至卓 TOPSEARCH

Topsearch International (Holdings) Limited
至卓國際(控股)有限公司*

(Incorporated in Bermuda with limited liability)

Stock code : 2323

Interim Report 2007

* For identification purposes only

Content

Chairman Statement

Financial Performance

Comparing with the unaudited results in the same period in 2006, the revenue of Topsearch International (Holdings) Limited (the "Company") and its subsidiaries (collectively the "Group") decreased by 12% to approximately HK$761 million, profit before tax decreased by 75% to approximately HK$6.7 million, and earnings per share dropped to 1.02 Hong Kong cents in the first half of 2007.

Dividends

The board of directors (the "Board" or "Directors") does not recommend the payment of any interim dividend for the six months ended 30 June 2007.

Business Review

During the period under review, the Group's business operation has been interrupted by the fire incident occurred in December 2006 in Shekou plant whereas the production volume of high layer count boards had been reduced in the Shekou plant. The resulting business interruption led to reduction in output and increase in production overheads and expenses per product unit. Production only reached an average utilization rate of 68%. Despite being further affected by the continuing rising of raw materials prices, the Group managed to earn profit before tax of HK$6.7 million in the first half of 2007.

The Group had made adequate coverage under an "all risks" insurance policy on the value of its assets and normal business operations. As at the date of the interim report, the Group successfully obtained a written confirmation from the insurance underwriter through the insurance broker on the total relevant recoverable claim amount of approximately HK$85 million for both asset damages and loss of operating profit arising from the business interruption caused by the fire incident.

The fire incident had caused serious loss in production capacity of certain key processes in the Shekou plant such as pattern plating where on a group basis, up to 27% of final output volume with sales value equivalent to around HK$130 million was affected during the six months ended 30 June 2007. Accordingly, gross profit was only HK$63 million representing a decrease of 59% over that of same period in 2006. Full recovery of production capacity was subsequently attained when the relevant equipment replacement had been completed in June 2007. Nevertheless, normal sales order level was resumed only at the end of August this year due to sales orders to fill up the resumed capacity can only be done over time. Together with the expected recoverable claim for business interruption of approximately HK$66 million, the adjusted gross profit and gross margin became HK$129 million and 17% respectively, represented a drop of 15% as compared to the same period in 2006. The drop in adjusted gross margin from 17.6% to 17% was attributed to the continuing price increase on precious metals, production interruption and lower utilization of production capacity. Operating profit before interest and tax margin decreased from 5.7% to 3.6% in the first half of this year. With high interest expenses, net profit margin decreased further from 3.3% to 1.2% during the period under review.

Chairman Statement

In view of the continuing increase in production and labor costs in Shenzhen, the Group will speed up the pace of increasing the production capacity in the Shaoguan plant by relocation of machinery from the existing plant in Shekou. Based on the latest relocation plan, the production capacity of the Shaoguan plant is expected to reach 1.5 million square feet per month by the end of the second quarter of 2008. The Shekou plant will continue to be downsized and focused on higher layered boards and high density interconnect ("HDI") production to sustain the high operation costs and achieve a reasonable profit. It is expected that total production capacity of the Shaoguan and Shekou plants be around 1.8 million square feet per month by the end of 2007. The management is of the opinion that when the relocation is complete and both plants are running smoothly, the performance of the Group will be improved tremendously.

As at the date of the interim report, the construction of the Tongliao plant had substantially been completed. It is expected that the trial production of the Tongliao plant shall commence by the last quarter of this year. Due to the relatively small scale of production of this new plant, it is not expected that significant profit contribution will be made by this plant to the Group in 2007. Taking into account the substantial increase in manufacturing costs in the Guangdong areas of the People's Republic of China (the "PRC"), the Group considers that it is beneficial to shift part of its production to Tongliao which has a lower cost base. To cope with future expansion plan in Tongliao plant, the Group entered into an agreement on 23 August 2007, for a consideration of RMB71 million, to acquire two pieces of land that is adjacent to the existing Tongliao plant. The Group will pay around RMB53 million of the consideration by issuing 93,400,000 new ordinary shares at HK$0.58 per share with the outstanding balance of around RMB18 million to be settled by internal resources or new equity shares on or before 31 December 2008.

Prospects

As mentioned earlier, the aftermath of the fire incident incurred at the end of last year has been under-estimated. The most disturbing factor of the incident being recognized is the delay in further moving production output to our Shaoguan plant, where lower production costs are possible. To ensure a satisfactory negotiation of insurance claims with our insurance underwriter, the Company has exerted great efforts to resume the production levels previously achieved in the Shekou plant so that a reasonable level of insurance claims for business interruption can be negotiated and obtained. This turned out to be back fire in the sense that further downsizing of the Shekou plant has been delayed. Now that the insurance claims has been satisfactorily settled and the Company can move on to realize its original plan in cost cutting and downsizing.

