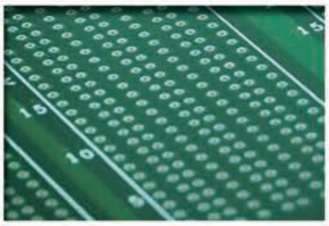
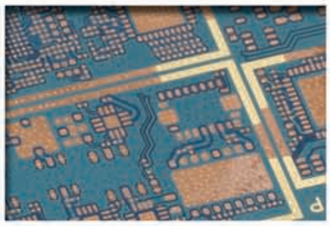
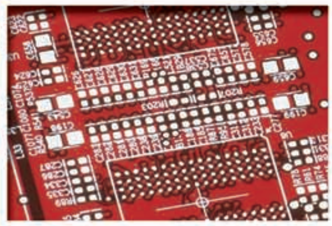
# Meadville Holdings Limited
美維控股有限公司

(Incorporated in the Cayman Islands with limited liability)
(Stock Code : 3313)

Serve Through **PEOPLE**
Connect Through **TECHNOLOGY**


2007 Annual Report

# CONTENTS


| | |
|---|---|
| Corporate Information and Financial Calendar | 2 |
| Financial Summary | 3 |
| Financial Highlights | 4 |
| Chairman's Statement | 6 |
| Management Discussion and Analysis | 13 |
| Corporate Governance Report | 17 |
| Directors and Senior Management | 30 |
| Report of Directors | 37 |
| Independent Auditor's Report | 45 |
| Consolidated Profit and Loss Account | 47 |
| Balance Sheets | 48 |
| Consolidated Cash Flow Statement | 50 |
| Consolidated Statement of Changes in Equity | 52 |
| Notes to the Financial Statements | 54 |


# CORPORATE INFORMATION AND FINANCIAL CALENDAR

## BOARD OF DIRECTORS

### Executive Directors

Mr. Tang Hsiang Chien *(Honourary Founding Chairman)*
Mr. Tang Chung Yen, Tom *(Executive Chairman and Group Managing Director)*
Mr. Chung Tai Keung, Canice *(Chief Executive Officer)*
Ms. Tang Ying Ming, Mai *(Chief Financial Officer)*

### Independent Non-executive Directors

Mr. Lee, Eugene
Mr. Leung Kwan Yuen, Andrew
Dr. Li Ka Cheung, Eric

## AUDIT COMMITTEE

Mr. Lee, Eugene *(Chairman)*
Mr. Leung Kwan Yuen, Andrew
Dr. Li Ka Cheung, Eric

## REMUNERATION COMMITTEE

Dr. Li Ka Cheung, Eric *(Chairman)*
Mr. Lee, Eugene
Mr. Leung Kwan Yuen, Andrew
Mr. Chung Tai Keung, Canice
Ms. Tang Ying Ming, Mai

## NOMINATION COMMITTEE

Mr. Leung Kwan Yuen, Andrew *(Chairman)*
Mr. Lee, Eugene
Dr. Li Ka Cheung, Eric
Mr. Chung Tai Keung, Canice
Ms. Tang Ying Ming, Mai

## EXECUTIVE COMMITTEE

Mr. Tang Chung Yen, Tom *(Chairman)*
Mr. Tang Hsiang Chien
Mr. Chung Tai Keung, Canice
Ms. Tang Ying Ming, Mai

## COMPANY SECRETARY

Ms. Ng Sai Yee

## LEGAL ADVISER

Woo Kwan Lee & Lo

## COMPLIANCE ADVISER

The Hongkong and Shanghai Banking Corporation Limited

## AUDITORS

PricewaterhouseCoopers
*Certified Public Accountants*

## PRINCIPAL BANKERS

The Hongkong and Shanghai Banking Corporation Limited
Bank of China Limited

## REGISTERED OFFICE

P.O. Box 1350 GT
Clifton House, 75 Fort Street
George Town, Grand Cayman
Cayman Islands

## HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

No. 4 Dai Shun Street
Tai Po Industrial Estate
Tai Po, New Territories
Hong Kong

## PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Appleby Corporate Services (Cayman) Limited
P.O. Box 1350 GT
Clifton House, 75 Fort Street
George Town, Grand Cayman
Cayman Islands

## BRANCH SHARE REGISTRAR AND TRANSFER OFFICE IN HONG KONG

Tricor Investor Services Limited
26th Floor, Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

## WEBSITE

www.meadvillegroup.com

## STOCK CODE

3313

## FINANCIAL CALENDAR

| | |
|---|---|
| Annual results announcement | : 18 March 2008 |
| Book closure dates | : from 29 May 2008 to 2 June 2008 |
| Annual general meeting | : 2 June 2008 |
| Proposed dividend payment date | : 2 July 2008 |

# FINANCIAL SUMMARY

## RESULTS

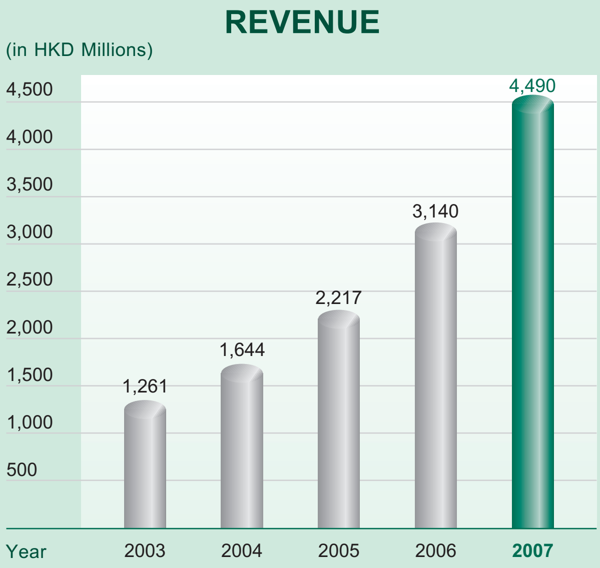
| | For the years ended 31 December | | | | |
|---|---|---|---|---|---|
| | 2003 | 2004 | 2005 | 2006 | **2007** |
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | **HK$'000** |
| Revenue | 1,261,303 | 1,643,856 | 2,216,914 | 3,140,398 | **4,490,262** |
| Operating profit | 61,147 | 173,300 | 254,308 | 470,167 | **497,254** |
| Loss on share reform of an associated company | – | – | – | (52,237) | **–** |
| Interest income | 4,363 | 3,598 | 5,599 | 6,034 | **27,300** |
| Finance costs | (20,732) | (33,355) | (56,914) | (88,171) | **(109,737)** |
| Share of net profit of associated companies | 32,787 | 60,814 | 55,226 | 97,849 | **107,858** |
| Profit before income tax | 77,565 | 204,357 | 258,219 | 433,642 | **522,675** |
| Income tax expense | (9,429) | (19,923) | (18,344) | (48,718) | **(72,116)** |
| Profit for the year | 68,136 | 184,434 | 239,875 | 384,924 | **450,559** |
| Attributable to: | | | | | |
| Equity holders of the Company | 49,255 | 170,853 | 210,822 | 320,017 | **341,648** |
| Minority interests | 18,881 | 13,581 | 29,053 | 64,907 | **108,911** |
| | 68,136 | 184,434 | 239,875 | 384,924 | **450,559** |
| Dividends | – | 40,000 | 80,000 | – | **120,000** |

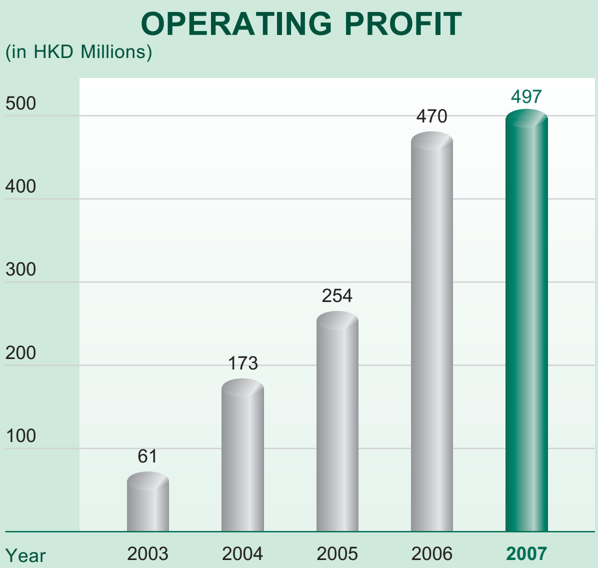
## ASSETS AND LIABILITIES

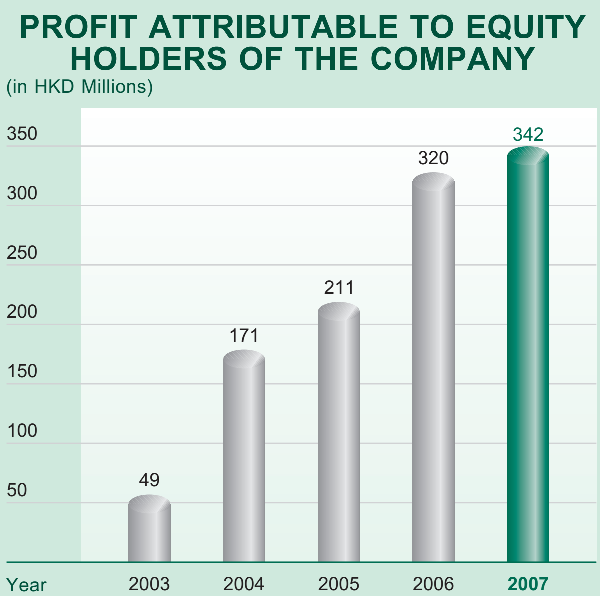
| | As at 31 December | | | | |
|---|---|---|---|---|---|
| | 2003 | 2004 | 2005 | 2006 | **2007** |
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | **HK$'000** |
| Total assets | 2,111,028 | 2,571,333 | 3,477,370 | 4,437,847 | **7,617,814** |
| Total liabilities | (1,119,724) | (1,452,499) | (2,198,105) | (3,500,120) | **(4,795,008)** |
| | 991,304 | 1,118,834 | 1,279,265 | 937,727 | **2,822,806** |
| Capital and reserves attributable to the equity holders of the Company | 843,031 | 973,497 | 1,126,788 | 733,811 | **2,463,513** |
| Minority interests | 148,273 | 145,337 | 152,477 | 203,916 | **359,293** |
| Total equity | 991,304 | 1,118,834 | 1,279,265 | 937,727 | **2,822,806** |

# FINANCIAL HIGHLIGHTS

For the years ended 31 December 2003-2007



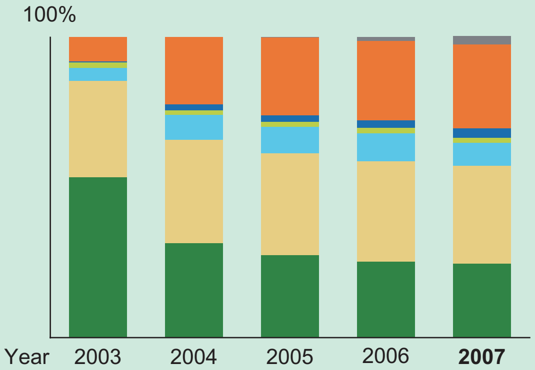



## Financial Highlights

For the years ended 31 December 2003-2007

### REVENUE BY LAYER COUNT

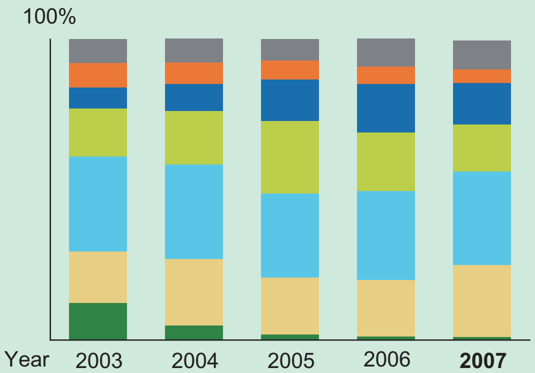
(PCB products only)




| (in HKD Millions) | 2003 | 2004 | 2005 | 2006 | **2007** |
|---|---|---|---|---|---|
| 2, 4 & 6 Layers | 609 | 460 | 550 | 714 | **1,009** |
| 8, 10 & 12 Layers | 367 | 501 | 684 | 952 | **1,336** |
| 14, 16 & 18 Layers | 48 | 124 | 177 | 261 | **311** |
| 20 Layers and Above | 22 | 22 | 33 | 55 | **64** |
| IC Substrates | 5 | 30 | 47 | 70 | **130** |
| HDI PCBs | 92 | 327 | 520 | 748 | **1,145** |
| Value Added Services | 1 | 0 | 4 | 39 | **114** |
| | 1,144 | 1,464 | 2,015 | 2,839 | **4,109** |

### REVENUE BY APPLICATION

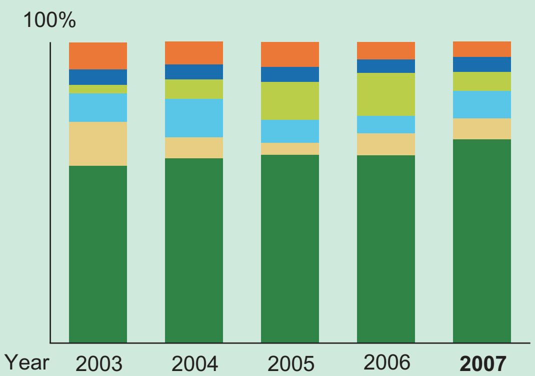
(PCB products only)




| (in HKD Millions) | 2003 | 2004 | 2005 | 2006 | **2007** |
|---|---|---|---|---|---|
| Automotive | 141 | 71 | 36 | 34 | **35** |
| Cellular Phone | 194 | 321 | 386 | 528 | **1,012** |
| Communication | 362 | 459 | 561 | 842 | **1,268** |
| Computer | 181 | 261 | 483 | 549 | **643** |
| Consumer | 81 | 131 | 279 | 458 | **568** |
| Industrial & Medical | 92 | 106 | 128 | 168 | **188** |
| Others | 93 | 115 | 142 | 260 | **395** |
| | 1,144 | 1,464 | 2,015 | 2,839 | **4,109** |

### REVENUE BY GEOGRAPHICAL LOCATION

(the final destination to where the products are delivered)




| (in HKD Millions) | 2003 | 2004 | 2005 | 2006 | **2007** |
|---|---|---|---|---|---|
| PRC(1) | 742 | 1,008 | 1,385 | 1,959 | **3,039** |
| Europe(2) | 185 | 116 | 92 | 225 | **308** |
| Hong Kong | 120 | 208 | 168 | 186 | **411** |
| North Asia(3) | 34 | 107 | 277 | 447 | **278** |
| Southeast Asia(4) | 67 | 82 | 114 | 140 | **230** |
| North America | 113 | 123 | 181 | 183 | **224** |
| | 1,261 | 1,644 | 2,217 | 3,140 | **4,490** |

*(1) Represents the People's Republic of China*
*(2) Includes Israel*
*(3) Includes Japan and South Korea*
*(4) Includes Singapore, Malaysia, Thailand and Taiwan*

# CHAIRMAN'S STATEMENT

**Tang Chung Yen, Tom**
*Executive Chairman and Group Managing Director*

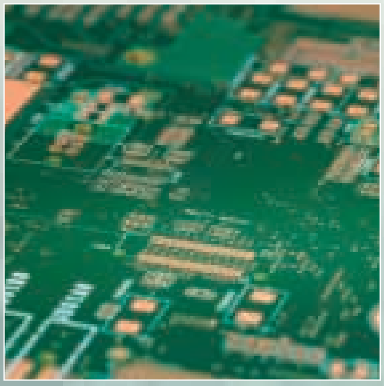
I am pleased to announce a very strong first full year results since our listing (the "Listing") on The Stock Exchange of Hong Kong Limited on 2 February 2007.

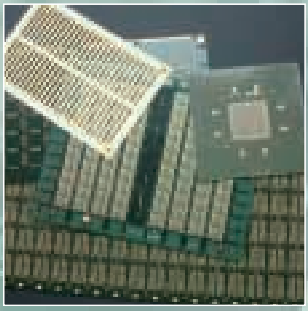
Due to the Group's unique direction, strong positioning in China, and continuous strategies focusing on high technology printed circuit board ("PCB") sectors and related production capacity expansion, the Group was able to capture the ever increasing demand for high value-added PCB from both local and international markets.

We saw strong China demand growth for a couple of reasons. The commencement of out-sourcing of high technology PCB requirements into China from the U.S.A., Europe and Japan in recent years has kept demand on the rise. Additionally, the development of more high technology end-products by Chinese customers has also been generating sizable high technology PCB demand in the local China market.

