NOTES TO FINANCIAL STATEMENTS

31 December 2005

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 3308, 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 16 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 parent and the ultimate holding company of the Group 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 which have been measured at fair value. These financial statements are presented in Hong Kong dollars 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 2005. 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.

NOTES TO FINANCIAL STATEMENTS
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2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

The following new and revised HKFRSs affect the Group and are adopted for the first time for the current year's financial statements:

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 12	Income Taxes
HKAS 14	Segment Reporting
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Investments in Associates
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 39 Amendment	Transition and Initial Recognition of Financial Assets and Financial Liabilities
HKFRS 2	Share-based Payment
HKFRS 3	Business Combinations

The adoption of HKASs 1, 2, 7, 8, 10, 12, 14, 16, 18, 19, 21, 23, 27, 28, 33, 36, 37 and 38 has had no material impact on the accounting policies of the Group and the Company and the methods of computation in the Group's and the Company's financial statements.

HKAS 24 has expanded the definition of related parties and affected the Group's related party disclosures.

NOTES TO FINANCIAL STATEMENTS

31 December 2005

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

The impact of adopting the other HKFRSs is summarised as follows:

(a) HKAS 17 — Leases

In prior years, leasehold land and buildings held for own use were stated at valuation less accumulated depreciation and any impairment losses.

Upon the adoption of HKAS 17, the Group's leasehold interest in land and buildings is separated into leasehold land and buildings. The Group's leasehold land is classified as an operating lease, because the title of the land is not expected to pass to the Group by the end of the lease term, and is reclassified from property, plant and equipment to prepaid land lease payments, while buildings continue to be classified as part of property, plant and equipment. Prepaid land premiums for land lease payments under operating leases are initially stated at cost and subsequently amortised on the straight-line basis over the lease term.

This change in accounting policy has had no effect on the consolidated income statement and retained profits. The comparative amounts for the year ended 31 December 2004 in the consolidated balance sheet have been restated to reflect the reclassification of the leasehold land.

(b) HKAS 32 and HKAS 39 — Financial Instruments

In prior years, the Group's trade receivables factored with recourse were treated as contingent liabilities. Under HKAS 39, a financial asset is derecognised, when and only when, either the contractual rights to the asset's cash flows expire, or the asset is transferred and the transfer qualifies for derecognition in accordance with HKAS 39. The decision as to whether a transfer qualifies for derecognition is made by applying a combination of risks and rewards and control tests. Upon adoption of HKAS 39, the Group's bank loans advanced under factoring of trade receivables have not been offset against respective trade receivables as the financial asset derecognition conditions as stipulated in HKAS 39 have not been fulfilled. The Group has applied the relevant transitional provisions and applied the revised accounting policy prospectively on or after 1 January 2005.

The effects of the above changes are summarised in note 2.4 to the financial statements. In accordance with the transitional provisions of HKAS 39, comparative amounts have not been restated.

(c) HKFRS 2 — Share-based Payment

In prior years, no recognition and measurement of share-based payment transactions in which employees (including directors) were granted share options over shares in the Company were required until such options were exercised by employees, at which time the share capital and share premium were credited with the proceeds received.

NOTES TO FINANCIAL STATEMENTS
31 December 2005

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

(c) HKFRS 2 — Share-based Payment *(Continued)*

Upon the adoption of HKFRS 2, when employees (including directors) render services as consideration for equity instruments ("equity-settled transactions"), the cost of the equity-settled transactions with employees is measured by reference to the fair value at the date at which the instruments are granted.

The main impact of HKFRS 2 on the Group is the recognition of the cost of these transactions and a corresponding entry to equity for employee share options. The revised accounting policy for share-based payment transactions is described in more detail in note 2.5 "Summary of significant accounting policies" below.

The Group has adopted the transitional provisions of HKFRS 2 under which the new measurement policies have not been applied to (i) options granted to employees on or before 7 November 2002; and (ii) options granted to employees after 7 November 2002 but which had vested before 1 January 2005.

The adoption of HKFRS 2 has had no impact on the retained profits as at 31 December 2003 and at 31 December 2004. The Group has recognised the total cost of options in the current year's income statement in accordance with the revised accounting policy.

The effects of adopting HKFRS 2 are summarised in note 2.4 to the financial statements.

(d) HKFRS 3 — Business Combinations

In prior years, negative goodwill arising on acquisitions prior to 1 January 2001 was credited to the consolidated capital reserve, in the year of acquisition and was not recognised in the income statement until disposal or impairment of the acquired business.

The transitional provisions of HKFRS 3 have required the Group to derecognise at 1 January 2005 the carrying amounts of negative goodwill remained in the consolidated capital reserve against retained profits.

The effects of the above changes are summarised in note 2.4 to the financial statements. In accordance with the transitional provisions of HKFRS 3, comparative amounts have not been restated.

NOTES TO FINANCIAL STATEMENTS

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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. Unless otherwise stated, these HKFRSs are effective for annual periods beginning on or after 1 January 2006:

HKAS 1 Amendment	Capital Disclosures
HKAS 19 Amendment	Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 39 Amendment	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 Amendment	The Fair Value Option
HKAS 39 & HKFRS 4 Amendments	Financial Guarantee Contracts
HKFRSs 1 & 6 Amendments	First-time Adoption of Hong Kong Financial Reporting Standards and Exploration for and Evaluation of Mineral Resources
HKFRS 6	Exploration for and Evaluation of Mineral Resources
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC)-Int 4	Determining whether an Arrangement contains a Lease
HK(IFRIC)-Int 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
HK(IFRIC)-Int 6	Liabilities arising from Participating in a Specific Market — Waste Electrical and Electronic Equipment

The 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 will replace HKAS 32 and has modified the disclosure requirements of HKAS 32 relating to financial instruments. This HKFRS shall be applied for annual periods beginning on or after 1 January 2007.

In accordance with the amendments to HKAS 39 regarding financial guarantee contracts, financial guarantee contracts are initially recognised at fair value and are subsequently measured at the higher of (i) the amount determined in accordance with HKAS 37 and (ii) the amount initially recognised, less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18.