Nowadays, it is a generally accepted opinion that PRC has adopted complex rules and regulations which will bring more operating difficulties to all manufacturing industries. Industries which are using a lot of energy and water resources, highly labour intensive and containing elements of pollution will be affected most. Unfortunately, the printed circuits board industry falls into this category one way or the other. Meanwhile, the decision of the Group few years ago to re-locate manufacturing plants into less developed areas such as Qujiang in Shaoguan and Tongliao in Inner-Mongolia proved to be correct since the adoption of all such complex rules and regulations may be more favourable in these areas and therefore giving us more time to meet such high standard requirements, though costs and efforts of such relocation may also be substantial.

Chairman Statement

In view of such difficulties in meeting higher standards in terms of environmental protection, savings in energies and water resources and laws in human resources employment in manufacturing industries initiated by PRC as a state policy, the Group is intending to explore to diversify its business portfolio into other areas such as resources, logistic business etc. and is in the process of carrying out review on the core competence and capability of the Group for achieving such diversification where efforts and costs in meeting such standards can be relatively lower and therefore return of investment can be higher. As at the date of the interim report, no project has been identified and no concrete plan has been laid down. The Group will diligently carry out feasibility study in various projects available for evaluation and invite business partners for any possible development.

As far as the core business of the Group is concerned, the Group would assume a more conservative optimism in improving its profit margin through higher production output and better product mix arrangement when relocation can be completed towards the first half of next year.

Appreciation

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

On behalf of the Board
CHEOK HO FUNG
Chairman and Chief Executive Officer

Hong Kong, 21 September 2007

Management Discussion And Analysis

Financial Review

For the six months ended 30 June 2007, the Group's revenue decreased to approximately HK$761 million, representing a decrease of 12% over that of the same period in 2006 due to the business interruption caused by the fire incident. Operating profit before interest and tax was HK$28 million, showing a decrease of 43% over last period of HK$49 million. Profit attributable to shareholders amounted to HK$8.7 million, as compared to HK$28 million in the same period in 2006. Basic earnings per share were 1.02 Hong Kong cents, as compared to 3.76 Hong Kong cents in the first half of 2006.

The Group's shipment volume decreased by 11% with the average sales price decreased by 1%. Material costs maintained at high level due to the continuing trending up of major raw materials and production scraps resulting from production interruption. The increase of production overheads by 14% per square feet was mainly attributed to the relatively fixed nature of production overheads, rising labor costs and low utilization of production capacities. Overall, the gross margin as adjusted by the expected business interruption compensation was dropped from 17.6% in the last period to 17% in the first half of 2007.

Liquidity and financial resources

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

As at 30 June 2007, the Group had total assets of HK$2,260 million (31 December 2006: HK$2,391 million) and interest-bearing borrowings of HK$709 million (31 December 2006: HK$774 million), representing a gearing ratio, defined as interest-bearing borrowings over total assets, of 31% (31 December 2006: 32%).

The Group's net current liabilities of HK$33 million (31 December 2006: net current assets of HK$63 million) consisted of current assets of HK$810 million (31 December 2006: HK$910 million) and current liabilities of HK$843 million (31 December 2006: HK$847 million), representing a current ratio of 0.96 (31 December 2006: 1.07). Certain banking facilities granted to the Group have stipulated financial covenants including current ratio of not less than one. As at the balance sheet date, such a covenant was breached by the Group, which was subsequently ratified by the respective banks.

As at 30 June 2007, the Group's current assets consisted of HK$81 million (31 December 2006: HK$112 million) held as cash and cash equivalents, of which 36% was in Hong Kong dollars ("HKD"), 37% was in United States dollars ("USD"), 23% was in Renminbi ("RMB") and 4% in other currencies.

Interest-bearing borrowings

As at 30 June 2007, the Group had interest-bearing borrowings as follows:

	30 June 2007 (Unaudited) *HK$'000*	31 December 2006 (Audited) *HK$'000*
Amounts payable:		
Within one year	**439,703**	366,451
In the second year	**198,397**	278,445
In the third to fifth years, inclusive	**70,589**	128,903
	708,689	773,799
Less: Portion classified as current liabilities	**(439,703)**	(366,451)
Long term portion	**268,986**	407,348

Of the total interest-bearing borrowings, HKD denominated loans accounted for 81% (31 December 2006: 82%) and the 19% (31 December 2006: 18%) balance were USD denominated loans as at 30 June 2007. Almost all of the interest-bearing borrowings are charged with floating rates. The Board does not recognize a significant seasonality of borrowing requirements.

Material acquisitions or disposals

The Group neither held any significant non-consolidated investments nor underwent any material acquisitions or disposals of subsidiaries and associates during the first half of 2007.

Foreign Exchange Exposure

Sales of the Group's products are principally denominated in USD and the purchases of materials and payments of operational expenses are mainly denominated in USD, HKD and RMB. Approximately 40% of the Group's purchases and expenses are denominated in RMB. As the Group imported a substantial portion of its critical raw materials and machines from overseas which were non-RMB denominated, this would help to mitigate the full effects arising from RMB appreciation.

Currently, the Group has not entered into any financial instrument for hedging purpose. Nevertheless, the Board will continue to monitor foreign exchange exposure in the future and will consider hedging such exposure to minimize exchange risk should the need arise.