With a steady increase in high value-added business, the Group achieved a record blended average layer count of 7.5, as well as blended

## Chairman's Statement





average selling price ("ASP") at US$25 per square foot. The Group was able to deliver an all-time-high turnover of HK$4,490 million and gross profit HK$1,060 million. Excluding the one-time non-cash share award expenses, the record operating profit and net profit were HK$752 million and HK$705 million respectively (HK$497 million and HK$451 million with share award expenses) in 2007.

An all-time-high gross profit margin of 23.6% has been achieved and, excluding the one-time non-cash share award expenses, a record operating profit margin of 16.7% and net profit margin of 15.7% were also achieved (11.1% and 10.0% respectively with share award expenses).

As a result of this significant growth in 2007, the Group now ranks number 5 among all PCB makers in China in 2007, as published by PCB Industry Analyst – NT Information Limited.

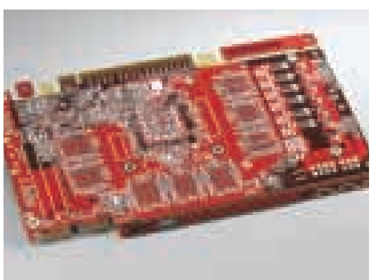
## BUSINESS REVIEW

In 2007, global demand for high-end PCB with applications in telecommunication infrastructure, mobile handsets and other related end products remained bullish. Meanwhile other mass volume but lower technology PCB demand, such as computer motherboard and consumer sectors, remained cyclical.

China's continuous infrastructure spending in preparation for the 2008 Olympic Games in Beijing, coupled with the fast-growing China economy in the last decade, fueled demands in both infrastructure and high technology end products in the telecommunications sector.

The Group's strong positioning in China in 2007 enabled us to further grow the local China sales of the Group. These strong Renminbi sales allowed the Group to pay out majority of the Group's Renminbi expenses requirement in 2007. This has helped to protect the Group's profit margins from being eroded by Renminbi's appreciation in 2007.

The growth in high value-added business from multinational original equipment manufacturers ("OEMs"), which had been developed in 2006, also contributed a major part of the 2007 turnover growth.



The Group has been able to benefit from China's telecommunication sector growth, with PCB sales to telecommunication at 50.8% of turnover in 2007 over 43.6% in 2006, while computer, consumer and other sectors at 14.3%, 12.6%, and 22.3% of turnover in 2007 over 17.5%, 14.6%, and 24.3% in 2006 respectively.

Due to the above factors, the Group has been able to maintain strong growth in 2007, with the Group's PCB turnover of HK$4,109 million in 2007, a 44.7% growth over 2006 of HK$2,839 million. This growth rate outperformed both the China region PCB market growth rate at 17.0% and world PCB market growth rate at 6.1% in 2007 (the market growth rates were projected by PCB Industry Analyst – NT Information Limited).

Dongguan Meadville Circuits Limited

In line with our technology-focus strategy, the Group's high valued-added prepreg and copper clad laminate sales also delivered a growth of 29.6% to HK$664 million in 2007 from HK$512 million in 2006. Out of the total prepreg and copper clad laminate sales, 57.5% were external sales, which also represented a 26.5% growth over 2006.

Average layer count and blended ASP of PCB sales improved from 7.3 layers and US$23 per square foot in 2006 to 7.5 layers and US$25 per square foot in 2007.

The Group's sales of conventional PCB, HDI PCB, IC substrates and quick-turn-around value-added services accounted for 66.2%, 27.9%, 3.2% and 2.7% of PCB turnover respectively in 2007 over 69.8%, 26.4%, 2.5% and 1.3% of PCB turnover respectively in 2006. This marked the achievement of shifting more to higher value-added businesses. Despite the continuous upward trend of commodity pricing in copper, gold and other petroleum-related chemical raw materials, the Group's gross profit margin was able to expand from 20.8% in 2006 to 23.6% in 2007.

The Group's operating profit margin and net profit margin of both years have been negatively impacted by the non-operational and non-cash share-reform charges in 2006 of HK$52 million and share award expenses in 2007 of HK$255 million, a drop from 15.0% and 12.3% in 2006 to 11.1% and 10.0% in 2007 respectively. However, if we exclude the non-operational and non-cash charges in both years, the Group's operating profit margin and net profit margin has also widened from 2006's 15.0% and 13.9% to 2007's 16.7% and 15.7% respectively.

Oriental Printed Circuits Limited

As at 31 December 2007, the Group was able to produce 16.7 million, 8.0 million, and 1.0 million sq ft of conventional PCB, HDI PCB and IC substrates respectively, and 167.8 million and 46.5 million sq ft of prepreg and laminate respectively. This shows an increase of 11.6%, 71.8%, 128.6%, 9.6% and 16.2% respectively as compared with those as of 31 December 2006.

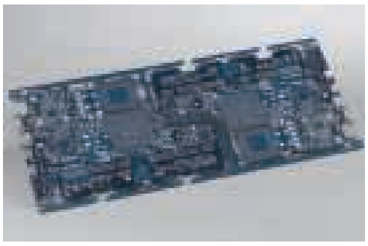
Apart from the very strong operational performance, and as disclosed in the Company's prospectus dated 22 January 2007, a total of 134.8 million shares were awarded to Group employees and a consultant to the controlling shareholder as a token of appreciation for their contribution and past services. Consequently, there was a HK$255 million non-cash and non-operational share-award expense (valued at HK$2.25 per share) charged to the 2007 profit and loss account in compliance with the Hong Kong Financial Reporting Standard 2 "Share-based Payment". This charge represents 83.9% of the total share award expenses of HK$303 million.

However, these share-award expenses had no impact on the Group's net asset value, as a corresponding amount was credited to the Group's employee share-based compensation reserve account.

As at 31 December 2007, the Group's net asset value increased to HK$2,823 million (31 December 2006: HK$938 million) mainly due to the taking in of net Listing proceeds of about HK$1,046 million and the profit generated for the year ended 31 December 2007.

The net Listing proceeds had been applied for construction of plant and purchase of machinery in 2007 and 2008 for the Group's continuous expansion in various high technology capacities.

As disclosed in details in our circular dated 14 January 2008, the Group acquired a majority interest in certain PCB manufacturing business of Aspocomp Group OYJ ("Aspocomp") at a consideration of approximately HK$708 million and a 10% equity interest in Aspocomp Oulu Oy at a consideration of approximately HK$21 million on 30 November 2007. The aforesaid acquisitions were financed by internal resources and bank borrowings.



Aspocomp is a listed company in Finland, specialised in the manufacture of HDI PCB and is strong in research and development within the field. Aspocomp is particularly strong in the Northern Europe telecommunication market.

Through this strategic alliance with Aspocomp, the Group can gain immediate access to the sales network in Northern Europe and penetrate into top-tier customers in the telecommunication industry. In addition, we can further strengthen our existing PCB research and development team with the addition of a team of expertise from Aspocomp which will help the Group's future technology development and business development in high technology products.

On top of the benefits to business and technology development mentioned above, the Group also gained immediate access to 150,000 sq ft of high-end HDI production capacity in their Suzhou operation being part of the acquisition.

As a result of financing this acquisition through the Group's operating cash flow as well as long-term and short-term borrowings, the Group's gearing ratio as at 31 December 2007 has increased from 0.67 (had the acquisition not happened) to 0.81 and the Group's current ratio has dropped to 0.99. However, the Group is already in the process of converting these short-term borrowings to long-term borrowings during the first quarter of 2008. It is expected that the current ratio will remain above one after the completion of the above loan restructuring.

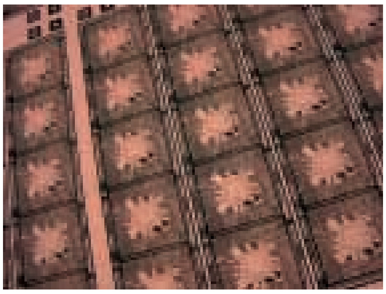
## FUTURE PROSPECTS

There were signs of a slow-down in PCB demand in consumer and computer sectors starting from December onwards, and it was still unclear whether it was caused by seasonal factors, subprime mortgage issue or a mix of both. As for telecommunication and other high technology sectors, demands from emerging markets, such as China, are still dominating the growth that we still don't see signs of slow-down in that respect so far.

Shanghai Meadville Electronics Co., Ltd.

However, if this subprime mortgage issue will ultimately impact on the economies of these emerging markets, in particular the economy of China, we expect that even higher technology sectors PCB demand may be dampened and the market conditions of PCB may then change rapidly and become much more challenging than in 2007.

Currently, it is anticipated that China's infrastructure spendings in preparation for the Olympic Games in Beijing and its roughly 10% per annum economic growth would still drive for strong buying power for infrastructure type products and high-end consumer products.



On the anticipation of TD-SCDMA phone service to be launched before the Beijing Olympics commence as well as the nation-wide migration of TD-SCDMA networks after the initial trial run, we expect that infrastructure spending in China's telecommunication sector will continue after beyond the Beijing Olympics end. This will continuously generate new demand for high-layered conventional PCB and 2+ HDI PCB with filled-via technology in 2008.

If the subprime mortgage issue will not badly impact on the China economy, and with our particularly strong presence in China and close relationship with most of the top-tier China customers since the beginning of the Group's first set up in China in 1989, we should be able to continue capitalising on the various business opportunities emerging in China region so as to maintain the local Renminbi currency sales proportion.

Regarding the overseas market, we do not see huge downward adjustment in demand in high technology and high value-added sectors in the last six months in spite of the subprime mortgage impacts. On the contrary, we see high technology PCB outsourcing strategy continued by multinational OEMs, and if the US economy will not turn to a deep recession in the coming quarters, we expect that business from new multinational OEMs that we gained qualification in 2006 will continue and ramp up gradually.

Despite a seasonal book-to-bill dropping to about 0.9 during December 2007 until around Chinese New Year this year, we see the book-to-bill bounced back to above 1 after the Chinese New Year holiday. In the first two months of 2008, we saw double-digit year-on-year growth in business with the layer counts and ASP of PCB still migrating upwards.

With the above businesses still under development, the Group's capacity expansion is still on track as per the plan below:

| **Plant** | **Capacity** | **Stage of Completion** |
|---|---|---|
| GME I | 2.4 million sq ft HDI per annum | Production starts on or about May 2008 |
| MAGL | 3.4 million sheets laminate per annum | Production starts on or about May 2008 |
| Suzhou II | 2.0 million sq ft HDI per annum | Production starts on or about quarter 4, 2008 |
| SYE II | 1.9 million sq ft of land | Construction completes on or about quarter 4, 2008 |
| | 4.0 million sq ft PCB per annum | Production is expected to trial run on or about quarter 1, 2009 |
| ACI | 650,000 sq ft of land | Construction starts on or about quarter 2, 2008 |
| SP II | 2.6 million sq ft of IC Substrates | Construction starts on or about quarter 2, 2008 |
| Flex PCB | 4.8 million sq ft per annum | Set up is expected to be completed on or about quarter 1, 2009 |

Construction of the Group's newly set up plants, MAGL, for high-end prepreg and laminate, and GME for advanced filled-via multi stack-up HDI PCB were delayed by about 4 to 5 months due to unexpected bad weather and shortage in construction labor.

Due to the latest acquisition of the HDI plant from Aspocomp in Suzhou, phase II expansion of GME, with a planned additional 200,000 sq ft per month of high-end HDI PCB capacity, will be postponed by another 12 months until quarter 4, 2009.


GME I


MAGL


SYE II

## Chairman's Statement


ACP Electronics Co., Ltd.

To expand our product offering to flexible and rigid-flex PCB, the Group has recruited a team of flexible circuit expertise to start planning the setting up of a flexible circuit PCB manufacturing plant scheduled to be operational by around quarter 1, 2009.

The Group's expansion plans in 2008 as mentioned above amounted to approximately HK$1.4 billion. These capacity expansions will primarily be financed by the Group's operational cash flow generated in 2008 and bank borrowings. By the end of 2008, the Group should have an annual production capacity of 19.6 million sq ft of conventional PCBs, 12.4 million sq ft of HDI, 1.0 million sq ft of IC substrates and 353.1 million sq ft of prepreg and 84.4 million sq ft of copper clad laminate in place.

In addition, the Group will expand its dedicated engineering team to focus on: multi-level build up and filled-via HDI manufacturing, rigid-flex PCB manufacturing, high-end material science development for laminate, IC substrate manufacturing and continuous research and development processes.

The Group will continue to closely monitor the impacts on operation costs as caused by (i) Renminbi appreciation, (ii) recent income tax reforms effective from January 2008 and (iii) stringent environmental control requirements as well as the impact on business as caused by the China macro-economic control policies. Additionally, we will continue to closely monitor the impacts on the U.S.A. and global economy as caused by the subprime mortgage issue.

Should there be any adverse impacts on any of the economies of China, U.S.A., Europe, Japan and other emerging markets that lead to dampened PCB demand like the cycle in 2000 through 2003 whereby the Group results and cash flow may be negatively impacted, the Group will take prompt actions to regulate its capacity expansion plans in accordance with the worldwide economic situation and the Group's business order in-take situation.

As the majority part of the non-cash and non-operational share award expenses have been charged in 2007's Group profit and loss account, there is only HK$48 million expenses, which represent about 16.1% of the full expenses as disclosed in the Group's prospectus dated 22 January 2007, left behind to be charged at HK$17 million, HK$17 million, HK$10 million and HK$4 million in each of the 2008, 2009, 2010 and 2011's Group profit and loss account respectively.

Barring unforeseen circumstances or a world recession as a result of U.S.A. subprime mortgage issue, the Group is still expecting to continue a positive growth in 2008 though under a much more challenging market condition.

On behalf of the Board, I would like to express our gratitude to the shareholders and business associates for their continuing support, and extend our sincere appreciation to all management and staff for their ongoing dedication, commitments and contributions throughout the year.

**Tang Chung Yen, Tom**
*Executive Chairman and Group Managing Director*

Hong Kong, 18 March 2008

# MANAGEMENT DISCUSSION AND ANALYSIS

Dongguan Shengyi Electronics Ltd.

## CAPITAL STRUCTURE, LIQUIDITY AND FINANCIAL RESOURCES

For the year ended 31 December 2007, the Group financed its liquidity requirements by a combination of new capital raised through the Listing on 2 February 2007, bank borrowings and cash generated by operations. The Group's liquidity position had improved after taking in the net Listing proceeds of approximately HK$1,046 million. As disclosed in the prospectus of the Company dated 22 January 2007, the net proceeds derived from the Listing had been used for financing the on-going expansion and upgrading of our production facilities in 2007 and 2008. As at 31 December 2007, the Group's consolidated current assets increased by 39.9% to HK$2,558 million (2006: HK$1,829 million) whereas the Group's consolidated current liabilities maintained at HK$2,595 million (2006: HK$2,737 million). Although the current ratio improved to 0.99 (2006: 0.67) and the gearing ratio (expressed as total net borrowings over total equity) reduced to 0.81 (2006: 1.67), both ratios were negatively impacted by the acquisition of a majority equity interest of the PCB manufacturing business and certain equipment from Aspocomp ("ASPA Acquisition") on 30 November 2007. The Group's current ratio was below one as we had financed part of the ASPA Acquisition by short-term borrowings. However, the Group is already in the process of converting these short-term borrowings to long-term borrowings in the first quarter of 2008.

As at 31 December 2007, the Group's total bank borrowings increased by 52% to HK$2,699 million (2006: HK$1,775 million), whereas total cash and bank balances increased to HK$418 million (2006: HK$211 million). The substantial increase in bank borrowings was mainly due to the ASPA Acquisition amounting to approximately HK$708 million.

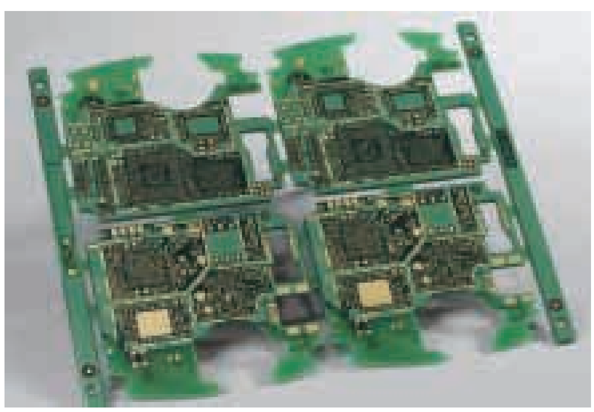
Despite the increase in financial leverage in support of the acquisition, the directors consider that the current financial leverage situation is still manageable. Total banking facilities (comprising primarily bank loans and overdrafts) amounted to HK$5,593 million of which HK$2,435 million was unutilised as at 31 December 2007.

## CHARGES ON GROUP ASSETS

The Group's assets were free from charge as at 31 December 2007.