The HKAS 19 Amendment, HKAS 39 Amendment regarding cash flow hedge accounting of forecast intragroup transactions, HKFRSs 1 and 6 Amendments, HKFRSs 6, HK(IFRIC)-Int 5 and HK(IFRIC)-Int 6 do not apply to the activities of the Group. HK(IFRIC)-Int 6 shall be applied for annual periods beginning on or after 1 December 2005.

Except as stated above, the Group expects that the adoption of the other pronouncements listed above will not have any significant impact on the Group's financial statements in the period of initial application.

NOTES TO FINANCIAL STATEMENTS

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2.4 SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES

(a) Effect on the consolidated balance sheet

At 1 January 2005	Effect of adopting HKAS 17#	Effect of adopting HKFRS 3*	
Effect of new policies (Increase/(decrease))	**Prepaid land lease payments**	**Derecognition of negative goodwill**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
Assets			
Property, plant and equipment	(16,123)	—	(16,123)
Prepaid land lease payments	16,123	—	16,123
			—
Equity			
Capital reserve	—	(4,064)	(4,064)
Retained profits	—	4,064	4,064
			—

* Adjustment taken effect prospectively from 1 January 2005

\# Adjustment taken effect retrospectively

NOTES TO FINANCIAL STATEMENTS

31 December 2005

2.4 SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES *(Continued)*

(a) Effect on the consolidated balance sheet *(Continued)*

At 31 December 2005			Effect of adopting		
	HKAS 17	HKAS 39	HKFRS 2	HKFRS 3	
Effect of new policies (Increase/(decrease))	Prepaid land lease payments	Derecognition of financial instruments	Equity-settled share option arrangements	Derecognition of negative goodwill	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Assets					
Property, plant and equipment	(32,456)	—	—	—	(32,456)
Prepaid land lease payments	31,769	—	—	—	31,769
Trade receivables	—	38,736	—	—	38,736
Prepayments, deposits and other receivables	687	—	—	—	687
					38,736
Liabilities/equity					
Interest-bearing bank loans	—	38,736	—	—	38,736
Share option reserve	—	—	311	—	311
Capital reserve	—	—	—	(4,064)	(4,064)
Retained profits	—	—	(311)	4,064	3,753
					38,736

(b) Effect on the balance of the Group's equity at 1 January 2005

Effect of new policy (Increase/(decrease))	Effect of adopting HKFRS 3 Negative goodwill
	HK$'000
1 January 2005	
Capital reserve	(4,064)
Retained profits	4,064
	—

NOTES TO FINANCIAL STATEMENTS

31 December 2005

2.4 SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES *(Continued)*

(c) Effect on the consolidated income statement for the year ended 31 December 2005

Effect of new policy	Effect of adopting HKFRS 2 Employee share option scheme
	HK$'000
Year ended 31 December 2005	
Increase in administrative expenses and decrease in profit	**311**
Decrease in basic earnings per share	**0.04 cents**
Decrease in diluted earnings per share	**0.04 cents**

2.5 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.

NOTES TO FINANCIAL STATEMENTS

31 December 2005

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Excess over the cost of business combinations (previously referred to as negative goodwill)

Prior to the adoption of SSAP 30 "Business Combinations" in 2001, negative goodwill arising on acquisitions was credited to the capital reserve in the year of acquisition. On the adoption of SSAP 30, the Group applied the transitional provision of the SSAP that permitted such negative goodwill to remain credited to the capital reserve.

Impairment of 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, 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.

NOTES TO FINANCIAL STATEMENTS
31 December 2005

2.5 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.

NOTES TO FINANCIAL STATEMENTS

31 December 2005

2.5 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:

Leasehold buildings	Over the lease terms
Leasehold improvements	Over the lease terms
Plant and machinery	9% per annum
Furniture, fixtures and equipment	18% per annum
Motor vehicles	18% per annum
Moulds, dies, test fixtures and pins	25% per month

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.

Other assets

Other assets represent club membership debentures and are stated at cost less any impairment losses. The fair values of the club membership debentures approximate to their carrying amounts at the balance sheet date.

NOTES TO FINANCIAL STATEMENTS

31 December 2005

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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 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 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.

Investments and other financial assets

Applicable to the year ended 31 December 2005:

Financial assets in the scope of HKAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables and 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 i.e., the date that the Group commits to purchase 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.

Financial assets at fair value through profit or loss

Financial assets classified as held for trading are included in the category "financial assets at fair value through profit or loss". Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Gains or losses on investments held for trading are recognised in the income statement.

NOTES TO FINANCIAL STATEMENTS

31 December 2005

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets *(Continued)*

Applicable to the year ended 31 December 2005:* *(Continued)

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 carried at amortised cost using the effective interest method. 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 equity securities that are designated as available-for-sale or are not classified in any of the other two categories. 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.

When the fair value of unlisted equity securities cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such securities are stated at cost less any impairment losses.

Fair value

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument, which is substantially the same; a discounted cash flow analysis and option pricing models.

Impairment of financial assets (applicable to the year ended 31 December 2005)

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.

NOTES TO FINANCIAL STATEMENTS

31 December 2005

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of financial assets (applicable to the year ended 31 December 2005) ***(Continued)***

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 profit or loss.

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.

Assets carried at cost

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured 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 discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

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 profit or loss, is transferred from equity to the income statement. Impairment losses on equity instruments classified as available-for-sale are not reversed through profit or loss.

NOTES TO FINANCIAL STATEMENTS

31 December 2005

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Derecognition of financial assets (applicable to the year ended 31 December 2005)

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 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.

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.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, where the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

Gains and losses are recognised in net profit or loss when the liabilities are derecognised as well as through the amortisation process.

NOTES TO FINANCIAL STATEMENTS

31 December 2005

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Derecognition of financial liabilities (applicable to the year ended 31 December 2005)

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 profit or loss.

Derivative financial instruments and hedging (applicable to the year ended 31 December 2005)

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 net profit or loss for the year.

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

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.