Management Discussion And Analysis

Number and remuneration of employees

As at 30 June 2007, excluding the associate, the Group had approximately 7,057 employees (31 December 2006: 7,900). Under the Group's remuneration policy, employees are rewarded in line with market rate and in compliance with statutory requirements of all jurisdictions where it operates.

Contingent liabilities

As at 30 June 2007, the Group had no material contingent liabilities other than as set out in note 18 to the interim financial statements.

Capital commitments

As at 30 June 2007, the Group's capital commitments contracted but not provided for amounted to HK$64 million (31 December 2006: HK$81 million). All of these capital commitments were related to construction of factory buildings and acquisition of plant and machinery.

Dividends

The Directors do no recommend the payment of any interim dividend for the six months ended 30 June 2007 (2006: Nil).

Disclosure of Additional Information

Directors' interest in contracts

Save as disclosed in note 21 to the interim financial statements, no contracts of significance in relation to the Group's business to which the Company or its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted any time during the period or up to the date of the interim financial statements.

Directors' interests in Shares and Share Options

1. Directors' interests in Shares

As at 30 June 2007, the interests and short positions of the Directors in the shares, underlying shares and debentures of the Company or its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571, Laws of Hong Kong) ("SFO") as recorded in the register maintained by the Company pursuant to Section 352 of the SFO or as notified to the Company and the Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers were as follows:

(a) The Company

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

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

(b) Associated Corporation — Inni International Inc.

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

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

Disclosure of Additional Information

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

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

(c) Subsidiary — Topsearch Industries (Holdings) Limited

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

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

2. Directors' interests in share options of the Company

As at 30 June 2007, none of the Company's directors held share options of the Company.

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

Name of Directors	Nature of interest	Date of grant of warrants	Exercise period of warrants	Subscription price of warrants	Number of warrants outstanding	Number of total underlying shares	Approximate Percentage of total shareholding
Mr. Cheok Ho Fung	Direct	5 June 2006	26 June 2006 to 31 October 2008	1.20	4,800,000	4,800,000	0.56%
Note	Deemed	5 June 2006	26 June 2006 to 31 October 2008	1.20	43,200,000	43,200,000	5.04%
Total					48,000,000	48,000,000	5.60%

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

Save as discussed above, none of the directors, chief executives or any of their associates had any interest or short positions in the shares, underlying shares or debentures of the Company or its associated corporations were recorded in the register required to be kept under Section 352 of the SFO as at 30 June 2007 or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as at 30 June 2007.

Disclosure of Additional Information

Substantial Shareholders

1. Long positions in Shares:

As at 30 June 2007, the interests or short positions of every person in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO were as follows:

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

Notes:

(i) These shares are owned by Inni International Inc. which is also disclosed as deemed interest of Mr. Cheok Ho Fung in the section headed "Directors' Interests in Shares and Share Options".

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

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

Substantial Shareholders *(Continued)*

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

Name of shareholders	*Notes*	Nature of interest	Date of grant of warrants	Exercise period of warrants	Subscription price of warrants	Number of warrants outstanding	Number of total underlying shares	Approximate percentage of total shareholding
Inni International Inc.		Direct	5 June 2006	26 June 2006 to 31 October 2008	1.20	43,200,000	43,200,000	5.04%
Mr. Cheok Ho Fung		Direct	5 June 2006	26 June 2006 to 31 October 2008	1.20	4,800,000	4,800,000	0.56%
	(i)	Deemed	5 June 2006	26 June 2006 to 31 October 2008	1.20	43,200,000	43,200,000	5.04%
					Total	48,000,000	48,000,000	5.60%
Mrs. Cheok Chu Wai Min	*(ii)*	Deemed	5 June 2006	26 June 2006 to 31 October 2008	1.20	48,000,000	48,000,000	5.60%
Hallgain Management Limited	*(iii)*	Deemed	5 June 2006	26 June 2006 to 31 October 2008	1.20	12,746,000	12,746,000	1.49%
Kingboard Chemical Holdings Limited		Direct	5 June 2006	26 June 2006 to 31 October 2008	1.20	250,000	250,000	0.03%
	(iii)	Deemed	5 June 2006	26 June 2006 to 31 October 2008	1.20	12,496,000	12,496,000	1.46%
					Total	12,746,000	12,746,000	1.49%
Jamplan (BVI) Limited	*(iii)*	Deemed	5 June 2006	26 June 2006 to 31 October 2008	1.20	12,496,000	12,496,000	1.46%
Kingboard Investments Limited		Direct	5 June 2006	26 June 2006 to 31 October 2008	1.20	12,475,800	12,475,800	1.46%

Notes:

(i) These share warrants are owned by Inni International Inc. which is also disclosed as deemed interest of Mr. Cheok Ho Fung in the section headed "Directors' interests in underlying shares of equity derivatives of the Company".

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

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

Substantial Shareholders *(Continued)*

Saved as disclosed above, no person, other than the directors and chief executive of the Company whose interests are set out in the section "Directors' interest in shares and share option" above had registered an interests or shorts positions in the shares and underlying shares of the Company as recorded under Section 336 of the SFO as at 30 June 2007.