## CAPITAL COMMITMENT AND CONTINGENT LIABILITIES

As at 31 December 2007, the Group had outstanding capital commitment in respect of purchases of property, plant and equipment of HK$782 million (2006: HK$278 million). In



addition, the Group had commitment in respect of injection of additional capital into certain subsidiaries established in mainland China totalling approximately HK$809 million (2006: HK$434 million). Such injection of capital will be used to pay for the purchase of property, plant and equipment as stated above. These capital commitments will be financed by internal resources and bank borrowings.

The Group had no material contingent liabilities as at 31 December 2007.

## STAFF AND REMUNERATION POLICY

As at 31 December 2007, the Group had a total of 11,653 employees (2006: 7,977) of which 950 employees were added as a result of ASPA Acquisition on 30 November 2007. Other than ASPA Acquisition, the increase in the number of headcounts was mainly due to the ongoing production capacity expansion of our manufacturing plants in Dongguan and Shanghai, and the set up of the two new plants in Guangzhou. Staff costs, excluding the share award expenses, increased by 46.5% to HK$614 million for the year ended 31 December 2007 (2006: HK$419 million).

The Group remunerates its employees based on their performance, work experience and the prevailing market compensation packages. Salaries of employees are maintained at competitive level and bonuses are granted by reference to the performance of the Group and individual employees.

Upon the Listing in February 2007, Su Sih (BVI) Limited ("SuSih"), the controlling shareholder, had granted award shares to the employees of the Group and a consultant to SuSih in appreciation of their contributions to the growth of the Group and to incentivize them. Share award expenses, totalling HK$255 million, were charged to the profit and loss account but the expenses had no impact on the Group's cash flow and net asset value.

The Group approved and adopted a share option scheme on 12 January 2007 for the purposes of providing a longer term incentives and rewards to eligible participants who have contributed to the success of our operations. In view of the award shares granted by the controlling shareholder, there is no immediate need or urgency to grant share options under the scheme.

## FOREIGN EXCHANGE FLUCTUATION EXPOSURES AND HEDGES

The Group operates principally in Hong Kong

and mainland China, and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the U.S. dollar and Renminbi. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations. The Group attempts to minimise its foreign exchange risk exposure through matching its operating costs and borrowings against its receivables on sales. In addition, the conversion of Renminbi into foreign currencies is subject to the rules and regulations of the foreign exchange controls promulgated by the China government.

## MATERIAL ACQUISITION AND DISPOSAL OF SUBSIDIARY AND ASSOCIATED COMPANY

A joint venture agreement was signed with Hitachi Chemical Co., Ltd. ("Hitachi") in April 2007 by which Hitachi acquired 6.29% equity interest in one of our investment holding company, Mica-Ava (No.3) Limited, at a consideration of HK$14.7 million.

In November 2007, our Group acquired a majority interest of the PCB business and certain equipment from Aspocomp at a consideration of approximately HK$708 million. Through the ASPA Acquisition, the Group can get immediate access to the sales network in Northern Europe and to certain top-tier customers in the telecommunication industry in Northern Europe; and the Group can also increase its HDI PCB production capacity with the newly acquired plant in Suzhou in the ASPA Acquisition. In addition, the strategic alliance with Aspocomp will further strengthen the Group's research and development in HDI PCB and various PCB manufacturing processes.


Mica-Ava (Far East) Industrial Limited

Except as disclosed above, the Group had no material acquisition or disposal of subsidiaries and associated companies during the year ended 31 December 2007.

## SEGMENTAL INFORMATION

Details of segmental information are set out in note 5 to the financial statements.

## REVIEW OF OPERATING RESULTS – YEAR ENDED 31 DECEMBER 2007 COMPARED TO YEAR ENDED 31 DECEMBER 2006

### Revenue and gross profit

The Group's revenue grew by 43.0% to HK$4,490 million in 2007 (2006: HK$3,140 million) with details as highlighted in the Chairman's Statement. Gross profit increased by 62.1% to approximately HK$1,060 million (2006: HK$654 million). The increase in gross profit was mainly due to increased proportion of sales of higher layer, higher margin products and the effect of better economies of scales. Gross profit margin expanded to 23.6% in 2007 (2006: 20.8%).

### Other income

Other income increased by 82.3% to HK$177 million in 2007 (2006: HK$97 million). Other income as percentage to revenue increased to 3.9% in 2007 (2006: 3.1%). This increase was primarily due to higher scrap sales of HK$130 million in 2007 (2006: HK$65 million) as attributed to higher PCB production volume and increased copper and gold scrap resale unit prices.

## Management Discussion and Analysis

### Operating profit

Operating profit sustained at HK$497 million (2006: HK$470 million) and operating profit margin decreased to 11.1% (2006: 15.0%). The decrease in the operating profit margin was mainly due to the inclusion of the non-cash share award expenses, totalling HK$255 million. As highlighted in the Chairman's Statement, the share award expenses had no impact on the Group's cashflow and net asset value, as the corresponding amount was credited to the Group's employee share-based compensation reserve account. If excluding the non-cash share award expenses, the operating profit would have reached HK$752 million in 2007 (2006: HK$470 million). Operating profit margin would have been improved to 16.7% in 2007 (2006: 15.0%).

Selling and distribution expenses as percentage of the Group's revenue increased to 5.3% in 2007 (2006: 4.0%) which was due to a mix of higher market development expenses, freight and shipping costs plus higher PCB assembly cost charges on sales returns of higher value-added PCBs.

General and administrative expenses as percentage of the Group's revenue increased to 5.5% in 2007 (2006: 4.9%) which was mainly due to pre-operating expenses of the two new plants in Guangzhou amounting to HK$27 million.

### Interest income and finance costs

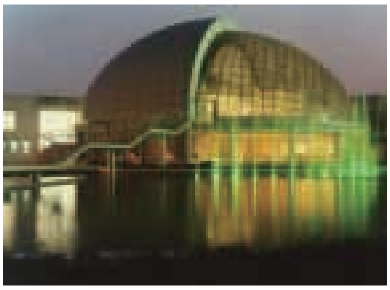
Interest income increased to HK$27 million was mainly due to interest income earned on the subscription fund during the Listing period and higher cash balances after taking in the net Listing proceeds in February 2007. Finance costs increased by 24.5% to HK$110 million in 2007 (2006: HK$88 million) was primarily due to higher bank borrowings as explained above.

### Share of net profit of associated companies

Share of net profit of associated companies increased by 10.2% to HK$108 million in 2007 (2006: HK$98 million) was primarily due to increase in net profits of Guangdong Shengyi Sci. Tech Co., Ltd. ("GSST") and Suzhou Shengyi Sci. Tech Co., Ltd.

### Income tax expense

Income tax expense increased to HK$72 million in 2007 (2006: HK$49 million). Income tax expense as percentage of the Group's taxable profit (profit before income tax less share of profit of associated companies plus non-cash share award expenses) decreased to 10.8% in 2007 (2006: 12.6% where the Group's taxable profit was profit before income tax less share of profit of associated companies plus loss on share reform of an associated company) due to more profits contributed by operations which were still under tax incentives.



Shanghai Meadville Science & Technology Co., Ltd.

### Profit for the year

Profit for the year increased to HK$451 million in 2007 (2006: HK$385 million). Profit margin dropped to 10.0% (2006: 12.3%). However if excluding the non-cash share award expenses, profit for the year would have increased by 61.3% to HK$705 million (2006: HK$437 million after excluding the non-recurring and one-time loss on share reform of GSST shares of HK$52 million), and profit margin would have been improved to 15.7% in 2007 (2006: 13.9% if excluding the loss on share reform of GSST shares).

# CORPORATE GOVERNANCE REPORT

Meadville Holdings Limited (the “Company”, together with its subsidiaries, the “Group”) is committed to continuously achieving and maintaining a high standard of corporate governance practices and policies to enhance greater transparency and accountability and in the interests of its shareholders (the “Shareholders”). The Company devotes to best practice on corporate governance, and has applied the principles and complied with, to the extent as practicable, the Code on Corporate Governance Practices (the “Code”) contained in Appendix 14 of the Rules Governing the Listing of Securities (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

Since its listing on 2 February 2007 (the “Listing”) and up to the date of this report, the Company has complied with the code provisions and to certain extent of the recommended best practices set out in the Code.

## DIRECTORS’ SECURITIES TRANSACTIONS

The Company has adopted (i) the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) contained in Appendix 10 of the Listing Rules as its own code of conduct for its directors (the “Directors”) in respect of securities transactions; and (ii) an Internal Code for Securities Transactions by Employees of Meadville Group (the “Internal Code”) as its own code of conduct regarding securities transactions by the employees of the Group, with detailed procedures extending to the Directors.

Having made specific enquiry, all Directors confirmed that they have complied with the required standards set out in the Model Code and the Internal Code since Listing and up to the date of publication of the annual results announcement for the year ended 31 December 2007.

## BOARD OF DIRECTORS

The board of Directors of the Company (the “Board”) is responsible for oversight of the overall strategies, supervision of the management and affairs as well as monitoring of the overall operation and performance, of the Group, with the objective of enhancing and promoting the success of the Group.

The Board delegated certain authority and responsibility to the management of the Group. In addition, the Board has also delegated various responsibilities to several committees.

### Board composition

As at the date of this report, the Board comprises seven members. Four are executive Directors (the “Executive Directors”) and three are independent non-executive Directors (the “Independent Non-executive Directors”). Their biographical details and respective relationships with other Directors and senior management of the Group are set out on pages 30 to 36 and whose respective interests in the Company are set out on pages 39 to 40 of this annual report. Save as disclosed therein, there is no financial, business, family or other material/relevant relationship among the Directors.

## Corporate Governance Report

The balanced board composition ensuring a strong independence exists across the Board and has met the recommended practice under the Code for the Board to have at least one-third in number of its members comprising Independent Non-executive Directors.

### Appointment, re-election and removal of Directors

Pursuant to articles 109 and 110 of the Company's Articles of Association, a person may be appointed as a member of the Board at any time either by the Shareholders in a general meeting or by the Board. Director so appointed must retire at the next general meeting after his appointment, and shall not be taken into account in determining the number of Directors who are to retire by rotation at that next annual general meeting.

Pursuant to article 106 of the Company's Articles of Association and the Code, all the Directors are subject to retirement by rotation no less than provided that one-third of the Directors for the time being shall retire from office by rotation at each annual general meeting (the "AGM") once every three years and, being eligible, offer themselves for re-election.

Pursuant to article 112 of the Company's Articles of Association, the Company may remove any Director by an ordinary resolution at a general meeting.

*Executive Directors:*

All Executive Directors possess the qualifications and extensive experiences in their respective areas of responsibility and most of them have been worked for the Group for many years. Under the Executive Chairman's leadership, Executive Directors are able to maintain the success of the Group's business by greater effective and efficient strategic decision making and control. Four Executive Directors, namely:

Mr. Tang Hsiang Chien *(Honourary Founding Chairman)*
Mr. Tang Chung Yen, Tom *(Executive Chairman and Group Managing Director)*
Mr. Chung Tai Keung, Canice *(Chief Executive Officer)*
Ms. Tang Ying Ming, Mai *(Chief Financial Officer)*

*Independent Non-executive Directors:*

All Independent Non-executive Directors have appropriate professional qualifications with different expertise in accounting, finance and legislation. Their mix of experience, and their independent view on matters of the Group provide constructive comments and suggestions to the Board, contributing to the proper functioning of the Board and safeguarding the interests of the Shareholders and the Company as a whole. Three Independent Non-executive Directors, namely:

Mr. Lee, Eugene
Mr. Leung Kwan Yuen, Andrew
Dr. Li Ka Cheung, Eric

The Company has received from each of the Independent Non-executive Directors a written annual confirmation of their independence pursuant to Rule 3.13 of the Listing Rules and is satisfied of their independence.

**Board practices**

It is the practice of the Board that the Board has four scheduled meetings a year at approximately quarterly interval and meets as and when required to discuss the overall strategy implementation as well as the performance of the Group. Members of the Board have full access to relevant information at the meetings.

During the year, the Board held seven meetings. The attendance of the Directors at the meetings is set out as follows:

| | **Attendance** | |
|---|---|---|
| *Executive Directors* | | |
| Mr. Tang Chung Yen, Tom *(Executive Chairman and Group Managing Director)* | 100% | 7/7 |
| Mr. Tang Hsiang Chien | 71% | 5/7 |
| Mr. Chung Tai Keung, Canice | 100% | 7/7 |
| Ms. Tang Ying Ming, Mai | 71% | 5/7 |
| *Independent Non-executive Directors* | | |
| Mr. Lee, Eugene | 86% | 6/7 |
| Mr. Leung Kwan Yuen, Andrew | 86% | 6/7 |
| Dr. Li Ka Cheung, Eric | 86% | 6/7 |

All Directors are given an opportunity to include matters in the agenda for Board meetings. Formal notice of at least fourteen days is given for a regular Board meeting. Reasonable notices are given for all other Board meetings. Board papers are circulated not less than three days before the Board meetings to enable the Directors to make informed decisions on matters to be raised at the Board meetings. The company secretary of the Company (the “Company Secretary”), as far as possible, attends all Board/committee meetings to advise on corporate governance and statutory compliance when necessary.

Detailed minutes of the Board and its committees are kept by the Company Secretary and are circulated to the Directors and are open for inspection by the Directors.

Each newly appointed Director is provided with a package of orientation materials setting out the duties and responsibilities of Directors under Listing Rules, related ordinance and relevant regulatory requirements of Hong Kong.

### Access for supporting

The Directors may have access to the advice and services of the Company Secretary with a view to ensuring that board procedures, and all applicable regulations and rules, are followed. In addition, the Directors may, upon reasonable request, to seek independent professional advice in appropriate circumstances, at the Company's expenses. The Board shall resolve to provide separate appropriate independent professional advice to the Directors to assist the relevant Directors to discharge their duties.

Appropriate insurance cover has been arranged in respect of legal action arising from the business of the Group against its Directors.

## EXECUTIVE CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The position of the Executive Chairman and Chief Executive Officer of the Company are held by separate individuals to maintain and preserve independence and an effective segregation of duties respecting management of the Board and the day-to-day management of the Group's business.

The Executive Chairman provides leadership to the Board so that the Board works effectively and discharges its responsibilities and that all key and appropriate issues are discussed by the Board in a timely manner. All Directors have been consulted about any matters proposed for inclusion in the agenda. The Executive Chairman has delegated the responsibility for drawing up the notice and agenda for each Board meeting to the Company Secretary.

The Chief Executive Officer is responsible for the formulation of business directions and operational decisions of the management and performance of the Group. The Chief Executive Officer, together with the other Executive Directors and management team, is responsible for the implementation of strategies adopted by the Board and assuming full accountability to the Board for the operations of the Group.

## BOARD COMMITTEES

As an integral part of good corporate governance and to assist the Board in execution of its duties, the Board is supported by four Board committees, namely executive committee, nomination committee, remuneration committee and audit committee. Each of these committees oversees particular aspects of the Group's affairs under its defined scope of duties and terms of reference approved by the Board. The detailed terms of reference of the four committees can be found on the Company's website at ***www.meadvillegroup.com***. All of these committees are provided with sufficient resources to discharge their duties.

### Executive committee

The executive committee of the Board (the “Executive Committee”) was established on 28 March 2007 with written terms of reference adopted on the same date. The Executive Committee currently comprises four members. The chairman of the Executive Committee is Mr. Tang Chung Yen, Tom and the other members are Mr. Tang Hsiang Chien, Mr. Chung Tai Keung, Canice and Ms. Tang Ying Ming, Mai, all of the committee members are Executive Directors.

The Executive Committee has been delegated with powers from the Board to deal with matters of the Group. The primary responsibility of the Committee is to supervise the day-to-day management of the Group.

The Executive Committee held seven meetings during the year ended 31 December 2007 to review, discuss and evaluate the business performance and other business and operational matters of each major subsidiary within the Group.

### Nomination committee

The nomination committee of the Board (the “Nomination Committee”) was established on 12 January 2007 with written terms of reference adopted on the same date. The Nomination Committee currently comprises five members. The chairman of the Nomination Committee is Mr. Leung Kwan Yuen, Andrew and the other members are Mr. Lee, Eugene, Dr. Li Ka Cheung, Eric, Mr. Chung Tai Keung, Canice and Ms. Tang Ying Ming, Mai, in which three of the committee members are Independent Non-executive Directors.

The major responsibilities of the Nomination Committee are as follows:

- to consider the selection criteria of Directors, and develop procedures for the sourcing and selection of members of the Board;
- to identify and nominate candidates to fill causal vacancies of Directors for the Board’s approval;
- to review the structure, size and composition of the Board on a regular basis, considering, inter alia, the skills, knowledge, length of service, the breadth of expertise of the Board as a whole, and make recommendations to the Board regarding any proposed changes;
- to assess the independence of Independent Non-executive Directors; and
- to make recommendations to the Board on relevant matters relating to the succession planning for Directors, in particular the Chairman and the Managing Director.