NOTES TO FINANCIAL STATEMENTS

31 December 2005

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Cash and cash equivalents *(Continued)*

For the purpose of the balance sheets, cash and cash equivalents comprise cash on hand and at banks, including short 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 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.

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.

NOTES TO FINANCIAL STATEMENTS
31 December 2005

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Income tax *(Continued)*

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 and subcontracting 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.

NOTES TO FINANCIAL STATEMENTS

31 December 2005

2.5 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, further details of which are given in note 28. 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.

NOTES TO FINANCIAL STATEMENTS

31 December 2005

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Employee benefits *(Continued)*

Share-based payment transactions (Continued)

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 on 1 January 2005 and to those granted on or after 1 January 2005.

Employment Ordinance long service payments

Certain of the Group's employees have completed the required number of years of service to the Group in order to be eligible for long service payments under the Hong Kong Employment Ordinance in the event of the termination of their employment. The Group is liable to make such payments in the event that such a termination of employment meets the circumstances specified in the Employment Ordinance. A provision has not been recognised in respect of possible future long service payments to employees, as it is not considered probable that the situation will result in a material future outflow of resources from the Group.

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 "ORSO"), the Group's Hong Kong employees enjoy retirement benefits under either the Mandatory Provident Fund Scheme or the Mandatory Provident Fund Exempted ORSO Scheme under which employer voluntary contributions have to be made. 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 Mandatory Provident Fund Exempted 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 Mandatory Provident Fund Scheme, the Group's employer contributions vest fully with the employees when contributed into the scheme.

Employees of the Group's subsidiaries which operate in Mainland China are members of the Central Pension Scheme operated by the Chinese 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.

NOTES TO FINANCIAL STATEMENTS

31 December 2005

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e. 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.

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

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 date 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 profit or loss. 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.

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.

NOTES TO FINANCIAL STATEMENTS

31 December 2005

3. SIGNIFICANT ACCOUNTING ESTIMATES

Estimation uncertainty

The key assumption 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.

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 2005, 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.

4. SEGMENT INFORMATION

Segment information is presented in respect of the Group's business and geographical segments. Business segment information is chosen as the primary segment reporting format because this is more relevant to the Group's internal financial reporting.

(a) Business segment

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 segment

In determining the Group's geographical segments, revenue and results 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.

NOTES TO FINANCIAL STATEMENTS

31 December 2005

4. SEGMENT INFORMATION *(Continued)*

(b) Geographical segment *(Continued)*

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

	2005	2004
	HK$'000	*HK$'000*
Asia, excluding the People's Republic of China (the "PRC") and Taiwan	**712,611**	478,762
PRC, including Hong Kong	**410,360**	307,298
Taiwan	**238,746**	217,271
North America	**136,796**	199,368
Europe	**132,910**	110,301
	1,631,423	1,313,000

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.

NOTES TO FINANCIAL STATEMENTS

31 December 2005

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:

	2005	2004
	HK$'000	*HK$'000*
Revenue		
Sale of goods	**1,631,423**	1,313,000
Other income		
Tooling income	**8,915**	6,496
Tax refund for reinvestment of profits in a PRC subsidiary *	**1,237**	13,062
Subcontracting income	**—**	743
Bank interest income	**1,066**	320
Others	**605**	130
	11,823	20,751
Gains		
Foreign exchange differences, net	**1,362**	—
	13,185	20,751

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

NOTES TO FINANCIAL STATEMENTS

31 December 2005

6. PROFIT BEFORE TAX

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

	Note	2005 HK$'000	2004 HK$'000 (Restated)
Cost of inventories sold		**1,310,429**	1,049,795
Depreciation	*14*	**155,840**	139,995
Minimum lease payments under operating lease rentals on land and buildings		**11,339**	10,510
Auditors' remuneration		**1,712**	1,428
Employee benefits expense (excluding directors' remuneration *(note 8)*):			
Wages and salaries		**174,459**	142,052
Equity-settled share option expense		**120**	—
Retirement scheme contributions		**13,481**	7,870
Less: Forfeited contributions		**(82)**	(510)
Net retirement scheme contributions *		**13,399**	7,360
		187,978	149,412
Foreign exchange differences, net		**(1,362)**	1,873
Loss on disposal of items of property, plant and equipment		**1,676**	683
Provision for obsolete inventories		**6,058**	3,600

* At 31 December 2005, there was no forfeited contribution available to reduce contributions to the retirement schemes in future years (2004: Nil).

NOTES TO FINANCIAL STATEMENTS

31 December 2005

7. FINANCE COSTS

	Group	
	2005	2004
	HK$'000	*HK$'000*
Interest on:		
Bank loans and overdrafts wholly repayable within five years	**22,589**	10,613
Shareholder's loan	**912**	177
Finance leases	**5,521**	3,508
Total interest	**29,022**	14,298
Less: Interest capitalised	**(3,257)**	(2,628)
	25,765	11,670

8. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the requirements of the Listing Rules and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	Group	
	2005	2004
	HK$'000	*HK$'000*
Fees	**574**	290
Other emoluments:		
Salaries, allowances and benefits in kind	**8,084**	8,118
Performance related bonuses	**996**	1,477
Employee share option benefits	**191**	—
Retirement scheme contributions	**754**	761
	10,025	10,356
	10,599	10,646

Rental expenses amounting to HK$1,417,000 (2004: HK$1,380,000) in respect of a director's accommodation have been included under directors' other emoluments above (note 35).

NOTES TO FINANCIAL STATEMENTS

31 December 2005

8. DIRECTORS' REMUNERATION *(Continued)*

During the year, a director was granted share options in respect of his services to the Group under the share option scheme of the Company, further details of which are set out in note 28 to the financial statements. The fair value of such options, which has been charged to the income statement, was determined as at the date of the grant and 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:

	2005	2004
	HK$'000	*HK$'000*
Mr. Leung Shu Kin, Alfred	**120**	40
Mr. Wong Wing Kee	**120**	10
Mr. Look Guy	**94**	—
Mr. Tang Yok Lam, Andy *	**—**	110
Mr. Ng Kwok Ying, Alvin *	**20**	120
	354	280

There were no other emoluments payable to the independent non-executive directors during the year (2004: Nil).

