

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 <i>Financial Reporting in Hyperinflationary Economies</i>
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 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
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 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
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 HK\$'000	2005 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 HK\$'000	2005 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 HK\$'000	2005 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 HK\$'000	2005 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 HK\$'000	2005 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 <i>(Continued)</i>				
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 <i>(Continued)</i>				
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 HK\$'000	2005 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 HK\$'000	2005 HK\$'000
Assets	306	662
Liabilities	(545)	(692)
Revenues	997	914
Loss	(209)	(77)

17. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Group	
	2006 HK\$'000	2005 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 HK\$'000	2005 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 HK\$'000	2005 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 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 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 HK\$'000	2005 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 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 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						
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 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 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 <i>HK\$'000</i>	Revaluation of buildings <i>HK\$'000</i>	Others <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2005	38,362	5,003	—	43,365
Deferred tax credited to the income statement during the year (<i>note 10</i>)	(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 (<i>note 10</i>)	(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 HK\$'000	2005 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 <i>HK\$'000</i>	Share premium account <i>HK\$'000</i>	Total <i>HK\$'000</i>
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				Date of grant of share options*	Exercise period of share options	Exercise price of share options**	Price of Company's shares***			
	At 1 January 2006	Exercised during the year	Expired during the year	At 31 December 2006				At grant date	Immediately before the exercise date	At exercise date	
								HK\$ per share	HK\$ per share	HK\$ per share	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 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 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 HK\$'000	2005 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:

	Notes	2006 HK\$'000	2005 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.