## Corporate Governance Report

In considering the appointment of new Director, the Nomination Committee may make reference to certain criteria such as integrity, independent mindedness, experience, skill and the ability to commit time and effort to carry out his duties and responsibilities effectively, and etc.

The Nomination Committee held one meeting during the year ended 31 December 2007. The meeting was held to recommend candidates to be re-elected at the AGM and to review the independence of the Independent Non-executive Directors. The attendance of the members at the meeting is set out as follows:

| **Members** | **Attendance** | |
|---|---|---|
| Mr. Leung Kwan Yuen, Andrew *(Chairman)* | 100% | 1/1 |
| Mr. Lee, Eugene | 100% | 1/1 |
| Dr. Li Ka Cheung, Eric | 0% | 0/1 |
| Mr. Chung Tai Keung, Canice | 100% | 1/1 |
| Ms. Tang Ying Ming, Mai | 100% | 1/1 |

### Remuneration committee

The remuneration committee of the Board (the "Remuneration Committee") was established on 12 January 2007 with written terms of reference adopted on the same date. The Remuneration Committee currently comprises five members. The chairman of the Remuneration Committee is Dr. Li Ka Cheung, Eric and the other members are Mr. Lee, Eugene, Mr. Leung Kwan Yuen, Andrew, Mr. Chung Tai Keung, Canice and Ms. Tang Ying Ming, Mai, three of the committee members are the Independent Non-executive Directors.

The terms of reference of the Remuneration Committee are summarised as follows:

- to make recommendations to the Board on the Company's policy and structure for all remuneration of Directors and senior management and on the establishment of a formal and transparent procedure for developing policy on such remuneration;

- to have the delegated responsibility to determine, review and make recommendations to the Board the specific remuneration packages of all Executive Directors and senior management base on the time commitment, responsibilities, qualifications, experience, duties, performance of individual and the Company, prevailing market conditions and remuneration benchmark with comparable companies;

- to review and approve compensation payable to Executive Directors and senior management in connection with any loss or termination of their office or appointment to ensure that such compensation is determined in accordance with relevant contractual terms and that such compensation is fair and not excessive for the Company;

- to review and approve compensation arrangements relating to dismissal or removal of Directors for misconduct to ensure that such arrangements are determined in accordance with relevant contractual terms and that any compensation payment is reasonable and appropriate;

- to ensure that no Director or any of his associates (as defined in the Listing Rules) is involved in deciding his own remuneration and that, as regards the remuneration of a non-executive Director who is a member of the Committee, his/her remuneration should be determined by the other members of the Committee;

- to consider the granting of share options to Directors pursuant to any share option scheme adopted by the Company;

- to review and make recommendations to the Board regarding the pension arrangements for Directors and senior management; and

- to review and report to the Board on any suspected irregularities in the reimbursement of unreasonable out-of-pocket expenses of Directors and senior management.

**Remuneration policy of the Group**

The remuneration policy of the Group is designed to ensure that remuneration offered to the Directors and/or employees is appropriate for the corresponding duties performed, sufficiently compensated for the effort and time dedicated to the affairs of the Group, and competitive and effective in attracting, retaining and motivating employees. The key components of the Company's remuneration package include basic salary, and where appropriate, other allowances, incentive bonus, mandatory provident funds and share options granted (if any) under the share option schemes of the Company. Details of the share option schemes of the Company are set out on pages 41 to 42 of this annual report.

The emoluments payable to Directors are determined with reference to the responsibilities, qualifications, experience, duties, performance of the Directors and the Company, prevailing market conditions and remuneration benchmark with directors of listed companies with similar size and industry nature. They include incentive bonus primarily based on the results of the Group and share options granted (if any) under the share option schemes of the Company. The Remuneration Committee performs review on the emoluments of the Directors from time to time. No Director, or any of his associates and executive, is involved in deciding his own emoluments.

Employees' remuneration packages are determined with reference to the responsibilities, qualifications and experience, duties and performance of individuals as well as prevailing market compensation packages. The packages are reviewed annually and as required from time to time. The Group also continuously spends resources in training, retention and recruitment programs, and encouraging staff for self development and improvements. The Group keeps monitoring and evaluating the performance of managerial staff, aiming to achieve continuous improvements and correction of deficiencies by establishing a measurable benchmark.

### Directors' and the five highest paid individuals' emoluments

The Directors' fees and remuneration and the emoluments of the five highest paid individuals are disclosed in note 8 to the financial statements.

The contributions to pension scheme of Directors for the year are disclosed in note 8 to the financial statements.

The Remuneration Committee held four meetings during the year ended 31 December 2007. The meetings were held to recommend the remuneration package for the senior management of the Group and to review the amount of bonus payable to Executive Directors and senior management of the Group. The attendance of the members at the meetings is set out as follow:

| **Members** | **Attendance** | |
|---|---|---|
| Dr. Li Ka Cheung, Eric *(Chairman)* | 100% | 4/4 |
| Mr. Lee, Eugene | 100% | 4/4 |
| Mr. Leung Kwan Yuen, Andrew | 100% | 4/4 |
| Mr. Chung Tai Keung, Canice | 75% | 3/4 |
| Ms. Tang Ying Ming, Mai | 75% | 3/4 |

### Audit committee

The audit committee of the Board (the "Audit Committee") was established on 12 January 2007 with written terms of reference adopted on the same date. The Audit Committee comprises three Independent Non-executive Directors. The chairman of the Audit Committee is Mr. Lee, Eugene and the other members are Mr. Leung Kwan Yuen, Andrew and Dr. Li Ka Cheung, Eric.

The major duties of the Audit Committee are summarised as follows:

- to serve as a focal point for communication between other Directors, the external auditors and the internal auditors of the Company;
- to assist the Board in providing an independent review of the effectiveness of the financial reporting process, internal control and risk management system of the Group;
- to make recommendations to the Board on the appointment, re-appointment and removal of the external auditors, and to review the remuneration and terms of engagement of the external auditor;
- to review questions of resignation or dismissal of the external auditors;

- to review the Group's financial and accounting policies and practices; and

- to monitor integrity of financial statements of the Company, the Company's annual and interim reports and financial statements.

During the year ended 31 December 2007, the Audit Committee held five meetings, most of which are held with the Chief Financial Officer and the external auditors. The work performed by the Audit Committee during the year includes the following:

- reviewing the accounting principles and practices adopted by the Group and other financial reporting matters;

- reviewing and commenting on the 2006 annual report and 2007 interim report (including the consolidated financial statements contained therein) of the Company;

- discussing with the external auditors on significant findings from their audit and reviewing of the Group's financial statements and related issues;

- discussing on the Company's corporate governance practices;

- discussing on the Group's internal audit plan with the System and Process Assurance Department ("SPAD");

- discussing the effectiveness of the systems of internal controls throughout the Group, including financial and operational controls; and

- considering and making recommendation to the Board on the engagement of external auditors and the estimated audit fee.

The attendance of the members at the meetings is set out as follows:

| **Members** | **Attendance** | |
|---|---|---|
| Mr. Lee, Eugene *(Chairman)* | 100% | 5/5 |
| Mr. Leung Kwan Yuen, Andrew | 100% | 5/5 |
| Dr. Li Ka Cheung, Eric | 100% | 5/5 |

### Ad-hoc Board committees

During the year, several ad-hoc Board committees were established by the Board to deal with certain specific one-off matters such as those relating to listing matters and major transactions on specified terms, responsibilities and duties. These ad-hoc Board committees usually comprised of Executive Directors to enhance the efficiency and effectiveness of management decision.

## ACCOUNTABILITY AND AUDIT

The Board is committed to high standard of financial reporting, regular internal control review and annual audit.

### Financial reporting

The Directors are responsible for overseeing the preparation of the annual consolidated financial statements which give a true and fair view of the state of affairs and of the results and cash flow of the Group for the year. In preparing the consolidated financial statements for the year ended 31 December 2007, the Directors have:

- adopted the applicable Hong Kong Financial Reporting Standards;
- selected suitable accounting policies and applied them consistently throughout the period covered by the consolidated financial statements;
- made judgements and estimates that are prudent and reasonable, and ensured that the consolidated financial statements are prepared on a going concern basis; and
- ensured that the consolidated financial statements are prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance, the Listing Rules, the Companies Law (2007 Revision) of the Cayman Islands and the applicable accounting standards.

The Board recognises that high quality corporate reporting is important in enhancing the relationship between the Company and its stakeholders. The Board aims at presenting a balanced, clear and comprehensible vision of the performance, position and prospects of the Group in the corporate communications.

The annual results of the Group for the year ended 31 December 2007 have also been reviewed by the Audit Committee.

### Internal controls

The Board recognizes that a well-designed system of internal control is crucial to safeguard the assets of the Group and to ensure the reliability of financial reporting as well as compliance with laws and regulations. The Group is committed to setting up and maintaining a good system of internal control which is devised to provide reasonable, but not absolute, assurance against material mis-statement or loss and risks of failure in operational systems and in achievement of the Group's objectives. The Board also acknowledges that it has overall responsibility for the Group's internal control, financial control and risk management and shall monitor their effectiveness from time to time.

The SPAD was established by the Company in September 2006. SPAD is responsible for internal audit function of the Group and evaluate operations, the internal control procedures and systems, risk management and compliance status and reports its findings and recommendations to the Audit Committee on a quarterly basis. These reviews and reports are taken into consideration by the Audit Committee when it makes its recommendation to the Board on the effectiveness of internal control in the Group business operations.

SPAD assists the Board and the Audit Committee to ensure that the Group maintains a sound system of internal control by providing the following major function to the Group:

- reviewing all aspects of the Group's activities and internal controls with unrestricted right of access;
- conducting comprehensive audits of the practices and procedures of the Group;
- conducting comprehensive audits of income and expenditure, internal controls of all business units of the Group;
- conducting comprehensive audits of cash and operational management for various sales offices on a rotation basis; and
- conducting special reviews and investigations of areas of concern identified by the Board or the management.

The head of SPAD has unrestricted direct access to the Audit Committee and reports directly to the Board and the Audit Committee. The head of SPAD is invited to attend the Audit Committee meetings and has the right to bring matters identified during the course of the risk assessment and the internal audits to the attention of the Audit Committee. This reporting structure allows the SPAD to maintain its independence and to have free access to all members of the Board.

Based on the assessment of risk exposure, SPAD formulates an internal audit plan annually, which ensures the annual internal audit assignments cover all high-risk areas, for the approval of the Audit Committee. The scopes and frequencies of internal audit reviews shall be determined according to risk assessment. Ad-hoc assignments may also be performed on areas of concern identified by the management or Audit Committee from time to time. The plan is reassessed during the year as needed to ensure that adequate resources are deployed and the plan's objectives are met.

During the year ended 31 December 2007, SPAD adopted a risk-based approach focusing on processes and controls that were material. Material or significant control weaknesses were reported quarterly to the Audit Committee. The Board, through the Audit Committee, had reviewed the effectiveness of the system of internal control of the Group and is not aware of any major issues of concern, and appropriate measures have been taken to address areas identified for improvement.

## Corporate Governance Report

SPAD is committed in continuous quality improvement. In formulating internal audit plan for 2008, SPAD conducted a quality and comprehensive risk assessment. Risk assessment, being the first step, is the process of identifying, sourcing and evaluating individual risks and the interrelationships between risks. This provides a systematic approach to determine the key areas as to which high priorities and resources should be given.

In conducting the risk assessment, SPAD listed the business objectives of the Group and the related risk categories impacting those objectives. Various financial and non-financial data of each business unit were collected by structured questionnaires, that provided the foundation understanding of risk exposure on major business operations in each business unit. Interviews with the top management were arranged so as to discuss, identify and customize the objectives and risks encountered by the Group. It contributed the idea on emerging risk areas and exposure. Through a scoring mechanism, the key risks had been ranked in terms of likelihood and impact. Annual internal audit plan is formulated accordingly.

### External auditors

The Group's external auditors are PricewaterhouseCoopers. The Audit Committee is mandated to ensure continuing auditors' objectivity and safeguarding independence of the auditors. Up to the date of this report, the Audit Committee has considered and approved the engagement of PricewaterhouseCoopers as auditors of the Group for the year ended 31 December 2007 and the corresponding audit fees estimation.

The remuneration paid or payable by the Group to PricewaterhouseCoopers in respect of their audit and other non-audit services for the year ended 31 December 2007 were as follows:

| **Nature of services** | **2007**<br>**HK$'000** | 2006<br>HK$'000 |
|---|---|---|
| Audit services | **4,200** | 2,100 |
| Non-audit services | **663** | 508 |
| Reporting accountants in relation to the Listing | **–** | 7,000 |
| Reporting accountants in relation to the major transaction acquisitions | **3,000** | – |
| Non-audit services in relation to the major transaction acquisitions | **3,343** | – |

## CORPORATE COMMUNICATION

The Company has in place an effective corporate communication system which provides transparent, regular and timely public disclosures to its stakeholders, including, inter alia, the general public, analysts, the institutional and individual shareholders. The main features of the system are that:

- the Company maintains a corporate website ***www.meadvillegroup.com*** on which comprehensive information about the Group, including Directors and management profile, products and services provided, financial reports, public announcements, circulars and news of the Group, are disclosed. Shareholders can obtain corporate communication electronically via the Company's website;

- the Company establishes and maintains different communication channels with its stakeholders through annual reports, interim reports and press releases;

- AGM provide a useful forum for the Shareholders to exchange views with the Board. The Executive Chairman of the Board as well as the chairmen of the Audit, Nomination, and Remuneration Committees and members of these committees are available to answer questions which are raised by the Shareholders;

- separate resolutions are proposed at general meetings for each substantial issue, including the election of individual Directors;

- details of the poll voting procedures and the rights of Shareholders to demand a poll are included in a circular to the shareholders dispatched prior to the date of the relevant general meeting. The circular also includes relevant details of proposed resolutions; and

- the poll results, if any, will be published on Stock Exchange's website ***www.hkex.com.hk*** and on the Company's website ***www.meadvillegroup.com***.

# DIRECTORS AND SENIOR MANAGEMENT

## EXECUTIVE DIRECTORS

**Mr. Tang Hsiang Chien** *(front row: middle)*
**Mr. Tang Chung Yen, Tom** *(back row: 2nd from left)*
**Mr. Chung Tai Keung, Canice** *(back row: 1st from left)*
**Ms. Tang Ying Ming, Mai** *(back row: 1st from right)*

**Mr. Tang Hsiang Chien** GBS, OBE, JP, aged 84, is the founder of the Group, the Honourary Founding Chairman and an Executive Director of the Company. He is also a director of certain subsidiaries of the Company. Mr. Tang has more than 20 years of experience in the printed circuit board industry and is responsible for the overseeing and the formulation of direction of the Group. Mr. Tang also holds an honourary title as the Honourary Chairman of Guangdong Shengyi Sci. Tech Co., Ltd. ("GSST"), a company incorporated in People's Republic of China ("PRC") whose shares are listed on the Shanghai Stock Exchange, in which the Company indirectly owns a 22.18% shareholding. Mr. Tang has been a Hong Kong Affairs Advisor to the Government of the PRC. He served as a member of the Standing Committee of the Chinese People's Political Consultative Conference and held a number of executive and advisory posts in some trade associations and public bodies over the last 50 years. Mr. Tang obtained a degree of Master of Science from the University of Illinois in the United States and an Honourary Doctorate degree in Social Science from the Chinese University of Hong Kong. Save as disclosed, Mr. Tang has not held any directorship in any public listed companies in the last three years or any other positions with the Company or other members of the Group.

Mr. Tang is the father of Mr. Tang Chung Yen, Tom and Ms. Tang Ying Ming, Mai. He is also a director of Su Sih (BVI) Limited ("SuSih"), a substantial shareholder of the Company. Save as disclosed, he does not have any relationship with any other directors, senior management, substantial shareholders or controlling shareholders of the Company.

As at 31 December 2007, Mr. Tang has interests in the shares of the Company within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO"). Please refer to the details of interests set out on pages 39 to 40 of this annual report.

**Mr. Tang Chung Yen, Tom,** **JP**, aged 46, joined the Group in 1991 and is an Executive Director, Executive Chairman and Group Managing Director of the Company. He is also a director of certain subsidiaries of the Company. Mr. Tang is responsible for the leadership and effective running of the Board. Mr. Tang has served as the Honourary Chairman of the Hong Kong Printed Circuit Association Limited since 2005. He is the Chairman of The Hong Kong Exporters' Association, The Hong Kong Standards & Testing Centre and Hong Kong Safety Institute, a board member of Hong Kong Science & Technology Parks Corporation, and a non-official board member of Hong Kong Applied Science & Technology Research Institute Company Limited. In 2008, he is a member of Shanghai & Wuxi Committee of the Chinese People's Political Consultative Conference. Mr. Tang obtained a degree of Master of Business Administration from New York University. Save as disclosed, he has not held any directorship in any public listed companies in the last three years or any other positions with the Company or other members of the Group.