NOTES TO FINANCIAL STATEMENTS

31 December 2005

8. DIRECTORS' REMUNERATION *(Continued)*

(b) Executive directors and non-executive directors

	Fees	Salaries, allowances and benefits in kind	Performance related bonuses	Share option benefits	Retirement scheme contributions	Total remuneration
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
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
2004						
Executive directors:						
Mr. Cheok Ho Fung	—	4,398	696	—	418	5,512
Mr. Ng Chi Shing	—	1,123	260	—	104	1,487
Mr. Wong Shui Hing	—	936	216	—	86	1,238
Mr. Ting Sui Ping	—	845	305	—	78	1,228
Mr. Kwok Chi Kwong, Danny #	—	544	—	—	50	594
	—	7,846	1,477	—	736	10,059
Non-executive directors:						
Mr. Kwok Chi Kwong, Danny #	—	272	—	—	25	297
Mr. Tang Yok Lam, Andy *	10	—	—	—	—	10
	10	8,118	1,477	—	761	10,366

NOTES TO FINANCIAL STATEMENTS

31 December 2005

8. DIRECTORS' REMUNERATION *(Continued)*

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

* Mr. Tang Yok Lam, Andy and Mr. Ng Kwok Ying, Alvin have been redesignated as non-executive directors (formerly independent non-executive directors) since 1 December 2004 and 22 February 2005, respectively.

Mr. Kwok Chi Kwong, Danny has been redesignated as non-executive director (formerly executive director) since 1 September 2004.

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

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included four (2004: four) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining one (2004: one) highest paid, non-director employee for the year are as follows:

	Group	
	2005	2004
	HK$'000	*HK$'000*
Salary, allowances and benefits in kind	**958**	957
Equity-settled share option expense	**13**	—
Retirement scheme contributions	**84**	58
	1,055	1,015

The remuneration of the highest paid, non-director employee fell within the band of HK$1,000,001 to HK$1,500,000.

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 (2004: Nil). No Macau profits tax has been provided as the Macau subsidiary of the Company is exempted from Macau Complementary Tax (2004: Nil). No corporate income tax was provided for a subsidiary of the Group in the PRC, 至卓飛高線路板(曲江)有限公司, which is under the "exempt for two years and 50% reduction for the following three years"(兩免三減半) PRC tax holiday. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

NOTES TO FINANCIAL STATEMENTS

31 December 2005

10. TAX *(Continued)*

	2005	2004
	HK$'000	*HK$'000*
Group:		
Current — Hong Kong		
Overprovision in prior years	**(185)**	(4,550)
Current — Elsewhere	**8,300**	6,110
Refund of 5% PRC corporate income tax *	**(472)**	(6,474)
Deferred *(note 26)*	**(6,070)**	(2,650)
Total tax charge/(credit) for the year	**1,573**	(7,564)

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

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

	Group			
	2005		2004	
	HK$'000	**%**	*HK$'000*	%
Profit before tax	**94,787**		81,392	
Tax at the statutory tax rate of 15%	**14,218**	**15.0**	12,209	15.0
Lower tax rates for other jurisdiction	**(2,300)**	**(2.4)**	(4,452)	(5.5)
Adjustments in respect of current tax of previous periods	**(185)**	**(0.2)**	(4,550)	(5.6)
Refund of 5% of profits earned in 2004 (2004: earned in 2001 — 2003)	**(472)**	**(0.5)**	(6,474)	(7.9)
Net profit not subject to tax	**(10,451)**	**(11.0)**	(6,096)	(7.5)
Expenses not deductible for tax	**763**	**0.8**	1,799	2.2
Tax charge/(credit) at the Group's effective rate	**1,573**	**1.7**	(7,564)	(9.3)

NOTES TO FINANCIAL STATEMENTS

31 December 2005

11. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

The net profit from ordinary activities attributable to equity holders of the parent for the year ended 31 December 2005 dealt with in the financial statements of the Company was HK$22,046,000 (2004: HK$17,985,000) *(note 29)*.

12. DIVIDEND

	2005	2004
	HK$'000	*HK$'000*
Proposed final — Nil (2004: 2.80 cents) per ordinary share	**—**	19,900

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

The calculation of basic earnings per share amount is based on the net profit for the year attributable to ordinary equity holders of the parent of HK$93,214,000 (2004: HK$88,956,000) and the weighted average number of 700,220,000 (2004: 640,000,000) ordinary shares in issue during the year.

The calculation of diluted earnings per share amounts is based on the net profit for the year attributable to ordinary equity holders of the parent of HK$93,214,000 (2004: HK$88,956,000). The weighted average number of ordinary shares used in the calculation is the 700,220,000 (2004: 640,000,000) weight average number of ordinary shares in issue during the year, as used in the basic earnings per share calculation and the weighted average number of 3,208,000 (2004: 121,133) ordinary shares assumed to have been issued at no consideration on the deemed exercise of all dilutive potential ordinary shares into ordinary shares.

NOTES TO FINANCIAL STATEMENTS

31 December 2005

14. PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings	Leasehold improvements	Construction in progress	Plant and machinery	Furniture, fixtures and equipment	Motor vehicles	Moulds, dies, test fixtures and pins	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 31 December 2005								
At 31 December 2004 and 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

