant of share warrants	Exercise period of share warrants	Subscription price of share warrants	Number of share warrants outstanding	Number of total underlying shares	Approximate percentage of total shareholding
Mr. Cheek Ho Fung	5 June 2006	26 June 2006 to 31 October 2008	1.200	4,800,000	4,800,000	0.6%

Save as disclosed 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 30 June 2006.

Substantial Shareholders

1. Long positions in Shares:

As at 30 June 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	Approximate percentage of issued capital
Inni International Inc.		Direct	Long position	432,000,000	50.53%
Mr. Cheek Ho Fung	(i)	Direct	Long position	48,000,000	5.61%
		Deemed	Long position	432,000,000	50.53%
			Total	480,000,000	56.14%
Mrs. Cheek Chu Wai Min	(ii)	Deemed	Long position	480,000,000	56.14%
Hallgain Management Limited	(iii)	Deemed	Long position	128,318,000	15.00%
Kingboard Chemical Holdings Limited	(iii)	Direct	Long position	2,766,000	0.32%
		Deemed	Long position	125,552,000	14.68%
			Total	128,318,000	15.00%
Jamplan (BVI) Limited	(iii)	Deemed	Long position	125,552,000	14.68%
Kingboard Investments Limited	(iii)	Direct	Long position	125,350,000	14.66%
Mr. Cheah Cheng Hye	(iv)	Deemed	Long position	73,358,000	8.58%
Value Partners Limited	(iv)	Direct	Long position	73,358,000	8.58%

Disclosure of Additional Information

Substantial Shareholders *(Continued)*

1. *(Continued)*

Notes:

- (i) The above interests in the name of Inni International Inc. were also disclosed as interest of Mr. Cheok Ho Fung in the above section headed "Directors' Interests in Shares".
 - (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".
 - (iii) Kingboard Investments Limited and Kingboard Laminates Limited, holder of 125,350,000 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 36.18% equity shares in Kingboard Chemical Holdings Limited.
 - (iv) Value Partners Limited is an investment manager and is held as to 32.77% by Mr. Cheah Cheng Hye.
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 substantial shareholder	Date of grant of share warrants	Exercise period of share warrants	Subscription price of share warrants	Number of share warrants outstanding	Number of total underlying shares	Approximate percentage of total shareholding
Inni International Inc.	5 June 2006	26 June 2006 to 31 October 2008	1.200	43,200,000	43,200,000	5.1%

Save as disclosed above, no person had any interests or short positions in the shares and underlying shares of the Company as recorded under Section 336 of the SFO as at 30 June 2006.

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 entity ("Invested Entity") in which the Group holds an equity interest, suppliers of goods or services and person or entity that provides research, development or other technological support to the Group, its subsidiaries, or any Invested Entity, and any shareholder of the Group, its subsidiaries or Invested Entity. 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.

Disclosure of Additional Information

Share Option Scheme *(Continued)*

Details of the movement of the share options during the Period under the Scheme are set out in note 15 to the Interim Financial Statements.

Purchase, Sale or Redemption of the Company's Listed Securities

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

Corporate Governance Report

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' interests as our top priorities."

The Board of Directors and the senior management of the Company are of the opinion that during the first half year of 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 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. Building a culture of integrity, transparency and accountability in the Company including all the 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 financial period ended 30 June 2006, the Company has complied with the CG Code with 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.

Disclosure of Additional Information

Corporate Governance Report *(Continued)*

Compliance with CG Code *(Continued)*

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 on corporate governance as set out in 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 financial period ended 30 June 2006. Senior managers, who, because of their offices in the Company, are likely to be in possession of unpublished price sensitive information, also have to comply with the provisions of the Model Code and the Own Code.

The Board of Directors

The Board of Directors consists of ten Directors (two have left the Group during this reporting period) with a variety of experience in accounting, manufacturing, marketing, finance, investment and legal professions. Their brief biographical particulars are set out in last year 2005 annual report. The detailed composition of the Board of Directors in the current period is as follows:

Name of Directors	Position
<i>Executive Directors</i>	
Mr. Cheok Ho Fung	Chairman and Chief Executive Officer
Mr. Ng Chi Shing <i>(Resigned on 18 April 2006)</i>	Chief Operating Officer
Mr. Wong Shui Hing <i>(Retired on 5 June 2006)</i>	Personal Assistant to the Chairman
Mr. Ting Sui Ping	Marketing Director
Mr. Ho Siu Man	Finance Director
<i>Non-Executive Directors</i>	
Mr. Tang Yok Lam, Andy	Director
Mr. Ng Kwok Ying, Alvin	Director
<i>Independent Non-Executive Directors</i>	
Mr. Leung Shu Kin, Alfred	Director
Mr. Wong Wing Kee	Director
Mr. Look Guy	Director

Disclosure of Additional Information

Corporate Governance Report *(Continued)*

The Board of Directors *(Continued)*

The Company has appointed sufficient numbers of Independent Non-Executive Directors in accordance with the Listing Rules, including those with accounting and finance expertise. They have dedicatedly provided 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.