Mr. Tang is the son of Mr. Tang Hsiang Chien and brother of Ms. Tang Ying Ming, Mai. He is also a director of SuSih, a substantial shareholder of the Company. Save as disclosed, he does not have any relationship with any other directors, senior management, substantial shareholders or controlling shareholders of the Company.

As at 31 December 2007, Mr. Tang does not have any interest in shares of the Company within the meaning of Part XV of the SFO.

**Mr. Chung Tai Keung, Canice**, aged 52, joined the Group in 2005 as Deputy Managing Director, is currently an Executive Director, the Chief Executive Officer and a member of the Remuneration Committee and Nomination Committee of the Company. He is also a director of certain subsidiaries of the Company. Prior to joining the Group, Mr. Chung was an executive director of the Elec & Eltek International Holdings Limited (formerly a company listed on the Stock Exchange) from August 1993 to March 2005 and Elec & Eltek International Company Limited (a company listed on the Singapore Exchange Securities Trading Limited) from April 1994 to March 2005. He had been Chief Executive Officer of Elec & Eltek Group's printed circuit board business and held various management positions at Fairchild Semiconductors (HK) Limited, China Cement Company (Hong Kong) Limited, the Astec Group and Chen Hsong Machinery Company, Limited. Mr. Chung graduated from the Hong Kong Polytechnic in 1979 in Accountancy. He is currently the Vice Chairman of the Hong Kong Printed Circuit Association Limited. Save as disclosed, he has not held any directorship in any public listed companies in the last three years or any other positions with the Company or other members of the Group.

Mr. Chung does not have any relationship with any other directors, senior management, substantial shareholders or controlling shareholders of the Company.

As at 31 December 2007, Mr. Chung has interests in the shares of the Company within the meaning of Part XV of the SFO. Please refer to the details of interests set out on pages 39 to 40 of this annual report.

**Ms. Tang Ying Ming, Mai**, aged 48, joined the Group in 2000, is an Executive Director, the Chief Financial Officer and a member of the Remuneration Committee and Nomination Committee of the Company. She is also a director of certain subsidiaries of the Company. She is responsible for the finance, legal and secretarial, human resources, information technologies and administration function of the Group. Prior to joining the Group, Ms. Tang was the Chief Financial Officer of Cashmere House in California for over 10 years. Since May 2005, she has also served as a director of GSST. Ms. Tang obtained a degree of Bachelor of Science from the University of California, a degree of Master of Science from Stanford University and a degree of Master of Business Administration from New York University. Save as disclosed, she has not held any directorship in any public listed companies in the last three years or any other positions with the Company or other members of the Group.

Ms. Tang is the daughter of Mr. Tang Hsiang Chien and sister of Mr. Tang Chung Yen, Tom. She is also a director of SuSih. Save as disclosed, she does not have any relationship with any other directors, senior management, substantial shareholders or controlling shareholders of the Company.

As at 31 December 2007, Ms. Tang does not have any interest in shares of the Company within the meaning of Part XV of the SFO.

## INDEPENDENT NON-EXECUTIVE DIRECTORS

**Mr. Lee, Eugene**, aged 59, joined the Company in January 2007 as an independent non-executive director and is currently the chairman of the Audit Committee and a member of the Nomination Committee and Remuneration Committee of the Company. He has extensive experience in corporate finance and management, and currently acts as a financial and management advisor. He was a director of Elec & Eltek International Holdings Limited (formerly a company listed on the Stock Exchange) from May 1997 to March 2005 and a director of Elec & Eltek International Company Limited (a company listed on the Singapore Exchange Securities Trading Limited) from March 2003 to February 2005. He was also an executive director of Esprit Asia Holdings Limited and president, chief operating officer and director of its controlling shareholder, Esprit de Corp (Far East) Limited. He was an associate director in corporate finance at Wardley Limited (now part of The Hongkong and Shanghai Banking Corporation Limited) and a vice president at The Chase Manhattan Bank, N.A. (now known as JP Morgan Chase). Mr. Lee obtained a degree of Bachelor of Science from the

Massachusetts Institute of Technology, a degree of Master of Science from Stanford University, and a degree of Master of Business Administration from Harvard Business School. Save as disclosed, he has not held any directorship in any public listed companies in the last three years or any other positions with the Company or other members of the Group.

Mr. Lee does not have any relationship with any other directors, senior management, substantial shareholders or controlling shareholders of the Company.

As at 31 December 2007, Mr. Lee does not have any interest in shares of the Company within the meaning of Part XV of the SFO.

**Mr. Leung Kwan Yuen, Andrew, SBS, JP**, aged 57, joined the Company in January 2007 as an independent non-executive director and is currently the chairman of the Nomination Committee and a member of the Audit Committee and the Remuneration Committee of the Company. He is currently a Legislative Councilor (Industrial First), Chairman of the Hong Kong Productivity Council and the Vocational Training Council. He is the Honourary President of Federation of Hong Kong Industries and Honourary Chairman of Textile Council of Hong Kong. Mr. Leung is a member of the Hong Kong Trade Development Council and also serves on a number of public advisory bodies including the Textiles Advisory Board, the Greater Pearl River Delta Business Council. Mr. Leung has served as an independent non-executive director of Dah Sing Banking Group Limited, a company listed on the Stock Exchange since June 2004. He has also served as a director of the Hong Kong Mortgage Corporation Limited since April 2007. Mr. Leung obtained a degree of Bachelor of Science (Hons.) from University of Leeds and is a Fellow of The Textiles Institute and Clothing and Footwear Institute in the United Kingdom. Save as disclosed, he does not held any directorship in any public listed companies in the last three years or any other positions with the Company or other members of the Group.

Mr. Leung does not have any relationship with any other directors, senior management, substantial shareholders or controlling shareholders of the Company.

As at 31 December 2007, Mr. Leung does not have any interest in shares of the Company within the meaning of Part XV of the SFO.

**Dr. Li Ka Cheung, Eric, GBS, OBE, JP, LLD, DSocSc, BA, FCPA (Practising), FCA, FCPA (Aust.), FCIS**, aged 54, joined the Company in January 2007 as an independent non-executive director and is currently the chairman of the Remuneration Committee and a member of the Audit Committee and Nomination Committee of the Company. Dr. Li obtained a degree of Bachelor of Art (Economics) (Hons.) from the University of Manchester in 1975. He is a convenor cum member of the Financial Reporting Review Panel, a member of the Commission on Strategic Development, a former member of the Legislative Council of Hong Kong and Chairman of its Public Accounts Committee. He was also a past president of the Hong Kong Institute of Certified Public Accountants (formerly known as Hong Kong Society of Accountants) and is currently a fellow member of The Institute of Chartered

## Directors and Senior Management

Accountants in England and Wales, the Hong Kong Institute of Certified Public Accountants, The Institute of Chartered Secretaries and Administrators, the United Kingdom, and The Hong Kong Institute of Chartered Secretaries (formerly known as The Hong Kong Institute of Company Secretaries). Dr. Li is a senior partner of Li, Tang, Chen & Co., Certified Public Accountants. He has over 32 years of experience in the accounting field and is currently an independent non-executive director of Transport International Holdings Limited, SmarTone Telecommunications Holdings Limited, Wong's International (Holdings) Limited, Hang Seng Bank Limited, China Resources Enterprise Limited, Roadshow Holdings Limited, Bank of Communications Co., Ltd. and as an non-executive director of Sun Hung Kai Properties Limited, all of which are companies whose shares are listed on the Stock Exchange. Dr. Li served as a director of China Vanke Co. Ltd., a company listed on Shenzhen Stock Exchange from June 2002 to April 2005. He was formerly an independent non-executive director of Sinofert Holdings Limited from September 2004 to June 2007 and CATIC International Holdings Limited from May 1993 to December 2007. Dr. Li is a member of the 11th National Committee of the Chinese People's Political Consultative Conference and an advisor to its Ministry of Finance on international accounting standards. Save as disclosed, he has not held any directorship in any public listed companies in the last three years or any other positions with the Company or other members of the Group.

Dr. Li does not have any relationship with any other directors, senior management, substantial shareholders or controlling shareholders of the Company.

As at 31 December 2007, Dr. Li does not have any interest in shares of the Company within the meaning of Part XV of the SFO.

### SENIOR MANAGEMENT

**Mr. Yip Wei Yeung**, 48, is the Chief Operating Officer of the Group's PCB business and General Manager of ACP Electronics Co., Ltd.. He is also a director of certain subsidiaries of the Company. Mr. Yip joined the Group in 2003. Prior to which he held various senior management positions, including the Chief Executive Officer, in a PCB manufacturing group in Hong Kong. He obtained a degree of Bachelor of Science from the University of Hong Kong in 1983 and a degree of Master of Business Administration from the Chinese University of Hong Kong in 2001.

**Mr. Chau King Kwong, Kingsley**, 47, is the Vice President – Group Sales and Marketing and General Manager of Meadville International Trading (Shanghai) Co., Ltd.. Mr. Chau joined the Group in 2005 and has over 21 years of sales, marketing and operations experience in the PCB and semiconductor industries. He obtained a Bachelor of Science and a Diploma in Marketing and International Business from the Chinese University of Hong Kong in 1984 and 1989 respectively. He also obtained a degree of Master of Business Administration (Executive) from the City University of Hong Kong in 2003.

**Mr. Wong Kwok Ho**, 49, is the Vice President of the Materials Division of the Group and General Manager of Mica-Ava (Far-East) Industrial Limited and Mica-AVA (Guangzhou) Material Company

Ltd.. He is also a director of a subsidiary of the Company. Mr. Wong joined the Group in 1985 and held various engineering and operational management positions. He obtained a degree of Bachelor of Science in Engineering from the University of Hong Kong in 1981 and a degree of Master of Engineering Management from the City University of Hong Kong in 1996.

**Mr. Li Xue Ming**, 42, is the General Manager of Dongguan Shengyi Electronics Ltd. ("SYE"). He is also a director of a subsidiary of the Company. Mr. Li joined the Group in 2001 and has over 17 years of factory management experience in the PCB industry in China. He obtained a degree of Bachelor of Science in Chemical Engineering in 1987 and a degree of Master of Science in 1989 from the Zhejiang University.

**Ms. Shum Yuk Yin, Jane**, 42, is the General Manager of Dongguan Meadville Circuits Limited. Ms. Shum joined the Group in 1993 and held various engineering and production management positions in the manufacturing plants of the Group in Hong Kong, including as the Deputy General Manager of Oriental Printed Circuits Limited from 2001 to 2004. Ms. Shum obtained a Diploma in Chemical Technology in 1984 and a Higher Certificate in Metal Surface Finishing in 1988 from The Hong Kong Polytechnic.

**Mr. Fung Ying Wah, Joey**, 50, is the General Manager of the Guangzhou Meadville Electronics Co., Ltd.. He is also a director of a subsidiary of the Company. Mr. Fung joined the Group in 2006, prior to which he worked for a public-listed PCB manufacturing company for over 20 years and held various senior management positions. He obtained a Diploma in Mechanical Engineering from The Hong Kong Polytechnic in 1980 and a degree of Master of Science in Engineering Business Management from the University of Warwick in 1997.

**Mr. Wang Shi Ming, Simon**, 41, is the General Manager of Shanghai Meadville Electronics Co., Ltd. ("SME"). He joined the Group in 2004 as the Plant Manager of SME. Mr. Wang has more than 17 years of experience in senior management and quality engineering experience in the PCB industry. He obtained a degree of Bachelor of Applied Chemistry from the National University of Defense Technology in 1988.

**Mr. Leung Kai Ming**, 46, is the Deputy General Manager of Shanghai Meadville Science & Technology Co., Ltd. ("SMST"). Mr. Leung joined the Group in 2004 as the Operations Manager of SMST, prior to which he held various management positions in a PCB manufacturing group in Hong Kong. He obtained a Diploma in Chemical Technology from The Hong Kong Polytechnic in 1984.

**Mr. Chau Man Kin, Kennie**, 42, is the Deputy General Manager of OPC Manufacturing Limited. Mr. Chau joined the Group in 2004. He worked for a public-listed PCB manufacturing company for 11 years and held various management positions. He obtained a degree of Bachelor of Applied Science in Chemical Engineering from the University of British Columbia in 1991 and a degree of Master of Science in Engineering from the University of Hong Kong in 1999.

## Directors and Senior Management

**Mr. Qu Shi Jie**, 49, is the General Manager of Shanghai Kaiser Electronics Co., Ltd.. He is also a director of a subsidiary of the Company. Since joining the Group in 1993, Mr. Qu has held various management positions, including the Facility Manager of SYE and Plant Manager of SME. Prior to joining the Group, Mr. Qu had 10 years of research experience in the mechanical and electronics industry. He obtained a degree of Bachelor of Science in Mechanical Engineering from Dalian University of Technology in 1982.

**Ms. Choi Lee Lee, Lily**, 45, is the joint Group Financial Controller and is responsible for the Group's accounts receivable, credit control and insurance, and overseeing the finance function of various Group companies. She is also a director of certain subsidiaries of the Company. She joined the Group in 1988 and has held various finance and accounting positions in the Group. Ms. Choi obtained a Professional Diploma in Management Accountancy in 1985 and a Professional Diploma in Information Technology in 1989 from The Hong Kong Polytechnic. She also obtained a degree of Master of Business Administration in 1999 and a degree of Master of Corporate Finance in 2006 from The Hong Kong Polytechnic University. She is an associate of the Chartered Institute of Management Accountants (UK) and a fellow of the Hong Kong Institute of Certified Public Accountants. Ms. Choi is one of the qualified accountants of the Company.

**Ms. Chu Suet Wa**, 45, is the joint Group Financial Controller and is responsible for the Group's corporate treasury and tax, and overseeing the finance function of various Group companies. She is also a director of certain subsidiaries of the Company. She joined the Group in 1988 and has held various finance and electronic data processing positions in the Group. Ms. Chu obtained a Professional Diploma in Management Accountancy from The Hong Kong Polytechnic in 1985. She also obtained a degree of Master of Business Administration in 1998 from The Hong Kong Polytechnic University, and a degree of Master of Science in Information Systems Management from the Hong Kong University of Science and Technology in 2002. She is an associate of the Chartered Institute of Management Accountants (UK), The Institute of Chartered Secretaries and Administrators, the United Kingdom and The Hong Kong Institute of Chartered Secretaries. She is also a fellow of Hong Kong Institute of Certified Public Accountants. Ms. Chu is one of the qualified accountants of the Company.

**Ms. Lam Lai Shuen**, 42, is the joint Group Financial Controller and is responsible for the Group's accounts consolidation and budget planning, and overseeing the finance function of various Group companies. She is also a director of certain subsidiaries of the Company. She joined the Group in 2006, prior to which she held various finance and accounting management positions in a public-listed PCB manufacturing company between 1990 and 2006. Ms. Lam obtained a Professional Diploma in Management Accountancy from The Hong Kong Polytechnic in 1988 and a degree of Master of Science in Accountancy in 2003 from The Hong Kong Polytechnic University. She is an associate of the Chartered Institute of Management Accountants (UK) and the Hong Kong Institute of Certified Public Accountants. She is also a fellow of the Association of Chartered Certified Accountants (UK). Ms. Lam is one of the qualified accountants of the Company.

# REPORT OF DIRECTORS

The board of directors (the "Board") of Meadville Holdings Limited (the "Company", together with its subsidiaries, the "Group") is pleased to present their annual report and the audited consolidated financial statements of the Group for the year ended 31 December 2007.

## LISTING OF SHARES

The Company was incorporated with limited liability in the Cayman Islands on 28 August 2006. The Company's shares have been listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 2 February 2007 (the "Listing").

## PRINCIPAL ACTIVITIES

The Company is an investment holding company. The activities of its principal subsidiaries are set out in note 21 to the financial statements.

## RESULTS

The results of the Group for the year are set out in the consolidated profit and loss account on page 47.

## DIVIDENDS

An interim dividend of HK$0.02 per share (2006: Nil) was paid on 28 September 2007. The Board recommends the payment of a final dividend in respect of the year ended 31 December 2007 of HK$0.04 (2006: Nil) per share to the shareholders on the register of members of the Company on 2 June 2008, estimated to be HK$80 million (2006: Nil).

## FINANCIAL SUMMARY

A financial summary for the past five financial years is set out on page 3 of this report.

## RESERVES

Details of the movements during the year in the reserves of the Group and the Company are set out in note 29 to the financial statements.