Share option scheme

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

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

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

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

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

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

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

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

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

There were no shares options granted during the period. At the balance sheet date, no share options were outstanding under the Scheme.

Disclosure of Additional Information

Material changes

Except for disclosed in the post balance sheet events, there have been no material change in respect of such matters since the publication of the latest 2006 annual report.

Purchase, sale or redemption of the Company's listed securities

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

Continuing Connected Transaction

On 18 August 2006, Topsearch Printed Circuits (HK) Limited, a wholly-owned subsidiary of the Company entered into the Raw Materials Supply Agreement in connection with the supply of raw materials as defined therein by Kingboard Copper Foil (Macao Commercial Offshore) Limited and Kingboard Laminates (Macao Commercial Offshore) Limited (the "Kingboard Group") which are subsidiaries of Kingboard Chemical Holdings Limited, a substantial Shareholder of the Company, for a period of three years from 1 July 2006 to 30 June 2009.

An announcement ("Announcement") was published on 18 August 2006 and a circular ("Circular") was issued on 11 September 2006 regarding the Continuing Connected Transaction disclosed in accordance with the Listing Rules. As disclosed in the Announcement and the Circular, the Directors proposed that the annual caps for the three years from 1 July 2006 to 30 June 2009 shall be approximately as follow:

Period covered	**Annual Cap for the Transactions**
1 July 2006 to 31 December 2006	HK$82,000,000
1 January 2007 to 31 December 2007	HK$190,000,000
1 January 2008 to 31 December 2008	HK$228,000,000
1 January 2009 to 30 June 2009	HK$132,500,000

From 1 January 2007 to 30 June 2007, the Group's purchase of raw materials from the Kingboard Group amounted to approximately HK$58,135,000 (year ended 31 December 2006: HK$59,668,000). The above transaction of the Group constituted a continuing connected transaction ("Continuing Connected Transaction") under the Listing Rules for the six months ended 30 June 2007.

The continuing connected transaction has been reviewed by the Independent Non-Executive Directors. The Independent Non-Executive Directors have confirmed that for the six months ended 30 June 2007, the Continuing Connected Transaction has been entered into (i) in the ordinary and usual course of business of the Company; (ii) either on normal commercial terms which are no less favourable than the terms available to or from independent third parties; (iii) the annual caps thereof are fair and reasonable and in the interests of the Company and the shareholders of the Company as a whole; and (iv) has not exceeded the cap amount for the financial year ended 31 December 2007.

Disclosure of Additional Information

Corporate Governance Report

Code on Corporate Governance Practices

The Board of Directors and the senior management of the Company are of the opinion that during the first half year of 2007, the Company has complied with the "Code on Corporate Governance Practices" (the "CG Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") except for the deviation as stated in the section "Compliance with CG Code".

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

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

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

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

Compliance with CG Code

The Directors confirm that, for the six months ended 30 June 2007, the Company has complied with the CG Code save for the deviation mentioned below:

Mr. Cheok Ho Fung is the Chairman as well as the Chief Executive Officer of the Company. This arrangement deviates from the provision of A.2.1 of the CG Code, which provides that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive officer should be clearly established and set out in writing.

The Directors are of the opinion that the current arrangement will provide stronger leadership of the management for the Group and enable effective business planning. The Directors believe that it does not have a material adverse impact on the corporate governance of the Company.

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

Disclosure of Additional Information

Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code")

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

The Company, having made specific enquiries, confirms that members of the Board have complied with the Model Code and the Own Code throughout the six months ended 30 June 2007. Members of the senior management, who, due to their position in the Company, are likely to be in possession of unpublished price sensitive information, have also complied with the provisions of the Model Code and the Own Code.

The Board of Directors

As at the date of the interim report, the Board of Directors consists of twelve Directors with a variety and a balance of skills and experience in accounting, manufacturing, marketing, finance, investment and legal professions. Their brief biographical particulars are set out in 2006 annual report. The detailed composition of the Board of Directors in the current period is as follows:

Name of Directors		**Position**
Executive Directors		
Mr. Cheok Ho Fung		Chairman and Chief Executive Officer
Mr. Ting Sui Ping		Marketing Director & Executive Committee Member
Mr. Liu Wai On	(Appointed on 12 July 2007)	Director & Executive Committee Member
Mr. Tong Nelson Chi Wing	(Appointed on 12 July 2007)	Director & Executive Committee Member
Mr. Kwok Chi Kwong, Danny	(Appointed on 12 July 2007)	Director & Executive Committee Member
Non-Executive Directors		
Mr. Tang Yok Lam, Andy		Member of remuneration committee and nomination committee
Mr. Ng Kwok Ying, Alvin		Member of audit committee
Mr. Mok Cham Hung, Chadwick		
Independent Non-Executive Directors		
Mr. Leung Shu Kin, Alfred		Chairman of remuneration committee, member of audit committee and nomination committee
Mr. Wong Wing Kee		Chairman of nomination committee, and member of audit committee
Mr. Ng Kee Sin		Chairman of audit committee
Mr. Xiang Dong	(Appointed on 12 July 2007)	Member of audit committee, nomination committee and remuneration committee

Disclosure of Additional Information

Sufficiency of Public Float

Based on the information that was publicly available to the Company and within the knowledge of the Directors, less than 25% of the Company's total issued share capital was held by the public as at the date of 2006 annual report. Various announcements of the Company had been published on 22 May 2007, 26 June 2007 and 30 July 2007 to update the shareholders of the Company and the public about the status of progress in relation to the insufficient public float of the Company.