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 maximise value of the shareholders while balancing the interest of the various stakeholders. The Board of Directors holds meetings quarterly to monitor the performance of the Company as against the budget and to be briefed on 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, 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

Disclosure of Additional Information

Corporate Governance Report *(Continued)*

The Operation of the Board of Directors *(Continued)*

11. Considering and determining issues which are the responsibilities of the Board of Directors pursuant to the Company's memorandum and Bye-laws and 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 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 Committees and will be regularly reviewed and updated by the Board of Directors. 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. The Audit Committee discharges its responsibilities as follows:

1. Reviewing of the interim and annual results;
2. Review and monitor the reporting, accounting, financial, risk management and internal control aspects of the Company;
3. Approve the appointment of the Company's external auditor and review and discuss their audit plan, and scope, and also reports and issues raised by them;
4. Reporting directly to the Board of Directors; and
5. Having full access to the Corporate Governance Manager to hear directly any concerns of the Corporate Governance Department that may have arisen during the course of the department's work.

Disclosure of Additional Information

Corporate Governance Report *(Continued)*

Audit Committee *(Continued)*

It comprises four members, the majority of whom are Independent Non-Executive Directors, namely, Mr. Look Guy being Chairman (Independent Non-Executive Director), Mr. Ng Kwok Ying, Alvin (Non-Executive Director), Mr. Leung Shu Kin, Alfred (Independent Non-Executive Director) and Mr. Wong Wing Kee (Independent Non-Executive Director).

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; and
3. 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, namely, Mr. Leung Shu Kin, Alfred being Chairman (Independent Non-Executive Director), Mr. Look Guy (Independent Non-Executive Director) and Mr. Tang Yok Lam, Andy (Non-Executive Director).

Nomination Committee

The Nomination Committee carries out the following tasks:

1. Recommending and nominating candidates to fill vacancies to the Board of Directors by considering the past performance, qualification, general market conditions and the Company's Bye-laws; and
2. Changing of Directors by considering the issues of conflict of interest, performance and conduct.

It comprises three members, the majority of whom are Independent Non-Executive Directors, namely, Mr. Wong Wing Kee being Chairman (Independent Non-Executive Director), Mr. Leung Shu Kin, Alfred (Independent Non-Executive Director) and Mr. Tang Yok Lam, Andy (Non-Executive Director).

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 provides 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.

Disclosure of Additional Information

Corporate Governance Report *(Continued)*

Corporate Management and Internal Control

Corporate Governance Department:

The Corporate Governance Department plays a major role in monitoring the internal governance of the Group. The Department has unrestricted access to information that allows it to review all aspects of the Group's risk management and governance processes in connection to 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 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 are 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 functions for overall system establishment and comprehensive perfection in corporate internal control. Internal audit division being an independent entity and its independence is currently under review. 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.

Disclosure of Additional Information

Corporate Governance Report *(Continued)*

Corporate Management and Internal Control *(Continued)*

Internal Control:

The Board of Directors holds full responsibility for the system of internal control of the Group and continuously reviews of its effectiveness. The internal audit division performed investigation of the effectiveness of material processes and controls on a risk-based approach in accordance with the provision 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, reviewed the effectiveness of the system of internal control for the six months ended 30 June 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 operational 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 do this in these areas:

Environmental Policy

Traditionally, PCB 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 set 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.

Disclosure of Additional Information

Corporate Governance Report *(Continued)*

Environmental Policy *(Continued)*

4. Awareness for environmental protection of all staff is enhanced through environmental protection activities, training programs and promotion. “Reduce”, “Reuse”, “Recycle” are heavily promoted. By promoting them, the Company is striving to protect the environment as well as to contribute back to 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 complying with international standards, but also 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 together, a better and healthier environment can be built.

Disclosure of Additional Information

Corporate Governance Report *(Continued)*

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 in Topsearch. The Company has been complying with the RoHS Standard “Restriction of the use of certain Hazardous Substances”. The Standard requires electronic manufacturing companies the minimum usage of the hazardous substances, such as lead, mercury, cadmium, hexavalent chromium, polybrominated biphenyls or polybrominated diphenyl ethers, which are dangerous to our environment. The Standard enables that our products produced are environmental friendly. Besides meeting the RoHS requirements, the Company is also using halogen-free materials. 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, Topsearch will keep sourcing new RoHS compliance materials and lead-free surface finishing alternatives to achieve a 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 staffs are the most valuable assets 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 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 society if they have opportunities for further 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.

Disclosure of Additional Information

Corporate Governance Report *(Continued)*

Sufficiency of Public Float

Based on the information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained sufficient public float of not less than 25% of the Company's issued shares as required under the Listing Rules throughout the six months ended 30 June 2006.

Audit Committee

These Interim Financial Statements have not been audited, but have been reviewed by the Company's audit committee and external auditors, Ernst & Young, in accordance with Statement of Auditing Standards 700 "Engagements to review interim financial reports", issued by the Hong Kong Institute of Certified Public Accountants.

Publication of Interim Report on Stock Exchange's Website

The 2006 Interim Report of the Company containing all the information required by the Listing Rules will be published on the websites of the Company (www.topsearch.com.hk) and the Stock Exchange (www.hkex.com.hk) in due course.

Appreciation

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

On behalf of the Board

CHEOK HO FUNG

Chairman and Chief Executive Officer

Hong Kong, 15 September 2006