NOTES TO FINANCIAL STATEMENTS

31 December 2005

14. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

Group *(Continued)*

	Buildings	Leasehold improvements	Construction in progress	Plant and machinery	Furniture, fixtures and equipment	Motor vehicles	Moulds, dies, test fixtures and pins	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000* (Restated)
At 31 December 2004								
At 1 January 2004:								
Cost or valuation	47,848	188,562	179,143	963,054	75,160	9,953	134,829	1,598,549
Accumulated depreciation	—	(115,447)	—	(347,619)	(48,231)	(6,490)	(133,156)	(650,943)
Net carrying amount	47,848	73,115	179,143	615,435	26,929	3,463	1,673	947,606
At 1 January 2004, net of accumulated depreciation	47,848	73,115	179,143	615,435	26,929	3,463	1,673	947,606
Additions	1,072	23,999	61,228	89,891	4,863	1,087	12,426	194,566
Disposals	(1,806)	(601)	—	(483)	(168)	—	—	(3,058)
Surplus on revaluation	5,519	—	—	—	—	—	—	5,519
Depreciation provided during the year	(5,948)	(22,212)	—	(88,897)	(8,963)	(1,239)	(12,736)	(139,995)
Transfers	154,992	42,151	(220,310)	21,710	1,457	—	—	—
Exchange realignment	—	1	—	—	13	13	—	27
At 31 December 2004, net of accumulated depreciation	201,677	116,453	20,061	637,656	24,131	3,324	1,363	1,004,665
At 31 December 2004:								
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
Analysis of cost or valuation:								
At cost	—	249,566	20,061	1,071,806	80,947	11,062	147,255	1,580,697
At 31 December 2004 valuation	201,677	—	—	—	—	—	—	201,677
	201,677	249,566	20,061	1,071,806	80,947	11,062	147,255	1,782,374

NOTES TO FINANCIAL STATEMENTS

31 December 2005

14. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

The Group's buildings are situated in the PRC 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 23)*.

The Group's buildings 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 during the year 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 *(note 29)*.

Had the Group's buildings been stated at historical cost less accumulated depreciation and impairment losses, their carrying amounts as at 31 December 2005 would have been approximately HK$312,177,000 (2004: HK$172,571,000).

Prior to its transfer to buildings, the carrying amount of construction in progress included capitalised interest of HK$13,631,000 (2004: HK$10,374,000).

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 2005 amounted to HK$235,510,000 (2004: HK$184,025,000). These plant and machinery were pledged to the respective banks as security for the finance lease facilities granted to the Group.

15. PREPAID LAND LEASE PAYMENTS

	Group	
	2005	2004
	HK$'000	*HK$'000*
		(Restated)
Carrying amount at 1 January		
As previously reported	**—**	—
Effect of adopting HKAS 17 *(note 2.2(a))*	**16,123**	16,152
As restated	**16,123**	16,152
Additions	**16,688**	—
Recognised during the year	**(355)**	(29)
Carrying amount at 31 December	**32,456**	16,123
Current portion included in prepayments, deposits and other receivables	**(687)**	—
Non-current portion	**31,769**	16,123

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15. PREPAID LAND LEASE PAYMENTS *(Continued)*

The leasehold land is held under a lease term of 50 years, situated in the PRC and has been pledged to a bank to secure the long term bank loans granted to the Group *(note 23)*.

16. INTERESTS IN SUBSIDIARIES

	Company	
	2005	2004
	HK$'000	*HK$'000*
Unlisted shares, at cost	**467,769**	467,769
Due from subsidiaries	**540,309**	329,129
	1,008,078	796,898

The amounts due from subsidiaries are unsecured, interest-free and not repayable within the next 12 months. As a repayment date cannot be estimated, it is not possible to determine the fair value of the amount due from subsidiaries.

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

NOTES TO FINANCIAL STATEMENTS

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16. INTERESTS IN SUBSIDIARIES *(Continued)*

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company	Principal activities
Indirectly held *(Continued)*				
Topsearch Printed Circuits (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
Topsearch Printed Circuits (Shenzhen) Ltd.@	PRC/Mainland China	Registered paid-up capital US$50,000,000	100	Manufacturing of printed circuit boards
Topsearch Marketing (S) Pte Ltd.*	Singapore	Ordinary shares S$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

NOTES TO FINANCIAL STATEMENTS

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16. INTERESTS IN SUBSIDIARIES *(Continued)*

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company	Principal activities
Indirectly held *(Continued)*				
Topsearch 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
至卓飛高線路板(曲江)有限公司*@	PRC/Mainland China	Registered capital US$62,000,000	100	Manufacturing 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	Manufacturing of printed circuit boards
Wealthstar International Limited*#	British Virgin Islands	Ordinary shares US$50,000	100	Investment holding

NOTES TO FINANCIAL STATEMENTS

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16. INTERESTS IN SUBSIDIARIES *(Continued)*

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company	Principal activities
Indirectly held *(Continued)*				
至卓飛高進出口貿易(深圳)有限公司*@#	PRC/Mainland China	Registered paid-up capital HK$500,000	100	Trading 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 in a winding-up unless a sum of HK$500,000,000,000,000 has been distributed to each holder of the ordinary shares.

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

\# Newly established during the year.

17. INTEREST IN AN ASSOCIATE

	Group	
	2005	2004
	HK$'000	*HK$'000*
Unlisted shares, at cost	**100**	100
Due from an associate	**427**	164
	527	264

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.

NOTES TO FINANCIAL STATEMENTS

31 December 2005

17. INTEREST IN AN ASSOCIATE *(Continued)*

Particulars of the associate are as follows:

Company	Particulars of issued shares held	Place of incorporation/ registration	Percentage of ownership interest attributable to the Group	Principal activities
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 at the balance sheet date.

18. INVENTORIES

	Group	
	2005	2004
	HK$'000	*HK$'000*
Raw materials	**140,849**	110,605
Work in progress	**64,148**	46,256
Finished goods	**78,922**	60,228
	283,919	217,089
Less: Provision	**(11,001)**	(10,952)
	272,918	206,137

NOTES TO FINANCIAL STATEMENTS

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19. 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 record. The Group's credit period varies and depends on individual trade customers, ranging from 30 to 120 days. The Group closely monitors its outstanding trade receivables. Overdue balances are reviewed regularly by senior management. In 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:

	Group	
	2005	2004
	HK$'000	*HK$'000*
Current-30 days	**389,748**	321,416
31-60 days	**32,381**	41,625
61-90 days	**9,038**	14,980
Over 90 days	**6,498**	18,042
	437,665	396,063

Trade receivables of HK$38,736,000 (2004: HK$34,522,000) were assigned to a bank to secure bank loans drawn.