With reference to the recent announcement of the Company published on 27 August 2007 ("Announcement"), upon completion of the Land Acquisition Agreement (as defined in the Announcement) and Debt Settlement Agreement (as defined in the Announcement), the public float of the Company will be 27.82%, which is above the minimum public float requirements required by Rule 8.08 of the Rules Governing the Listing of Securities of the Stock Exchange. Application had been made and approval had been obtained from the Stock Exchange for the listing of and permission to deal in the Land Consideration Shares (as defined in the Announcement) and the Loan Consideration Shares (as defined in the Announcement).

Review of interim financial statements

The unaudited condensed consolidated interim financial statements for the six months ended 30 June 2007 have been reviewed by the Company's audit committee.

Publication of Interim Report on the website of the Stock Exchange

The 2007 Interim Report of the Company containing all the information required by the Listing Rules will be published on the websites of the Company (www.topsearch.com.hk) and the Stock Exchange (www.hkex.com.hk) in due course.

Unaudited Condensed Consolidated Income Statement

	Notes	Six months ended 30 June 2007 (Unaudited) HK$'000	2006 (Unaudited) HK$'000
REVENUE	4	**760,743**	865,112
Cost of sales		**(697,626)**	(712,847)
Gross profit		**63,117**	152,265
Other income	4	**69,871**	5,472
Selling and distribution costs		**(59,320)**	(57,749)
Administrative expenses		**(37,756)**	(48,433)
Other expenses		**(8,188)**	(2,530)
Finance costs	6	**(21,069)**	(22,510)
PROFIT BEFORE TAX	5	**6,655**	26,515
Tax	7	**2,071**	1,782
PROFIT FOR THE PERIOD		**8,726**	28,297
Attributable to equity holders of the parent		**8,726**	28,297
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
— Basic	8	**1.02 cents**	3.76 cents
— Diluted		**N/A**	3.75 cents
DIVIDEND	9	**Nil**	Nil

Unaudited Condensed Consolidated Balance Sheet

	Notes	**30 June 2007 (Unaudited)** *HK$'000*	31 December 2006 (Audited) *HK$'000*
NON-CURRENT ASSETS			
Property, plant and equipment		**1,403,403**	1,431,532
Prepaid land lease payments		**31,346**	31,617
Interest in an associate		**606**	558
Rental and utility deposits		**2,033**	2,035
Prepaid rental, long term portion		**1,097**	1,184
Available-for-sale financial assets		**2,001**	1,758
Other receivables		**528**	1,755
Deposits paid for items of property, plant and equipment		**8,323**	11,096
Total non-current assets		**1,449,337**	1,481,535
CURRENT ASSETS			
Inventories		**257,579**	301,238
Trade receivables	*10*	**341,395**	401,244
Prepayments, deposits and other receivables		**130,389**	95,012
Tax recoverable		**183**	—
Pledged deposits	*11*	**—**	496
Cash and cash equivalents	*11*	**80,678**	111,639
Total current assets		**810,224**	909,629
CURRENT LIABILITIES			
Trade payables	*12*	**311,907**	381,329
Other payables and accruals		**82,503**	86,708
Interest-bearing bank loans	*13*	**374,282**	260,656
Current portion of a shareholder's loan	*14*	**—**	30,043
Finance lease payables	*15*	**65,421**	75,752
Tax payable		**9,110**	12,223
Total current liabilities		**843,223**	846,711

Unaudited Condensed Consolidated Balance Sheet

	Notes	30 June 2007 (Unaudited) HK$'000	31 December 2006 (Audited) HK$'000
NET CURRENT ASSETS/(LIABILITIES)		**(32,999)**	62,918
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,416,338**	1,544,453
NON-CURRENT LIABILITIES			
Interest-bearing bank loans	*13*	**181,495**	306,350
Finance lease payables	*15*	**87,491**	100,998
Deferred tax liabilities		**25,030**	28,030
Total non-current liabilities		**294,016**	435,378
Net assets		**1,122,322**	1,109,075
EQUITY			
Issued capital	*16*	**85,760**	85,760
Reserves		**1,036,562**	1,023,315
Total equity		**1,122,322**	1,109,075

Unaudited Condensed Consolidated Statement of Changes in Equity

	Attributable to equity holders of the parent								
	Issued capital (Unaudited) *HK$'000*	Share premium account (Unaudited) *HK$'000*	Share option reserve (Unaudited) *HK$'000*	Contributed surplus (Unaudited) *HK$'000*	Property revaluation reserve (Unaudited) *HK$'000*	Exchange fluctuation reserve (Unaudited) *HK$'000*	Statutory reserve fund (Unaudited) *HK$'000*	Retained profits (Unaudited) *HK$'000*	Total (Unaudited) *HK$'000*
At 1 January 2007	**85,760**	**291,704**	**—**	**19,000**	**28,351**	**34,354**	**24,088**	**625,818**	**1,109,075**
Profit for the period	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**8,726**	**8,726**
Exchange adjustments	**—**	**—**	**—**	**—**	**—**	**4,521**	**—**	**—**	**4,521**
At 30 June 2007	**85,760**	**291,704***	**—**	**19,000***	**28,351***	**38,875***	**24,088***	**634,544***	**1,122,322**

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

* These reserve accounts comprise the reserves of HK$1,036,562,000 (2006: HK$1,003,915,000) in the balance sheet.