In addition to the retained profits of the Company, the share premium account and employee share-based compensation reserve of the Company are also available for distribution to Shareholders provided that the Company is able to pay its debts as they fall due in the ordinary course of business immediately following the date on which any such distribution is proposed to be paid in accordance with the Companies Law (2007 Revision) of the Cayman Islands.

As at 31 December 2007, the share premium of the Company was approximately HK$1,802,612,000 (2006: HK$762,000,000), the employee share-based compensation reserve of the Company was approximately HK$134,502,000 (2006: Nil) and the retained profit of the Company was approximately HK$38,962,000 (2006: accumulated loss of HK$597,000).

## PROPERTY, PLANT AND EQUIPMENT

Details of movements in property, plant and equipment during the year are set out in note 16 to the financial statements.

## MAJOR CUSTOMERS AND SUPPLIERS

The aggregate sales and purchases attributable to the Group's five largest customers and suppliers were approximately 34% and 40% of the Group's sales and purchases respectively for the year ended 31 December 2007.

Our Group's largest customer accounted for approximately 9% of turnover whereas our largest supplier accounted for approximately 19% of total purchases.

Except Mr. Eugene Lee's holding of 33 shares in a member of a group which was one of the 5 largest customers, none of the directors of the Company (the "Directors") or any of their associates or any shareholders (which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's top five largest customers or suppliers.

## SHARE CAPITAL

Details of the movements during the year in the share capital of the Company are set out in note 28 to the financial statements.

## CHARITABLE CONTRIBUTIONS

During the year the Group made charitable contributions totalling HK$8,181 (2006: HK$44,301).

## DIRECTORS

The Board during the year ended 31 December 2007 and up to the date of this report comprised:

### Executive Directors (the "Executive Directors")

Mr. Tang Hsiang Chien – *Honourary Founding Chairman*
Mr. Tang Chung Yen, Tom – *Executive Chairman and Group Managing Director*
Mr. Chung Tai Keung, Canice – *Chief Executive Officer*
Ms. Tang Ying Ming, Mai – *Chief Financial Officer*

### Independent non-executive Directors (the "Independent Non-executive Directors")

| | |
|---|---|
| Mr. Lee, Eugene | (appointed on 12 January 2007) |
| Mr. Leung Kwan Yuen, Andrew | (appointed on 12 January 2007) |
| Dr. Li Ka Cheung, Eric | (appointed on 12 January 2007) |

In accordance with article 106 of the Company's articles of association, Mr. Tang Hsiang Chien, Mr. Chung Tai Keung, Canice and Ms. Tang Ying Ming, Mai will retire from office by rotation at the forthcoming annual general meeting of the Company and, being eligible, offer themselves for re-election.

## DIRECTORS' SERVICE CONTRACTS

Each of the Executive Directors has entered into a service agreement with the Company, pursuant to which Mr. Tang Hsiang Chien has agreed to act for a term of one year and the other three Executive Directors have agreed to act for two years, all commencing on 1 January 2007 and shall continue thereafter until terminated, among others, by not less than six months' notice in writing served by either party on the other or in accordance with terms of the service agreement.

Each of the Independent Non-executive Directors has been appointed for a term of two years commencing on 12 January 2007, and subject to retirement by rotation at the annual general meeting of the Company (the "AGM") in accordance with the provisions of the Company's articles of association.

None of the Directors being proposed for re-election at the forthcoming AGM has entered or has proposed to enter into any service agreement with the Company or any member of the Group which is not determinable by the Company within one year without payment of compensation other than statutory compensation.

## BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Brief biographical details of Directors and senior management of the Company are set out on pages 30 to 36 of this annual report.

## DIRECTORS' AND THE FIVE HIGHEST PAID INDIVIDUALS' EMOLUMENTS

The Directors' fees and remuneration and the emoluments of the five highest paid individuals are disclosed in note 8 to the financial statements.

## PENSION SCHEMES

Details of the pension schemes are set out in note 8 to the financial statements.

## DIRECTORS' INTERESTS IN SHARES OF THE COMPANY

As at 31 December 2007, the interests and short positions of the Directors and the chief executive and their respective associates in the shares, share options, underlying shares and debentures of the Company and its associated corporations (within the meaning of the Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), were as follows:

### Long position

*Beneficial interests in the shares of the Company ("Shares")*

| Name of Director | Personal interest | Family interest | Corporate interest | Other interest | Total number of Shares | Approximate shareholding percentage |
|---|---|---|---|---|---|---|
| Mr. Tang Hsiang Chien ("Mr. HC Tang") | Nil | Nil | 1,168,495,000 (Note 1) | 235,305,000 (Note 2) | 1,403,800,000 | 70.19% (Note 3) |
| Mr. Chung Tai Keung, Canice | 48,064,000 | Nil | Nil | Nil | 48,064,000 | 2.40% |

## Report of Directors

Notes:

(1) These Shares comprise: (i) 1,129,895,000 Shares owned by Su Sih (BVI) Limited ("SuSih"); (ii) 29,352,000 Shares held by Total Glory Holdings Limited ("Total Glory"), a wholly-owned subsidiary of SuSih, in trust for certain employees of the Group; and (iii) 9,248,000 Shares owned by Top Mix Investments Limited ("Top Mix"), a wholly-owned subsidiary of SuSih. Mr. HC Tang is the sole shareholder of SuSih and is deemed to be interested in the aforesaid Shares under the SFO.

(2) Mr. HC Tang holds 235,305,000 Shares in his capacity as the trustee of a discretionary trust, namely The Mein et Moi Trust ("MEM Trust").

(3) This percentage comprises 56.49% interest owned by SuSih; 1.47% interest held by Total Glory as trustee for certain employees of the Group, 0.46% interest held by Top Mix and 11.77% interest held by Mr. HC Tang as the trustee of MEM Trust of the issued share capital of the Company.

Save as disclosed above, none of the Directors or chief executives of the Company, nor their associates, had any interests or short positions in any shares, share options or underlying shares of the Company or any of its associated corporations (within the meaning of the SFO) as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code as at 31 December 2007.

### SUBSTANTIAL SHAREHOLDER'S INTERESTS IN SHARES OF THE COMPANY

As at 31 December 2007, the following person (not being a Director or chief executive of the Company) who had interest in the shares and underlying shares of the Company were recorded in the register required to be kept under section 336 of the SFO:

### Long position

*Beneficial interests in the Shares*

| Name of Substantial Shareholder | Nature of interest | Number of Shares | Approximate shareholding percentage |
|---|---|---|---|
| SuSih | Beneficial owner and interest in controlled companies | 1,168,495,000 (Note 1) | 58.42% (Note 2) |

Notes:

(1) These 1,168,495,000 Shares comprise: (i) 1,129,895,000 Shares owned by SuSih; (ii) 29,352,000 Shares held by Total Glory in trust for certain employees of the Group; and (iii) 9,248,000 Shares held by Top Mix.

(2) This percentage comprises 56.49% interest owned by SuSih; 1.47% interest held by Total Glory as trustee for certain employees of the Group and 0.46% interest held by Top Mix of the issued share capital of the Company.

Save as disclosed and in the section "Directors' Interests in Shares of the Company" above, the Company has not been notified of any other relevant interests or short positions held by any other person in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO as at 31 December 2007.

## SHARE OPTIONS

A share option scheme (the "Share Option Scheme") was adopted by the shareholders' written resolution of the Company dated 12 January 2007. Summary of principal terms of the Share Option Scheme is set out below. No option had been granted under the Share Option Scheme since its adoption on 12 January 2007.

Unless otherwise cancelled or amended, the Share Option Scheme shall be valid and effective for a period of 10 years from its adoption date, after which period no further options will be issued but any options then outstanding will continue to be exercisable in accordance with their terms of issue. The remaining life of the Share Option Scheme is 8 years and 9 months.

The Share Option Scheme is designed to provide the Company with a flexible means of giving incentive to, rewarding, remunerating, compensating and/or providing benefits to eligible participants ("Eligible Participants"). The Board may, at its discretion, grant options to subscribe for Shares in the Company to Eligible Participants. Eligible Participants include:

(i) any executive or non-executive directors including independent non-executive directors or any employees (whether full-time or part-time) of each member of the Group;

(ii) any discretionary objects of a discretionary trust established by any employees, executive or non-executive directors of each member of the Group;

(iii) any consultants, professional and other advisors to each member of the Group (or persons, firms or companies proposed to be appointed for providing such services);

(iv) any chief executives or substantial shareholders of the Company;

(v) any associates of director, chief executive or substantial shareholder of the Company; and

(vi) any employees (whether full-time or part-time) of substantial shareholder of the Company, provided that the Board may have absolute discretion to determine whether or not one falls within the above categories.

The period under which an option may be exercised will be determined by the Board at its absolute discretion, save that an option shall expire not later than 10 years from the date of grant. Unless otherwise determined by the Board, and specified in the offer letter at the time of offer, there is no minimum period for which an option must be held before the option can be exercised. An option is open for acceptance for a period of 21 days from the date of offer. The amount payable on acceptance of an option is HK$1.00. The full amount of the subscription price for the Company's Shares has to be paid upon exercise of an option. The subscription price shall be such price solely determined by the Board at the time of offer of grant of the relevant option and shall be stated in the letter containing the offer of the grant of option.

The subscription price shall be at least the highest of the nominal value of the Company's Shares, the average of the closing prices of the Company's Shares quoted in the Stock Exchange's daily quotation sheets on the five trading days immediately preceding the date of an offer of the grant of the options and the closing price of the Company's Shares quoted in the Stock Exchange's daily quotation sheets on the date of an offer of the grant of the options.

The total number of the Company's Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other share option scheme of the Company (excluding options lapsed in accordance with the terms of the Share Option Scheme) shall not in aggregate exceed 10% of the total number of the Company's Shares in issue on the date of commencement of dealings in the Shares on the Stock Exchange, being 200,000,000 Shares.

The limit on the number of the Company's Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes of the Company must not exceed 30% of the Company's Shares in issue from time to time. As at the date of this report, a total of 200,000,000 Shares representing 10% of the issued share capital of the Company are available for issue under the Share Option Scheme.

The total number of the Company's Shares issued and to be issued upon exercise of the options granted to each participant (including both exercised and outstanding options) in any 12-month period shall not exceed 1% of the total number of the Company's Shares in issue unless approved by the Company's shareholders in general meeting.

## DIRECTORS' RIGHTS TO ACQUIRE SHARES

Save as disclosed in the annual report, none of the Company's directors and chief executive (including their spouse and children under 18 years of age) had any interest in, or had been granted, or exercised, any rights to subscribe for shares, warrants or debentures (if applicable) of the Company and its associated corporations (within the meaning of the SFO) during the year.

## CONTINUING CONNECTED TRANSACTIONS

The Group entered into a number of transactions with parties which, upon Listing, became connected persons of the Company under the Listing Rules. The Stock Exchange has, subject to certain conditions, granted waivers to the Company from compliance with certain requirements of the Listing Rules. Immediately following the date of Listing and up to 31 December 2007, the Group has the following continuing connected transactions:

(i) on 12 January 2007, Shanghai Meadville Electronics Co., Ltd. ("SME"), a wholly-owned subsidiary of the Company, entered into a supply agreement with Suzhou Shengyi Sci. Tech Co., Ltd. ("SSST") for and on behalf of itself and Shanghai Meadville Science & Technology Co., Ltd. effective from 1 January 2007 to 31 December 2009 for the purpose of purchasing laminates and prepreg. At the time of entering with the supply agreement with SSST, SSST is 75% owned by Guangdong Shengyi Sci. Tech Co., Ltd. ("GSST"), a substantial shareholder of two subsidiaries of the Company by virtue of being a connected person of the Company.

(ii) On 12 January 2007, SME also entered into a supply agreement with GSST for and on behalf of itself and four subsidiaries of the Company effective from 1 January 2007 to 31 December 2009 for the purpose of purchasing laminates and prepreg from GSST which is a connected person of the Company as disclosed above.

The Independent Non-executive Directors have been provided with reports from the auditors and the internal audit team of the Company in respect of the above continuing connected transactions and have discussed with them thereon. On that basis, the Independent Non-executive Directors have reviewed the above continuing connected transactions and confirmed that the transactions have been entered into:

(a) in ordinary and usual course of business of the Group;

(b) on normal commercial terms and/or on terms no less favourable to the Group than terms available to or from independent third parties; and

(c) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

In accordance with Rule 14A.38 of the Listing Rules, the Board engaged the auditors of the Company to perform certain factual finding procedures on the above continuing connected transactions on a sample basis in accordance with Hong Kong Standard on Related Services 4400 "Engagements to Perform Agreed-Upon Procedures Regarding Financial Information" issued by the Hong Kong Institute of Certified Public Accountants. The auditors have reported their factual findings on the selected samples based on the agreed procedures to the Board stating that:

(a) the continuing connected transactions have been approved by the Board;

(b) the continuing connected transactions are in accordance with the pricing policies of the Group;

(c) the continuing connected transactions have been entered into in accordance with the relevant agreements governing the continuing connected transactions; and

(d) the amounts of the continuing connected transactions have not exceeded the relevant caps as disclosed in the Company's prospectus dated 22 January 2007.

## DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Save as disclosed above, no other contracts of significance, to which the Company or any of its subsidiaries was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

## DIRECTORS' INTERESTS IN COMPETING BUSINESS

None of the Directors had, either directly or indirectly, an interest in a business which causes or may cause any significant competition with the business of the Group and any other conflicts of interest which any such person has or may have with the Group.

## PUBLIC FLOAT

To the best knowledge of the Directors and based on the information publicly available to the Company, there is a sufficient public float as required by the Listing Rules up to the date of this report.

## PURCHASE, REDEMPTION OR SALE OF LISTED SHARES OF THE COMPANY

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed shares during the year ended 31 December 2007.

## PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's articles of association and there was no restriction against such rights under the laws of the Cayman Islands.

## AUDITORS

The consolidated financial statements have been audited by PricewaterhouseCoopers, who will retire and, being eligible, will offer themselves for re-appointment at the forthcoming AGM.

On behalf of the Board

**Tang Chung Yen, Tom**
*Executive Chairman and Group Managing Director*

Hong Kong, 18 March 2008

# INDEPENDENT AUDITOR'S REPORT

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

**PricewaterhouseCoopers**
22nd Floor, Prince's Building
Central, Hong Kong

**TO THE SHAREHOLDERS OF MEADVILLE HOLDINGS LIMITED**
*(incorporated in the Cayman Islands with limited liability)*

We have audited the consolidated financial statements of Meadville Holdings Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 47 to 130, which comprise the consolidated and company balance sheets as at 31 December 2007, and the consolidated profit and loss account, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

## DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

## AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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

## Independent Auditor's Report

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

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

### OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2007 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**PricewaterhouseCoopers**
*Certified Public Accountants*

Hong Kong, 18 March 2008

# CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the year ended 31 December 2007

| | Note | **2007 HK$'000** | 2006 HK$'000 |
|---|---|---|---|
| Revenue | 5 | **4,490,262** | 3,140,398 |
| Cost of sales | 9 | **(3,430,222)** | (2,486,560) |
| Gross profit | | **1,060,040** | 653,838 |
| Other income | 6 | **177,050** | 97,145 |
| Selling and distribution expenses | 9 | **(240,182)** | (126,467) |
| General and administrative expenses | 9 | **(245,152)** | (154,349) |
| Share award expenses | 7, 9 | **(254,502)** | – |
| Operating profit | | **497,254** | 470,167 |
| Loss on share reform of an associated company | 20 | **–** | (52,237) |
| Interest income | 10 | **27,300** | 6,034 |
| Finance costs | 11 | **(109,737)** | (88,171) |
| Share of net profit of associated companies | 20 | **107,858** | 97,849 |
| Profit before income tax | | **522,675** | 433,642 |
| Income tax expense | 12 | **(72,116)** | (48,718) |
| Profit for the year | 5 | **450,559** | 384,924 |
| Attributable to: | | | |
| Equity holders of the Company | 13 | **341,648** | 320,017 |
| Minority interests | | **108,911** | 64,907 |
| | | **450,559** | 384,924 |
| Earnings per share for profit attributable to equity holders of the Company during the year (expressed in HK dollar per share) | | | |
| – basic | 14 | **0.17** | 0.21 |
| – diluted | 14 | **0.17** | 0.21 |
| Dividends | 15 | **120,000** | – |