20. CASH AND CASH EQUIVALENTS

	Group		**Company**	
	2005	2004	**2005**	2004
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Cash and bank balances	**148,541**	68,375	**85**	111
Short term deposits	**7,800**	22,772	**—**	—
	156,341	91,147	**85**	111

NOTES TO FINANCIAL STATEMENTS

31 December 2005

20. CASH AND CASH EQUIVALENTS *(Continued)*

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK$66,083,000 (2004: HK$14,865,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at 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 approximate to their fair values.

21. 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:

	Group	
	2005	2004
	HK$'000	*HK$'000*
Current-30 days	**246,198**	233,395
31-60 days	**82,243**	56,526
61-90 days	**44,673**	36,628
Over 90 days	**42,957**	12,577
	416,071	339,126

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

NOTES TO FINANCIAL STATEMENTS

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22. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2005	2004	**2005**	2004
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Other payables	**38,871**	10,916	**30**	—
Accruals	**53,890**	60,516	**2,553**	764
	92,761	71,432	**2,583**	764

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

23. INTEREST-BEARING BANK LOANS

	Group		Company	
	2005	2004	**2005**	2004
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Trust receipt loans, secured	**65,157**	39,978	**—**	—
Bank loans, secured	**526,657**	324,998	**250,000**	100,000
	591,814	364,976	**250,000**	100,000
Analysed into:				
Trust receipt loans and short term bank loans repayable within one year or on demand	**188,893**	134,978	**—**	—
Bank loans, secured and repayable:				
Within one year	**105,560**	50,110	**33,333**	—
In the second year	**164,028**	79,628	**108,333**	33,333
In the third to fifth years, inclusive	**133,333**	100,260	**108,334**	66,667
	402,921	229,998	**250,000**	100,000
	591,814	364,976	**250,000**	100,000
Portion classified as current liabilities	**(294,453)**	(185,088)	**(33,333)**	—
Long term portion	**297,361**	179,888	**216,667**	100,000

NOTES TO FINANCIAL STATEMENTS

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23. INTEREST-BEARING BANK LOANS *(Continued)*

The trust receipt and bank loans have an effective interest rate of HIBOR plus 1.125% to 1.75% per annum, with maturity in 2006 to 2008, bear interest at floating interest rates and their carrying amounts approximate to their fair values.

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

(i) the assignment of certain trade receivables of a subsidiary *(note 19)*;

(ii) cross-corporate guarantees by the Company and certain subsidiaries of HK$185,501,000 (2004: HK$118,180,000); and

(iii) certain land and buildings held by the Group *(notes 14 and 15)*.

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

At 31 December 2005, the Group had interest rate swap agreements in place with notional amount of HK$177,500,000 (2004: HK$179,000,000) 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.

24. SHAREHOLDER'S LOAN

	Group and Company	
	2005	2004
	HK$'000	*HK$'000*
Loan from a controlling shareholder, unsecured and repayable:		
Within one year	**—**	7,543
In the second year	**30,043**	22,500
	30,043	30,043
Portion classified as current liabilities	**—**	(7,543)
Long term portion	**30,043**	22,500

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24. SHAREHOLDER'S LOAN *(Continued)*

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 date of the loan was extended to 15 January 2007 (2004: repayable by 12 monthly instalments, together with interest thereon commencing on 18 October 2005).

The fair value of the shareholder's loan calculated by discounting the expected future cash flows at the prevailing interest rate was HK$28,563,000 as at 31 December 2005 (2004: HK$29,543,000).

25. 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 2005, the total future minimum lease payments under finance leases and their present values were as follows:

	Minimum lease payments	Minimum lease payments	Present value of minimum lease payments	Present value of minimum lease payments
Group	**2005**	2004	**2005**	2004
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Amounts payable:				
Within one year	**74,883**	56,886	**73,828**	56,160
In the second year	**50,469**	41,139	**47,460**	40,139
In the third to fifth years, inclusive	**49,073**	19,033	**42,468**	18,532
Total minimum finance lease payments	**174,425**	117,058	**163,756**	114,831
Future finance charges	**(10,669)**	(2,227)		
Total net finance lease payables	**163,756**	114,831		
Portion classified as current liabilities	**(69,438)**	(56,772)		
Long term portion	**94,318**	58,059		

NOTES TO FINANCIAL STATEMENTS

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25. FINANCE LEASE PAYABLES *(Continued)*

The finance lease payables have an effective interest rate of HIBOR plus 1.25% to 2% per annum, with maturity in 2006 to 2009, bear interest at floating interest rates and their carrying amounts approximate to their fair values.

26. DEFERRED TAX

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

Group	**Accelerated tax depreciation**	**Revaluation of buildings**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
At 1 January 2004	41,012	4,200	45,212
Deferred tax credited to the income statement during the year *(note 10)*	(2,650)	—	(2,650)
Deferred tax debited to equity during the year *(note 29)*	—	803	803
At 31 December 2004 and 1 January 2005	38,362	5,003	43,365
Deferred tax credited to the income statement during the year *(note 10)*	(6,070)	—	(6,070)
At 31 December 2005	32,292	5,003	37,295

At 31 December 2005, there was no significant unrecognised deferred tax liability (2004: 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.

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27. SHARE CAPITAL

Shares

	2005	2004
	HK$'000	*HK$'000*
Authorised:		
2,000,000,000 ordinary shares of HK$0.10 each	**200,000**	200,000
Issued and fully paid:		
710,800,000 (2004: 640,000,000) ordinary shares of HK$0.10 each	**71,080**	64,000

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

(a) Pursuant to the share placing agreement dated 24 February 2005, Inni International Inc. ("Inni") placed 70,000,000 ordinary shares of the Company to a placing agent at a price of HK$0.9 per share, being a discount of approximately 10% to the closing price of HK$1 on the date of placing agreement. On the same date, the Company issued 70,000,000 new ordinary shares of the Company to Inni at a price of HK$0.9 per share, resulting in a total cash consideration, before expenses, of approximately HK$63,000,000.