Unaudited Condensed Consolidated Cash Flow Statement

		Six months ended 30 June	
		2007	2006
		(Unaudited)	(Unaudited)
	Note	***HK$'000***	*HK$'000*
NET CASH INFLOW FROM OPERATING ACTIVITIES		**108,265**	74,304
NET CASH OUTFLOW FROM INVESTING ACTIVITIES		**(32,164)**	(112,882)
NET CASH OUTFLOW FROM FINANCING ACTIVITIES		**(107,558)**	(13,211)
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(31,457)**	(51,789)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD		**112,135**	156,341
CASH AND CASH EQUIVALENTS AT END OF PERIOD		**80,678**	104,552
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	*11*	**72,325**	77,801
Non-pledged time deposits with original maturity of less than three months when acquired	*11*	**8,353**	27,975
Bank overdrafts		**—**	(1,224)
		80,678	104,552

Notes to Condensed Consolidated Financial Statements

30 June 2007

1. Corporate information

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

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

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

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

2. Accounting policies and basis of preparation

The condensed consolidated interim financial statements for the six months ended 30 June 2007 are prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting". The accounting policies and the basis of preparation adopted in the preparation of the interim financial statements are the same as those used in the preparation of the Group's annual financial statements for the year ended 31 December 2006, except for the adoption of the following new and revised Hong Kong Financial Reporting Standards ("HKFRSs"), which are adopted for the first time for the current period's financial statements:

HKAS 1 Amendment	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 *Financial Reporting in Hyperinflationary Economies*
HK(IFRIC)-Int 8	Scope of HKFRS 2
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment

The adoption of these new and revised HKFRSs has had no material impact on the accounting policies of the Group and the method of computation in the Group's interim financial statements.

3. 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.

(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:

	For the six months ended	
	30 June 2007	30 June 2006
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Asia, excluding the People's Republic of China (the "PRC"), Hong Kong and Taiwan	**316,905**	355,327
The PRC, including Hong Kong	**198,648**	228,931
Taiwan	**55,976**	114,413
North America	**77,285**	70,011
Europe	**111,929**	96,430
	760,743	865,112

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

4. Revenue and other income

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 and other income is as follows:

	For the six months ended	
	30 June 2007	30 June 2006
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Revenue		
Sales of goods	**760,743**	865,112
Other income		
Insurance compensation for business interruption	**66,273**	—
Tooling income	**2,147**	4,539
Bank interest income	**1,432**	913
Others	**19**	20
	69,871	5,472

5. Profit before tax

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

	For the six months ended	
	30 June 2007	30 June 2006
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Cost of inventories sold	**697,626**	712,847
Depreciation	**82,475**	83,587
Recognition of prepaid land lease payments	**350**	318
Foreign exchange differences, net	**1,758**	1,978
Bank interest income	**(1,432)**	(913)

6. Finance costs

	For the six months ended	
	30 June 2007	30 June 2006
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Interest expenses on:		
Bank loans and overdrafts wholly repayable within five years	**15,805**	18,017
Shareholder's loan	**55**	660
Finance leases	**5,209**	4,928
Total interest	**21,069**	23,605
Less: Interest capitalised	**—**	(1,095)
	21,069	22,510

7. Tax

	For the six months ended	
	30 June 2007	30 June 2006
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Current-the PRC, other than Hong Kong	**929**	2,158
Deferred tax	**(3,000)**	(3,940)
Total tax credit for the period	**(2,071)**	(1,782)

PRC corporate income tax has been provided on the assessable profits generated by certain subsidiaries of the Group at the rate of 15% during the period. No Hong Kong profits tax has been provided as the Group did not generate any assessable profits arising in Hong Kong during the period.

8. Earnings per share

The calculation of basic earnings per share is based on the Group's profit attributable to the ordinary equity holders of the parent of HK$8,726,000 for the period (2006: HK$28,297,000) and the weighted average of 857,600,000 (2006: 752,572,376) ordinary shares in issue during the period.

In the prior period, the calculation of diluted earnings per share was based on the Group's profit attributable to the ordinary equity holders of the parent of HK$28,297,000. The weighted average number of ordinary shares used in the calculation was the 752,572,376 weighted average number of ordinary shares in issue during the period, as used in the basic earnings per share calculation, and the weighted average of 1,930,659 ordinary shares assumed to have been issued at no consideration on the deemed exercise of all dilutive potential ordinary shares into ordinary shares.