# BALANCE SHEETS

At 31 December 2007

| | | Group | | Company | |
|---|---|---|---|---|---|
| | | **2007** | 2006 | **2007** | 2006 |
| | Note | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| **Assets** | | | | | |
| **Non-current assets** | | | | | |
| Property, plant and equipment | 16 | **4,121,368** | 2,030,800 | **–** | – |
| Leasehold land and land use rights | 17 | **174,420** | 114,549 | **–** | – |
| Intangible assets | 18 | **27,670** | 8,084 | **–** | – |
| Goodwill | 19 | **122,229** | 14,477 | **–** | – |
| Investments in associated companies | 20 | **579,543** | 441,409 | **–** | – |
| Investments in subsidiaries | 21 | **–** | – | **777,000** | 777,000 |
| Available-for-sale financial assets | 22 | **21,089** | – | **–** | – |
| Deferred tax assets | 31 | **13,124** | – | **–** | – |
| | | **5,059,443** | 2,609,319 | **777,000** | 777,000 |
| **Current assets** | | | | | |
| Stocks and work in progress | 24 | **498,000** | 373,459 | **–** | – |
| Debtors and prepayments | 25 | **1,597,034** | 1,241,699 | **312** | 7,532 |
| Amounts due from subsidiaries | 37 | **–** | – | **1,315,749** | – |
| Amount due from a related party | 26 | **39,055** | – | **–** | – |
| Taxation recoverable | | **6,090** | 2,220 | **–** | – |
| Cash and bank balances | 27 | **418,192** | 211,150 | **339** | – |
| | | **2,558,371** | 1,828,528 | **1,316,400** | 7,532 |
| Total assets | | **7,617,814** | 4,437,847 | **2,093,400** | 784,532 |
| **Equity** | | | | | |
| Capital and reserves attributable to the equity holders of the Company | | | | | |
| Share capital | 28 | **1,822,612** | 777,000 | **1,822,612** | 777,000 |
| Reserves | 29 | **560,901** | (43,189) | **173,464** | (597) |
| Proposed final dividend | 15 | **80,000** | – | **80,000** | – |
| | | **2,463,513** | 733,811 | **2,076,076** | 776,403 |
| Minority interests | | **359,293** | 203,916 | **–** | – |
| Total equity | | **2,822,806** | 937,727 | **2,076,076** | 776,403 |

## Balance Sheets

At 31 December 2007

| | | Group | | Company | |
|---|---|---|---|---|---|
| | | **2007** | 2006 | **2007** | 2006 |
| | Note | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| **Liabilities** | | | | | |
| **Non-current liabilities** | | | | | |
| Borrowings | 30 | **1,738,067** | 749,060 | **–** | – |
| Deferred tax liabilities | 31 | **81,483** | 14,219 | **–** | – |
| Financial liabilities | 32 | **264,394** | – | **–** | – |
| Long-term other payables | 33 | **115,658** | – | **–** | – |
| | | **2,199,602** | 763,279 | **–** | – |
| **Current liabilities** | | | | | |
| Creditors and accruals | 34 | **1,428,268** | 800,030 | **17,324** | 1,004 |
| Amount due to a subsidiary of a minority shareholder of a subsidiary | 35 | **29,367** | 63,359 | **–** | – |
| Amounts due to associated companies | 35 | **150,669** | 120,742 | **–** | – |
| Amount due to a minority shareholder | 36 | **343** | – | **–** | – |
| Amounts due to subsidiaries | 37 | **–** | – | **–** | 7,125 |
| Amounts due to related parties | 26 | **–** | 709,598 | **–** | – |
| Borrowings | 30 | **961,107** | 1,026,247 | **–** | – |
| Taxation payable | | **25,652** | 16,865 | **–** | – |
| | | **2,595,406** | 2,736,841 | **17,324** | 8,129 |
| Total liabilities | | **4,795,008** | 3,500,120 | **17,324** | 8,129 |
| Total equity and liabilities | | **7,617,814** | 4,437,847 | **2,093,400** | 784,532 |
| Net current (liabilities)/assets | | **(37,035)** | (908,313) | **1,299,076** | (597) |
| Total assets less current liabilities | | **5,022,408** | 1,701,006 | **2,076,076** | 776,403 |

**Tang Chung Yen, Tom**
*Executive Chairman and Group Managing Director*

**Chung Tai Keung, Canice**
*Chief Executive Officer*

# CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2007

| | Note | 2007 HK$'000 | 2006 HK$'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Profit before income tax | | **522,675** | 433,642 |
| Adjustments for: | | | |
| – Share of net profit of associated companies | | **(107,858)** | (97,849) |
| – Loss on share reform of an associated company | | **–** | 52,237 |
| – Interest expenses | | **109,737** | 88,171 |
| – Interest income | | **(27,300)** | (6,034) |
| – Impairment of goodwill | | **–** | 55 |
| – Impairment of property, plant and equipment | | **10,612** | – |
| – Amortisation of intangible assets | | **1,337** | 1,170 |
| – Amortisation of leasehold land and land use rights | | **2,904** | 2,472 |
| – Depreciation of property, plant and equipment | | **291,760** | 208,770 |
| – Income on acquisition of additional equity interest of a subsidiary | | **–** | (1,108) |
| – Gain on partial disposal of a subsidiary | 39(a) | **(41)** | – |
| – Loss/(gain) on disposal of property, plant and equipment | | **2,599** | (684) |
| – Share award expenses | | **254,502** | – |
| Operating profit before working capital changes | | **1,060,927** | 680,842 |
| Changes in: | | | |
| Stocks and work in progress | | **(96,759)** | (114,271) |
| Debtors and prepayments | | **(139,214)** | (272,588) |
| Restricted bank balances | | **(2,477)** | 12,075 |
| Creditors and accruals | | **456,466** | 204,356 |
| Long-term other payables | | **115,658** | – |
| Amount due from a director | | **–** | 20,809 |
| Amounts due to associated companies | | **29,927** | (23,210) |
| Amounts due from/(to) related parties | | **(48,653)** | (39,669) |
| Amount due to a minority shareholder | | **343** | – |
| Amount due to a subsidiary of a minority shareholder of a subsidiary | | **(33,992)** | 39,565 |
| Cash generated from operating activities | | **1,342,226** | 507,909 |
| Interest received | | **27,300** | 6,034 |
| Interest paid | | **(109,737)** | (88,171) |
| Hong Kong profits tax paid | | **(11,900)** | (2,900) |
| Overseas tax paid | | **(70,741)** | (36,396) |
| Net cash generated from operating activities | | **1,177,148** | 386,476 |

## Consolidated Cash Flow Statement

For the year ended 31 December 2007

| | Note | 2007<br>HK$'000 | 2006<br>HK$'000 |
|---|---|---|---|
| **Cash flows from investing activities** | | | |
| Purchase of property, plant and equipment | | **(1,387,330)** | (654,442) |
| Purchase of leasehold land and land use rights | | – | (30,805) |
| Proceeds from sale of property, plant and equipment | | **3,431** | 7,482 |
| Acquisition of a subsidiary, net of bank balances and cash acquired | 39(b) | **(694,715)** | – |
| Partial disposal of a subsidiary | 39(a) | **14,719** | – |
| Purchase of additional equity interest in a subsidiary | | **–** | (6,354) |
| Purchase of available-for-sale financial assets | | **(21,089)** | – |
| Distribution to equity holders | | **–** | (6,698) |
| Investments in an associated company | | **(20,750)** | (33,305) |
| Dividends received from associated companies | | **26,511** | 41,112 |
| Partial consideration pursuant to the reorganisation | 39(c) | **(700,000)** | – |
| Net cash used in investing activities | | **(2,779,223)** | (683,010) |
| **Cash flows from financing activities** | | | |
| New borrowings | | **3,095,406** | 1,967,787 |
| Repayment of borrowings | | **(2,186,244)** | (1,629,011) |
| Proceeds from issuance of shares | | **1,125,000** | – |
| Share issue expenses | | **(79,388)** | – |
| Dividends paid to shareholders | | **(40,000)** | – |
| Dividends paid to minority shareholders | | **(101,630)** | (30,174) |
| Capital contribution by minority shareholders | | **114,285** | 18,068 |
| Net cash generated from financing activities | | **1,927,429** | 326,670 |
| Exchange differences on cash and cash equivalents | | **(78,279)** | (21,612) |
| Net increase in cash and cash equivalents | | **247,075** | 8,524 |
| Cash and cash equivalents at beginning of the year | 39(d) | **167,216** | 158,692 |
| Cash and cash equivalents at end of the year | 39(d) | **414,291** | 167,216 |

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2007

| | Attributable to equity holders of the Company | | | |
|---|---|---|---|---|
| | Share capital (Note 28) HK$'000 | Reserves (Note 29) HK$'000 | Minority interests HK$'000 | Total HK$'000 |
| **At 1 January 2006** | 777,000 | 349,788 | 152,477 | 1,279,265 |
| Exchange differences | – | 44,799 | 6,100 | 50,899 |
| Net income recognised directly in equity | – | 44,799 | 6,100 | 50,899 |
| Profit for the year | – | 320,017 | 64,907 | 384,924 |
| **Total recognised income and expense for 2006** | – | 364,816 | 71,007 | 435,823 |
| Capital contribution by minority shareholders | – | – | 18,068 | 18,068 |
| Partial consideration pursuant to the reorganisation | – | (700,000) | – | (700,000) |
| Distribution to equity holders | – | (57,793) | – | (57,793) |
| Disposal of equity interest by a minority shareholder | – | – | (7,462) | (7,462) |
| Dividends | – | – | (30,174) | (30,174) |
| | – | (757,793) | (19,568) | (777,361) |
| **At 31 December 2006** | 777,000 | (43,189) | 203,916 | 937,727 |

## Consolidated Statement of Changes in Equity

For the year ended 31 December 2007

| | Attributable to equity holders of the Company | | | | |
|---|---|---|---|---|---|
| | Share capital (Note 28) HK$'000 | Reserves (Note 29) HK$'000 | Proposed final dividend (Note 15) HK$'000 | Minority interests HK$'000 | Total HK$'000 |
| **At 1 January 2007** | 777,000 | (43,189) | – | 203,916 | 937,727 |
| Exchange differences | – | 127,940 | – | 19,133 | 147,073 |
| Net income recognised directly in equity | – | 127,940 | – | 19,133 | 147,073 |
| Profit for the year | – | 341,648 | – | 108,911 | 450,559 |
| **Total recognised income and expense for 2007** | – | 469,588 | – | 128,044 | 597,632 |
| Capital contribution by minority shareholders | – | – | – | 128,963 | 128,963 |
| Proceeds from issuance of shares | 1,125,000 | – | – | – | 1,125,000 |
| Share issue expenses | (79,388) | – | – | – | (79,388) |
| Shares granted per share award scheme (Note 7) | – | 254,502 | – | – | 254,502 |
| Dividends | – | (40,000) | – | (101,630) | (141,630) |
| Proposed final dividend | – | (80,000) | 80,000 | – | – |
| | 1,045,612 | 134,502 | 80,000 | 27,333 | 1,287,447 |
| **At 31 December 2007** | 1,822,612 | 560,901 | 80,000 | 359,293 | 2,822,806 |

# Notes to the Financial Statements

## 1 GENERAL INFORMATION

Meadville Holdings Limited (the "Company") and its subsidiaries (together, the "Group") are principally engaged in the manufacturing and distribution of printed circuit boards and copper clad laminates (the "PCB and Laminates Business").

The Company was incorporated in the Cayman Islands on 28 August 2006 as an exempted company with limited liability under the Companies Law (2004 Revision) of the Cayman Islands. The address of its registered office is Clifton House, 75 Fort Street, P.O. Box 1350 GT, George Town, Grand Cayman, Cayman Islands.

As a result of the reorganisation in preparation for the listing of shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), all the PCB and Laminates Business was transferred to the Company and its subsidiaries now comprising the Group effective 30 December 2006.

The Company's shares were listed on the Stock Exchange on 2 February 2007 (the "Listing").

These consolidated financial statements are presented in thousands of units of Hong Kong dollars, unless otherwise stated.

These consolidated financial statements have been approved for issue by the Board of Directors on 18 March 2008.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the presentation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

### (a) Basis of preparation

The consolidated financial statements of the Company have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, financial assets and financial liabilities at fair value through profit or loss.

The preparation of the consolidated financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 4.

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

### (a) Basis of preparation *(Continued)*

The following standards, amendments and interpretations are mandatory for accounting periods beginning on or after 1 January 2007:

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

The following new standards, amendments to standards and interpretations have been issued but are not effective for 2007 and have not been early adopted:

HKAS 1 (Revised), "Presentation of Financial Statements", effective for annual periods beginning on or after 1 January 2009. It requires all owner changes in equity to be presented in a statement of changes in equity. All comprehensive income is presented in one statement of comprehensive income or in two statements (a separate income statement and a statement of comprehensive income). It requires presenting a statement of financial position as at the beginning of the earliest comparative period in a complete set of financial statements when there are retrospective adjustments or reclassification adjustments. However, it does not change the recognition, measurement or disclosure of specific transactions and other events required by other HKFRSs. The Group will apply HKAS 1 (Revised) from 1 January 2009.

HKAS 23 (Revised), "Borrowing Costs", effective for annual periods beginning on or after 1 January 2009. It requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs will be removed. The Group will apply HKAS 23 (Revised) from 1 January 2009 but management believes that this standard should not have a significant impact to the Group as the Group has been capitalising borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, if any.

## Notes to the Financial Statements

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

#### (a) Basis of preparation *(Continued)*

HKAS 27 (Revised), “Consolidated and Separate Financial Statements”, effective for annual periods beginning on or after 1 July 2009. The amendment requires non-controlling interests (i.e. minority interests) to be presented in the consolidated statement of financial position within equity, separately from the equity of the owners of the parent. Total comprehensive income must be attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. Changes in a parent’s ownership interest in a subsidiary that do not result in the loss of control are accounted for within equity. When control of a subsidiary is lost, the assets and liabilities and related equity components of the former subsidiary are derecognised. Any gain or loss is recognised in profit or loss. Any investment retained in the former subsidiary is measured at its fair value at the date when control is lost. The Group will apply HKAS 27 (Revised) from 1 January 2010.

HKFRS 3 (Revised), “Business Combination”, effective for business combinations with acquisition date on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. The amendment may bring more transactions into acquisition accounting as combinations by contract alone and combinations of mutual entities are brought into the scope of the standard and the definition of a business has been amended slightly. It now states that the elements are “capable of being conducted” rather than “are conducted and managed”. It requires considerations (including contingent consideration), each identifiable asset and liability to be measured at its acquisition-date fair value, except leases and insurance contracts, reacquired right, indemnification assets as well as some assets and liabilities required to be measured in accordance with other HKFRSs. They are income taxes, employee benefits, share-based payment and non-current assets held for sale and discontinued operations. Any non-controlling interest in an acquiree is measured either at fair value or at the non-controlling interest’s proportionate share of the acquiree’s net identifiable assets. The Group will apply HKFRS 3 (Revised) from 1 January 2010.

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

### (a) Basis of preparation *(Continued)*

HKFRS 8, "Operating Segments", effective for annual periods beginning on or after 1 January 2009. HKFRS 8 replaces HKAS 14 and aligns segment reporting with the requirements of the US standard SFAS 131, "Disclosures about segments of an enterprise and related information". The new standard requires a "management approach", under which segment information is presented on the same basis as that used for internal reporting purposes. The Group will apply HKFRS 8 from 1 January 2009. Management believes that this standard should not have a significant impact to the number of reportable segments, as well as the manner in which the segments are reported as the reportable segment is presented in a manner that is consistent with the internal reporting provided to the chief operating decision-maker. As goodwill is allocated to groups of cash-generating units ("CGUs") based on segment level, the change will also require management to reallocate goodwill to the newly identified operating segments. Management does not anticipate that this will result in any material impairment to the goodwill balance.

HK(IFRIC)-Int 11, "HKFRS 2 – Group and Treasury Share Transactions", effective for annual periods beginning on or after 1 March 2007. It provides guidance on whether share-based transactions involving treasury shares or involving group entities (for example, options over a parent's shares) should be accounted for as equity-settled or cash-settled share-based payment transactions in the stand-alone accounts of the parent and group companies. The Group will apply HK(IFRIC)-Int 11 from 1 January 2008 but is currently not applicable to the Group as there are no share-based transactions.

HK(IFRIC)-Int 12, "Service Concession Arrangements", effective for annual periods beginning on or after 1 January 2008. It applies to contractual arrangements whereby a private sector operator participates in the development, financing, operation and maintenance of infrastructure for public sector services. HK(IFRIC)-Int 12 is not relevant to the Group's operations because none of the Group's companies provide for public sector services.

HK(IFRIC)-Int 13, "Customer Loyalty Programmes", effective for annual periods beginning on or after 1 July 2008. It clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement using fair values. HK(IFRIC)-Int 13 is not relevant to the Group's operation as none of the Group's companies operate any loyalty programmes.

## Notes to the Financial Statements

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

#### (a) Basis of preparation *(Continued)*

HK(IFRIC)-Int 14, "HKAS 19 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction", effective for annual periods beginning on or after 1 January 2008. It provides guidance on assessing the limit in HKAS 19 on the amount of the surplus that can be recognised as an asset. It also explains how the pension asset or liability may be affected by a statutory or contractual minimum funding requirement. The Group will apply HK(IFRIC)-Int 14 from 1 January 2008, but it is not expected to have any impact on the Group's financial statements.