(b) The subscription rights attaching to 800,000 share options were exercised at the subscription price of HK$0.72 per share *(note 28)*, resulting in the issue of 800,000 shares of HK$0.1 each for a total cash consideration, before expenses, of HK$576,000.

NOTES TO FINANCIAL STATEMENTS

31 December 2005

27. 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	Share premium account	Total
		HK$'000	*HK$'000*	*HK$'000*
At 1 January 2004, 31 December 2004 and 1 January 2005	640,000,000	64,000	134,743	198,743
Placement (a)	70,000,000	7,000	56,000	63,000
Share options exercised (b)	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	710,800,000	71,080	189,651	260,731

Share options

Details of the Company's share option scheme and the share options issued under the scheme are included in note 28 to the financial statements.

28. SHARE OPTION SCHEME

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include any employees, non-executive directors and customers of the Group, any of its subsidiaries, or any entity ("Invested Entity") in which the Group holds an equity interest, suppliers of goods or services and persons or entities that provide research, development or other technological support to the Group, its subsidiaries, or any Invested Entity, and any shareholder of the Group, its subsidiaries or Invested Entity. The number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme and any other share option scheme of the Company must not exceed 30% of the issued share capital of the Company from time to time. The Scheme was adopted on 30 May 2002 and became effective on 21 June 2002.

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31 December 2005

28. SHARE OPTION SCHEME *(Continued)*

The following share options under the Scheme were granted during the year and remained outstanding at the end of the year:

	Number of share options							Price of Company's shares**		
Name or category of participant	At 1 January 2005	Granted during the year	Exercised during the year	At 31 December 2005	Date of grant of share options	Exercise period of share options	Exercise price of share options*	At grant date of options	Immediately before the exercise date	At exercise date of options
							HK$	*HK$*	*HK$*	*HK$*
Directors										
Mr. Ng Chi Shing	1,200,000	—	—	**1,200,000**	1 September 2004	6 July 2004 to 31 December 2006	0.694	0.70	—	—
Mr. Wong Shui Hing	900,000	—	—	**900,000**	1 September 2004	6 July 2004 to 31 December 2006	0.694	0.70	—	—
Mr. Ting Sui Ping	800,000	—	—	**800,000**	1 September 2004	6 July 2004 to 31 December 2006	0.694	0.70	—	—
Mr. Tang Yok Lam, Andy	640,000	—	—	**640,000**	1 September 2004	6 July 2004 to 31 December 2006	0.694	0.70	—	—
Mr. Tang Yok Lam, Andy	—	1,860,000	—	**1,860,000**	12 January 2005	20 December 2004 to 31 December 2006	0.792	0.81	—	—
	3,540,000	1,860,000	—	**5,400,000**						
Other employees										
In aggregate	5,100,000	—	(700,000)	**4,400,000**	23 December 2004	23 December 2004 to 31 December 2006	0.72	0.80	1.06	1.06
	100,000	—	(100,000)	**—**	23 December 2004	23 December 2004 to 31 December 2006	0.72	0.80	0.95	0.94
	5,200,000	—	(800,000)	**4,400,000**						
Total	8,740,000	1,860,000	(800,000)	**9,800,000**						

* 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 as at the date of grant of the options.

The offer of a grant of share options maybe accepted in writing 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 fair value of the share options granted during the year was HK$311,000.

NOTES TO FINANCIAL STATEMENTS
31 December 2005

28. SHARE OPTION SCHEME *(Continued)*

The fair value of equity-settled share options granted during the year was estimated as at the date of grant, using the Black-Scholes model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used for the year ended 31 December 2005:

Dividend yield *(%)*	5.03
Expected volatility *(%)*	2.39
Historical volatility *(%)*	2.39
Risk-free interest rate *(%)*	4.60
Expected life of option *(year)*	0.57
Weighted average share price *(HK$)*	1.04

The expected life of the options is based on the historical data over the past three years and is not necessarily indicative of the exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

No other feature of the options granted was incorporated into the measurement of fair value.

The 800,000 share options exercised during the year resulted in the issue of 800,000 ordinary shares of the Company and new share capital of HK$80,000 and share premium of HK$496,000 (before issue expenses), as further detailed in note 27(b) to the financial statements.

At the balance sheet date, the Company had 9,800,000 share options outstanding under the Scheme, which represented approximately 1.38% of the Company's shares in issue as at that date. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 9,800,000 additional ordinary shares of the Company and additional share capital of HK$980,000 and share premium of HK$6,118,000 before issue expenses.

Subsequent to the balance sheet date, on 22 February 2006, a total of 1,050,000 share options granted to directors at the year end were exercised, resulting in issue of 1,050,000 ordinary shares of the Company and new share capital of HK$105,000 and share premium of HK$623,700, before issue expenses.

At the date of approval of these financial statements, the Company had 8,750,000 share options outstanding under the Scheme, which represented approximately 1.23% of the Company's shares in issue as at that date.

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29. RESERVES

Group

		Attributable to equity holders of the parent								
	Notes	Share Premium account	Share option reserve	Contributed surplus	Property revaluation reserve	Exchange fluctuation reserve	Statutory reserve fund	Capital reserve	Retained profits	Total
		HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2004		134,743	—	19,000	23,635	(125)	17,030	4,064	438,204	636,551
Surplus on revaluation	*14*	—	—	—	5,519	—	—	—	—	5,519
Exchange realignment on translation of the financial statements of foreign entities		—	—	—	—	66	—	—	—	66
Profit for the year		—	—	—	—	—	—	—	88,956	88,956
Recognised as deferred tax	*26*	—	—	—	(803)	—	—	—	—	(803)
Proposed final 2004 dividend	*12*	—	—	—	—	—	—	—	(19,900)	(19,900)
Transfer to the statutory reserve fund		—	—	—	—	—	1,200	—	(1,200)	—
At 31 December 2004		134,743	—	19,000	28,351	(59)	18,230	4,064	506,060	710,389
At 1 January 2005										
As previously reported		134,743	—	19,000	28,351	(59)	18,230	4,064	506,060	710,389
Opening adjustment	*2.4*	—	—	—	—	—	—	(4,064)	4,064	—
As restated		134,743	—	19,000	28,351	(59)	18,230	—	510,124	710,389
Exchange realignment on translation of the financial statements of foreign entities		—	—	—	—	10,546	—	—	—	10,546
Issue of shares	*27*	56,496	—	—	—	—	—	—	—	56,496
Share issue expenses	*27*	(1,588)	—	—	—	—	—	—	—	(1,588)
Equity-settled share option arrangements	*28*	—	311	—	—	—	—	—	—	311
Profit for the year		—	—	—	—	—	—	—	93,214	93,214
Transfer to the statutory reserve fund		—	—	—	—	—	1,968	—	(1,968)	—
At 31 December 2005		**189,651**	**311**	**19,000**	**28,351**	**10,487**	**20,198**	**—**	**601,370**	**869,368**