9. Dividend

The directors do not recommend the payment of any interim dividend for the six months ended 30 June 2007 (2006: Nil).

10. Trade receivables

Credit is offered to customers following a financial assessment by the Group. Periodic reviews on the credit limits are performed with regard to the customers' established payment record. The Group's credit period varies and depends on individual trade customers, ranging from 30 to 120 days. The Group closely monitors its outstanding trade receivables and overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing.

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

	30 June 2007 (Unaudited)	31 December 2006 (Audited)
	HK$'000	*HK$'000*
Current — 30 days	**293,619**	349,848
31 — 60 days	**29,346**	30,958
61 — 90 days	**13,677**	12,077
Over 90 days	**4,753**	8,361
	341,395	401,244

11. Cash and cash equivalents and pledged deposits

	30 June 2007 (Unaudited) *HK$'000*	31 December 2006 (Audited) *HK$'000*
Cash and bank balances	**72,325**	95,708
Time deposits	**8,353**	16,427
	80,678	112,135
Less: Time deposits pledged for declaration charges	**—**	(496)
Cash and cash equivalents	**80,678**	111,639

12. Trade payables

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

	30 June 2007 (Unaudited) *HK$'000*	31 December 2006 (Audited) *HK$'000*
Current — 30 days	**219,350**	269,169
31 — 60 days	**33,298**	44,988
61 — 90 days	**26,012**	22,913
Over 90 days	**33,247**	44,259
	311,907	381,329

Included in the trade payables are trade payables of HK$36,284,000 (31 December 2006: HK$37,972,000) due to related companies which are repayable, on average, within 90 days, which represents 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 30 days to 120 days.

13. Interest-bearing bank loans

	30 June 2007 (Unaudited) *HK$'000*	31 December 2006 (Audited) *HK$'000*
Trust receipt loans, secured	**57,626**	38,519
Bank loans, secured	**498,151**	528,487
	555,777	567,006
Analysed into:		
Trust receipt loans and short term bank loans repayable within one year or on demand	**165,626**	93,519
Bank loans, secured and repayable:		
Within one year	**208,656**	167,137
In the second year	**140,245**	222,782
In the third to fifth years, inclusive	**41,250**	83,568
	390,151	473,487
	555,777	567,006
Portion classified as current liabilities	**(374,282)**	(260,656)
Long term portion	**181,495**	306,350

The trust receipt and bank loans have effective interest rates of HIBOR plus 1.125% to 2% per annum, with maturity in 2007 to 2009 and bear interest at floating rates.

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

(i) cross-corporate guarantees by the Company and certain subsidiaries; and

(ii) the negative pledge undertakings of the Group not to create or permit to subsist any security over its assets.

In the prior period, the bank loans were also secured by certain buildings and leasehold land held by the Group. The security was released during the period.

13. Interest-bearing bank loans *(Continued)*

Certain banking facilities granted to the Group have stipulated financial covenants including current ratio of not less than one. As at the balance sheet date, such a covenant was breached by the Group, which was subsequently ratified by the respective banks.

14. Shareholder's loan

	30 June 2007 (Unaudited) ***HK$'000***	31 December 2006 (Audited) *HK$'000*
Loan from a controlling shareholder, unsecured and repayable within one year	**—**	30,043

The shareholder's loan was 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 was unsecured, bore interest at HIBOR and was subordinated to all the bank borrowings. The loan was fully repaid during the period.

15. Finance lease payables

	30 June 2007 (Unaudited) ***HK$'000***	31 December 2006 (Audited) *HK$'000*
Amounts payable:		
Within one year	**73,308**	84,508
In the second year	**60,164**	59,258
In the third to fifth years, inclusive	**32,513**	48,262
Total minimum finance lease payments	**165,985**	192,028
Future finance charges	**(13,073)**	(15,278)
Total net finance lease payables	**152,912**	176,750
Portion classified as current liabilities	**(65,421)**	(75,752)
Long term portion	**87,491**	100,998

15. Finance lease payables *(Continued)*

The finance lease payables have effective interest rates of HIBOR plus 1.25% to 2.25% per annum, with maturity in 2007 to 2010 and bear interest at floating rates.

The net carrying amount of the Group's property, plant and machinery held under finance leases at 30 June 2007 amounted to HK$249,833,000 (31 December 2006: HK$305,904,000). These items of plant and machinery were pledged to the respective banks as security for the finance leases facilities granted to the Group.

16. Share capital

	30 June 2007 (Unaudited) HK$'000	31 December 2006 (Audited) HK$'000
Authorised:		
2,000,000,000 ordinary shares of HK$0.1 each	**200,000**	200,000
Issued and fully paid:		
857,600,000 (31 December 2006: 857,600,000) ordinary shares of HK$0.1 each	**85,760**	85,760

17. Warrants

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

None of the warrants were exercised during the period.

18. Contingent liabilities

On 1 March 2006, a former customer has filed a claim against one of the subsidiaries of the Company seeking incidental and consequential damages associated with the alleged failures of the products sold by the subsidiary and claimed the subsidiary for damages amounting to about US$8 million.