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29. RESERVES *(Continued)*

Group *(Continued)*

As further detailed in note 2.2 (d) to the financial statements, the Group applied the transitional provisions of HKFRS 3 to derecognise at 1 January 2005 the carrying amounts of negative goodwill remained in the consolidated capital reserve against retained profits.

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 subsidiary is required to appropriate an amount of not less than 10% of its profit after tax to the statutory reserve fund, which may be used to increase the paid-up capital of the PRC subsidiary.

Company

	Notes	**Share premium account**	**Share option reserve**	**Contributed surplus**	**Retained profits**	**Total**
		HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2004		134,743	—	466,769	2,813	604,325
Profit for the year	*11*	—	—	—	17,985	17,985
Proposed final 2004 dividend	*12*	—	—	—	(19,900)	(19,900)
At 31 December 2004 and 1 January 2005		134,743	—	466,769	898	602,410
Issue of shares	*27*	56,496	—	—	—	56,496
Share issue expenses	*27*	(1,588)	—	—	—	(1,588)
Equity-settled share option arrangements	*28*	—	311	—	—	311
Profit for the year	*11*	—	—	—	22,046	22,046
At 31 December 2005		**189,651**	**311**	**466,769**	**22,944**	**679,675**

NOTES TO FINANCIAL STATEMENTS

31 December 2005

29. RESERVES *(Continued)*

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.

30. 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$113,771,000 (2004: HK$42,056,000).

31. CONTINGENT LIABILITIES

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

	Group		Company	
	2005	2004	**2005**	2004
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Trade debtors factored with recourse	**—**	34,522	**—**	—
Guarantees given to banks for facilities granted to subsidiaries	**—**	—	**761,176**	707,111
Guarantees given to lessors for finance lease agreements entered into by subsidiaries	**—**	—	**199,816**	145,774
	—	34,522	**960,992**	852,885

At 31 December 2005, 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$312,108,000 (2004: HK$288,498,000) and HK$163,384,000 (2004: HK$113,697,000), respectively.

NOTES TO FINANCIAL STATEMENTS
31 December 2005

32. 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 23 to the financial statements.

33. 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 2005, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2005	2004
	HK$'000	*HK$'000*
Within one year	**5,068**	6,639
In the second to fifth years, inclusive	**2,037**	738
	7,105	7,377

34. COMMITMENTS

In addition to the operating lease commitments detailed in note 33 above, the Group had the following commitments at the balance sheet date:

(a) Capital commitments

	Group	
	2005	2004
	HK$'000	*HK$'000*
Authorised, and contracted for:		
Commitments in respect of the construction of factory buildings	**121,476**	15,006
Commitments in respect of the acquisition of plant and machinery	**24,027**	42,482
	145,503	57,488

NOTES TO FINANCIAL STATEMENTS

31 December 2005

34. COMMITMENTS *(Continued)*

(b) Other commitment

At 31 December 2005, the Group's capital contribution committed to two wholly-owned subsidiaries incorporated in the PRC amounted to HK$599,450,000 (2004: HK$132,600,000).

35. RELATED PARTY TRANSACTIONS

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

	2005	2004
	HK$'000	*HK$'000*
Rental expenses paid to Keentop Investment Limited ("Keentop") *(Note)*	**1,417**	1,380

Note: 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 the property leased as his 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.

The above related party transaction also constitutes a connected transaction as defined in Chapter 14A of the Listing Rules.

(b) Outstanding balances with related parties:

Details of the Group's amount due from its associate and shareholder's loan as at the balance sheet date are included in notes 17 and 24 to the financial statements, respectively.

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

NOTES TO FINANCIAL STATEMENTS

31 December 2005

36. 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.

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 2.5 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 2005, after taking into account the effect of the interest rate swaps, approximately 44% (2004: 78%) 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 dollars. As the Hong Kong dollar is pegged to the United States dollar, the Group does not hedge its foreign currency risk. Almost 65% of the Group's purchases and expenses are denominated in the unit's functional currency or United States dollars, while approximately 35% 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 arises.

NOTES TO FINANCIAL STATEMENTS

31 December 2005

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

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 amount of these instruments.

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

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 working relations with its bankers and ensures compliance with covenants as stipulated in the loans and finance lease agreements.

37. POST BALANCE SHEET EVENT

Subsequent to the balance sheet date, on 6 April 2006, the board of directors of the Company proposed a bonus issue of warrants to the shareholders of the Company whose registered addresses appear on the register of member of the Company on 5 June 2006 on the basis of one warrant for every ten shares of HK$0.10 each in the share capital of the Company held on 5 June 2006. The subscription price is HK$1.20 per share and the exercise period is from 26 June 2006 to 31 October 2008. The exercise in full of warrants would, under the present capital structure of the Company, result in the issue of 71,185,000 additional ordinary shares of the Company and additional share capital of HK$7,118,500 and share premium of HK$78,303,500 before issue expenses.

NOTES TO FINANCIAL STATEMENTS

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38. COMPARATIVE AMOUNTS

As further explained in notes 2.2 and 2.4 to the financial statements, due to the adoption of new and revised HKFRSs during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain prior year and opening balance adjustments have been made and certain comparative amounts have been reclassified and restated to conform with the current year's presentation and accounting treatment.

39. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 6 April 2006.