Based on the incomplete information that the plaintiff has provided for the relevant claimed damages, it is conservatively estimated that the total damages may amount to be around US$2.4 million. And it is the opinion of the legal counsel that there would be greater than 50% likelihood that each of the three parties to this matter will be found responsible for some portion of the claimed damages and therefore a provision for one-third of such US$2.4 million estimated amount of total damages has been made in the interim financial statements.

19. 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.

As 30 June 2007, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	30 June 2007 (Unaudited) ***HK$'000***	31 December 2006 (Audited) *HK$'000*
Within one year	**4,803**	5,506
In the second to fifth years, inclusive	**105**	679
	4,908	6,185

20. Commitments

In addition to the operating lease commitments detailed in note 19 above, the Group had the following commitments at the balance sheet date:

(a) Capital commitments

	30 June 2007 (Unaudited) *HK$'000*	31 December 2006 (Audited) *HK$'000*
Authorised and contracted for:		
The construction of factory buildings	**59,694**	69,707
The acquisition of plant and machinery	**4,426**	11,387
	64,120	81,094

(b) Other commitments

At 30 June 2007, the Group's capital contribution committed to two wholly-foreign-owned subsidiaries incorporated in the PRC amounted to HK$410,587,000 (31 December 2006: HK$410,587,000), of which HK$278,460,000 (31 December 2006: HK$278,460,000) represents investment in a subsidiary in Tongliao, Inner Mongolia of the PRC and HK$132,127,000 (31 December 2006: HK$132,127,000) represents investment in a subsidiary in Shaoguan, Guangdong, the PRC.

21. 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 period:

		For the six months ended	
		30 June 2007	30 June 2006
		(Unaudited)	(Unaudited)
	Notes	***HK$'000***	*HK$'000*
Rental expenses paid to Keentop Investment Limited ("Keentop")	*(i)*	**720**	720
Purchase of raw materials from a group which held 25% equity interest in the Company	*(ii)*	**58,135**	—
Interest on a shareholder's loan	*(iii)*	**55**	660
Marketing service fee paid to an associate	*(iv)*	**573**	485

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 rate 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 supplier. The balance owing to the supplier as at 30 June 2007 was HK$36,284,000 (31 December 2006: HK$37,972,000).

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

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

(b) Outstanding balances with related parties:

(i) The amount due from the Group's associate of HK$606,000 (31 December 2006: HK$499,000) is unsecured, interest-free and has no fixed terms of repayment.

(ii) Details of the Group's trade balance with related companies as at the balance sheet date are included in note 12 to the interim financial statements.

21. Related party transactions *(Continued)*

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

	For the six months ended	
	30 June 2007	30 June 2006
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Short-term employee benefits	**3,102**	4,021
Post-employment benefits	**205**	390
Total compensation paid to key management personnel	**3,307**	4,411

22. Post balance sheet events

On 23 August 2007, the Company entered into an agreement (the "Land Acquisition Agreement") with Majestic Wealth Limited, a company incorporated in Samoa and a third party independent of the Group and connected persons of the Group, in relation to the purchase of two parcels of contiguous vacate industrial land located in phrase II of Tongliao Economic Development Zone, Inner Mongliao, the PRC with a site area of approximately 279,933 square meter (the "Land"). Pursuant to the Land Acquisition Agreement, the Company has conditionally agreed to acquire the Land from Majestic Wealth Limited for a consideration of RMB71,000,000 (equivalent to HK$72,988,000). The Company will finance RMB52,696,498 (equivalent to HK$54,172,000) of the consideration by issuing 93,400,000 new ordinary shares at HK$0.58 per share (the "Land Consideration Shares") with the outstanding balance of RMB18,303,502 (equivalent to HK$18,816,000) to be settled on or before 31 December 2008. The Land Consideration Shares to be allocated and issued will, when issued and fully paid, rank pari passu, in all respects with the existing ordinary shares in issue.

Pursuant to the Building Agency Agreement dated 28 June 2005 entered into by a wholly-owned subsidiary of the Company and Majestic Wealth Limited, Majestic Wealth Limited agreed to manage the building process of the manufacturing plant in Tongliao and paid for the construction costs in advance on behalf of the subsidiary. As at balance sheet date, an amount of RMB53,189,963 (equivalent to HK$54,679,282) (the "Loan") was due to Majestic Wealth Limited.

On 23 August 2007, Sure-Get Securities Limited, a company incorporated in the British Virgin Islands and a third party independent of the Group and connected persons of the Group, acquired the Loan from Majestic Wealth Limited. Pursuant to an agreement entered into between the Company and Sure-Get Securities Limited (the "Debt Settlement Agreement"), the Company will issue 49,000,000 new ordinary shares at HK$0.58 per share (the "Loan Consideration Shares") for repayment of approximately RMB27,645,914 (equivalent to HK$28,420,000). The outstanding balance of RMB25,544,049 (equivalent to HK$26,259,282) will be settled on or before 31 December 2008.

The Land Acquisition Agreement and the Debt Settlement Agreement are not inter-conditional.