In preparing the consolidated financial statements of the Company, the directors have taken into account all information that could reasonably be expected to be available and have ascertained that the Group has obtained adequate financial resources to support the Group to continue in operational existence for the foreseeable future. Under these circumstances, the directors consider that it is proper to prepare the financial statements on a going concern basis notwithstanding that at 31 December 2007, the Group's current liabilities exceeded its current assets by approximately HK$37,035,000.

#### (b) Consolidation

The consolidated financial statements include the financial statements of the Company and all of its subsidiaries made up to 31 December.

*(i) Subsidiaries*

Subsidiaries are all entities (including special purpose entities) over which the Group has power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

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

### (b) Consolidation *(Continued)*

*(i) Subsidiaries (Continued)*

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the profit and loss account.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

*(ii) Transactions with minority interests*

The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group. Disposals to minority interests result in gains and losses for the Group that are recorded in the consolidated profit and loss account. Purchases from minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary.

## Notes to the Financial Statements

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

#### (b) Consolidation *(Continued)*

*(iii) Associated companies*

Associated companies are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associated companies are accounted for using the equity method of accounting and are initially recognised at cost. The Group's investment in associated companies includes goodwill (net of any accumulated impairment loss) identified on acquisition.

The Group's share of its associated companies' post-acquisition profits or losses is recognised in the consolidated profit and loss account, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associated company equals or exceeds its interest in the associated company, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associated company.

Unrealised gains on transactions between the Group and its associated companies are eliminated to the extent of the Group's interest in the associated companies. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associated companies have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet the investments in associated companies are stated at cost less provision for impairment losses. The results of associated companies are accounted for by the Company on the basis of dividend received and receivable.

#### (c) Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

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

### (d) Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are expensed in the profit and loss account during the financial period in which they are incurred.

Depreciation of property, plant and equipment is calculated, using the straight line method, to allocate their cost to their residual values over their estimated useful lives, which are summarised as follows:

| | |
|---|---|
| Buildings | 22 – 25 years |
| Leasehold improvements | 22 – 25 years |
| Furniture and equipment | 5 – 6 years |
| Plant, machinery and equipment | 10 – 12 years |
| Motor vehicles | 5 – 6 years |

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Construction in progress represents buildings or leasehold improvements on which construction work has not been completed and plant, machinery and equipment pending installation. It is carried at cost which includes construction expenditures and other direct costs less any impairment losses. On completion, construction in progress is transferred to the appropriate categories of property, plant and equipment at cost less accumulated impairment losses. No depreciation is provided for construction in progress until they are completed and available for use.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are charged to the profit and loss account.

## Notes to the Financial Statements

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

#### (e) Intangible assets

*(i) Goodwill*

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary and associated company at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associated companies is included in investments in associated companies. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold. Impairment losses on goodwill are not reversed.

Goodwill is allocated to CGUs for the purpose of impairment testing. The allocation is made to those cash-generating units or Groups of CGUs that are expected to benefit from the business combination in which the goodwill arosed.

*(ii) Technologies fee*

The technologies fee is shown at historical cost. The technologies fee has a definite useful life and is carried at cost less accumulated amortisation. Amortisation is calculated using the straight line method to allocate the cost of technologies fee over its estimated useful life of 10 years.

*(iii) Customer relationship*

Customer relationship represents the fair value attributable to the customer base or existing contractual bids with customers taken over as a result of business combination. The amount is amortised over the estimated useful life of 10 years.

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

### (f) Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The carrying amount of the assets is reduced through the use of an allowance account, and the amount of the loss is recognised in the profit and loss account within selling and distribution expenses. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against selling and distribution expenses in the profit and loss account.

### (g) Impairment of non-financial assets

Non-financial assets that have an indefinite useful life or have not yet available for use are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (CGUs). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

## Notes to the Financial Statements

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

#### (h) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date. Available-for-sale financial assets are subsequently carried at fair value.

Changes in fair value of monetary securities denominated in a foreign currency and classified as available-for-sale are analysed between translation differences resulting from changes in amortised costs of the security and other changes in the carrying amount of the security. Changes in the fair value of monetary and non-monetary securities classified as available for sale are recognised in equity.

Interest on available-for-sale securities calculated using the effective interest method is recognised in the profit and loss account. Dividends on available-for-sale equity instruments are recognised in the profit and loss account when the Group's right to receive payments is established.

If the market for a financial asset is not active (and for unlisted securities), the Group established fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the profit and loss account. Impairment losses recognised in the profit and loss account on equity instruments are not reversed through the profit and loss account.

#### (i) Stocks and work in progress

Stocks and work in progress are stated at the lower of cost and net realisable value. Cost, calculated on the weighted average basis, comprises materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

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

### (j) Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are expensed in the profit and loss account on a straight line basis over the period of the lease.

### (k) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the profit and loss account over the period of the borrowings using the effective interest method.

Borrowing costs incurred for the construction of any qualifying assets are capitalised during the period of time that is required to complete and prepare the assets for its intended use. Other borrowing costs are expensed.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least twelve months after the balance sheet date.

### (l) Current and deferred income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantially enacted at the balance sheet date in the countries where the company's subsidiaries and associated companies operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination and at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

## Notes to the Financial Statements

**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

**(l) Current and deferred income tax** *(Continued)*

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associated companies, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

**(m) Cash and cash equivalents**

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

**(n) Trade payables**

Trade payable are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

**(o) Provisions**

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

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

### (p) Employee benefits

*(i) Employee leave entitlements*

Employee entitlements to annual and long service leaves are recognised when they accrue to employees. Provisions are made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the balance sheet date.

*(ii) Retirement benefits*

The Group pays contributions to separate trustee-administered funds on a mandatory basis. The Group has no further payment obligation once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due and are not reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contribution.

The Group's employees in Mainland China are covered by various government sponsored pension plans. These government agencies are responsible for the pension liabilities to these employees. The relevant group companies pay monthly contributions to these pension plans based on certain percentages of the salaries, subject to a certain ceiling. Under these plans, the Group has no legal or constructive obligation to make further payments once the required contributions have been paid. Contributions to these plans are expensed as incurred.

The Group's overseas employees are entitled to participate in a number of defined contribution pension schemes, the assets of which are generally held in separate trustee-administered funds. The pension schemes are generally funded by payments from employees and by the relevant group companies.

*(iii) Bonus plans*

Provisions for bonus plan due wholly within twelve months after balance sheet date are recognised where contractually obliged or where there is a past practice that has created a constructive obligation.

## Notes to the Financial Statements

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

#### (p) Employee benefits *(Continued)*

*(iv) Share-based compensation*

For shares granted to the employees, the fair value of the employee services received in exchange for the grant of the shares is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the shares granted. At each balance sheet date, the Group revises its estimates of the number of shares that are expected to vest. It recognises the impact of the revision of original estimates, if any, in the profit and loss account, with a corresponding adjustment to equity.

*(v) Other benefits*

The Group's employees in Mainland China are also entitled to participate in various government sponsored medical insurance plan and housing funds. The relevant group companies pay monthly contributions to these funds based on certain percentages of the salaries. The Group's liability in respect of these funds is limited to the contributions paid. Contributions to these plans are expensed as incurred.

#### (q) Government grants

Grants from government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the profit and loss account over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to the purchase of property, plant and equipment are included in non-current liabilities as deferred government grants and are credited to the profit and loss account on a straight line basis over the expected lives of the related assets.

#### (r) Share capital

Shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the net proceeds.

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

### (s) Financial liabilities – put option

Financial liabilities are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

### (t) Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group.

Sales of goods are recognised when a Group entity has delivered products to the customer, the customer has accepted the products and collectibility of related receivables is reasonably assured.

### (u) Interest income

Interest income is recognised on a time proportion basis, using the effective interest method.

### (v) Foreign currency translation

*(i) Functional and presentation currency*

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Hong Kong dollars which is the Company's functional and presentation currency.

*(ii) Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss account.

Translation differences on non-monetary financial assets and liabilities are reported as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified as available-for-sale are included in the available-for-sale reserve in equity.

## Notes to the Financial Statements

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

#### (v) Foreign currency translation *(Continued)*

*(iii) Group companies*

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(ii) income and expenses for each profit and loss account are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(iii) all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to owners' equity. When a foreign operation is sold, such exchange differences are recognised in the consolidated profit and loss account as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

#### (w) Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

## 3 FINANCIAL RISK MANAGEMENT

### (a) Financial risk factors

The Group's activities expose it to a variety of financial risks: foreign exchange risk, credit risk, liquidity risk and cash flow interest-rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

*(i) Foreign exchange risk*

The Group operates principally in Hong Kong and in the People's Republic of China (the "PRC") and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US Dollar ("US$") and Renminbi ("RMB"). Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations. The Group attempts to minimise its foreign exchange risk exposure through payment of operating costs and maintenance of borrowings at a balanced mix of major currencies.

In addition, the conversion of Renminbi into foreign currencies is subject to the rules and regulations of the foreign exchange controls promulgated by the PRC government.

The Group has certain investments in foreign operations, whose net assets are exposed to foreign currency translation risk. Currency exposure arising from the net assets of the Group's foreign operations is managed primarily through borrowings denominated in the relevant foreign currencies.

If RMB had weakened/strengthened by 3.5% and 5.0% against the Hong Kong dollar ("HK$") with all other variables held constant, post-tax profit for the year would have been HK$9,786,000 and HK$25,734,000 for the years ended 31 December 2006 and 2007 higher/lower respectively, mainly as a result of foreign exchange gains/losses on translation of RMB-denominated trade receivables and foreign exchange losses/gains on translation of RMB-denominated trade payables and borrowings. Profit is more sensitive to movement in RMB/HK$ in exchange rates in 2007 than 2006 because of the increase in net assets which was denominated in RMB. Equity would have been HK$66,605,000 and HK$193,775,000 higher/lower respectively.

If US$ had weakened/strengthened by 0.2% and 0.4% against the HK$ with all other variable held constant, post-tax profit for the year would have been HK$545,000 and HK$2,653,000 for the years ended 31 December 2006 and 2007 higher/lower respectively, mainly as a result of foreign exchange gains/losses on translation of US$-denominated trade receivables and foreign exchange losses/gains on translation of US$-denominated borrowings.

## Notes to the Financial Statements

### 3 FINANCIAL RISK MANAGEMENT *(Continued)*

#### (a) Financial risk factors *(Continued)*

*(ii) Credit risk*

The credit risk of the Group mainly arises from cash and cash equivalents, debtors and amounts due from related companies. The carrying amounts of these balances represent the Group's maximum exposure to credit risk in relation to financial assets. As at 31 December 2006 and 2007, all the bank deposits are deposited in high quality financial institutions without significant credit risk.

The table below shows the bank deposits balance of the four major banks as at 31 December 2006 and 2007. Management does not expect any losses from non-performance by these banks. The Group has no policy to limit the amount of credit exposure to any financial institution.

| Counterparty | Rating (i) | **2007**<br>**HK$'000** | 2006<br>HK$'000 |
|---|---|---|---|
| The Hongkong and Shanghai Banking Corporation Limited | Aa1 | **147,178** | 79,249 |
| Agricultural Bank of China | A1 | **106,732** | 66,902 |
| Construction Bank of China | A1 | **76,187** | 10,771 |
| Bank of China Limited | A1 | **61,034** | 19,941 |
| | | **391,131** | 176,863 |

Note (i): The source of current credit rating is from Moody's.

## 3 FINANCIAL RISK MANAGEMENT *(Continued)*

### (a) Financial risk factors *(Continued)*

*(ii) Credit risk (Continued)*

The table below shows the major debtors balance as at 31 December 2006 and 2007.

| Counterparty | Rating | **2007 HK$'000** | 2006 HK$'000 |
|---|---|---|---|
| Debtors A (ii) | 5A3 | **266,764** | 156,732 |
| Debtors B (ii) | 3A3 | **223,738** | 72,349 |
| Debtors C (iii) | A+ | **41,770** | 39,883 |
| Debtors D (iii) | BB+ | **65,064** | 69,679 |
| Debtors E (iii) | B+ | **29,785** | 19,995 |
| Debtors F (iii) | BB- | **23,786** | 9,251 |
| | | **650,907** | 367,889 |

Note (ii): The source of current credit rating is from Dun & Bradstreet.

Note (iii): The source of current credit rating is from Standard & Poor's.

These debtors have no default in the past.

In order to minimise the credit risk to debtors, the Group has delegated a credit control team to be responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts.

*(iii) Liquidity risk*

Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, the Group aims to maintain flexibility in funding by keeping committed credit lines available.

## Notes to the Financial Statements

### 3 FINANCIAL RISK MANAGEMENT *(Continued)*

#### (a) Financial risk factors *(Continued)*

*(iii) Liquidity risk (Continued)*

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

| | Within 1 year HK$'000 | Between 1 and 2 years HK$'000 | Between 2 and 5 years HK$'000 | Over 5 years HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| **As at 31 December 2007** | | | | | |
| Creditors and accruals | **1,428,268** | **–** | **–** | **–** | **1,428,268** |
| Amount due to a subsidiary of a minority shareholder of a subsidiary | **29,367** | **–** | **–** | **–** | **29,367** |
| Amounts due to associated companies | **150,669** | **–** | **–** | **–** | **150,669** |
| Borrowings | **961,107** | **466,225** | **1,271,842** | **–** | **2,699,174** |
| Interest payments on borrowings (Note) | **117,924** | **72,916** | **77,029** | **–** | **267,869** |
| Taxation payable | **25,652** | **–** | **–** | **–** | **25,652** |
| Amount due to a minority shareholder | **343** | **–** | **–** | **–** | **343** |
| Financial liabilities | **–** | **–** | **–** | **264,394** | **264,394** |
| Long-term other payables | **–** | **209** | **115,449** | **–** | **115,658** |
| Interest payments on long term other payables | **2,482** | **5,872** | **8,571** | **–** | **16,925** |
| | **2,715,812** | **545,222** | **1,472,891** | **264,394** | **4,998,319** |
| As at 31 December 2006 | | | | | |
| Creditors and accruals | 800,030 | – | – | – | 800,030 |
| Amount due to a subsidiary of a minority shareholder of a subsidiary | 63,359 | – | – | – | 63,359 |
| Amounts due to associated companies | 120,742 | – | – | – | 120,742 |
| Amounts due to related parties | 709,598 | – | – | – | 709,598 |
| Borrowings | 1,026,247 | 263,735 | 471,525 | 13,800 | 1,775,307 |
| Interest payments on borrowings (Note) | 109,737 | 37,379 | 35,276 | 286 | 182,678 |
| Taxation payable | 16,865 | – | – | – | 16,865 |
| | 2,846,578 | 301,114 | 506,801 | 14,086 | 3,668,579 |

## 3 FINANCIAL RISK MANAGEMENT *(Continued)*

### (a) Financial risk factors *(Continued)*

#### *(iii) Liquidity risk (Continued)*

Note:

The interest payments on borrowings is calculated based on borrowings held as at 31 December 2006 and 2007 without taking into account of future issues. Floating-rate interest is estimated using applicable interest rate at 31 December 2006 and 2007 respectively.

#### *(iv) Cash flow and fair value interest rate risk*

The Group's interest rate risk arises from borrowings. Borrowings issued at variable rates expose the Group to cash flow interest-rate risk. Other than borrowings, the Group has no significant interest-bearing assets and liabilities. Accordingly, the Group's income and operating cash flows, other than finance costs, are substantially independent of changes in market interest rates.

The Group analyses its interest rate exposure on a dynamic basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions and alternative financing. Based on these scenarios, the Group calculates the impact on profit and loss of a defined interest rate shift. For each simulation, the same interest rate shift is used for all currencies. The scenarios are run only for liabilities that represent the major interest-bearing positions.

Based on the simulations performed, the impact on profit or loss of a 10 basis-point shift would be a maximum increase of HK$2,699,000 (2006: HK$1,775,000) or decrease of HK$2,699,000 (2006: HK$1,775,000) respectively. The simulation is done on a quarterly basis to verify that the maximum loss potential is within the limit given by the management.

### (b) Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group will monitor the operating cash flow generated from operations and available banking facilities to match its capital expenditure and dividend outflow payments.

## Notes to the Financial Statements

### 3 FINANCIAL RISK MANAGEMENT *(Continued)*

#### (b) Capital risk management *(Continued)*

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash and cash equivalents. Total capital is calculated as "equity", as shown in the consolidated balance sheet.

The Group's strategy was to maintain a solid capital base to support the operations and development of its business in the long term. Management considers a gearing ratio of not more than 100% as solid and reasonable. The table below analyses the Group's capital structure at 31 December 2006 and 2007 as follows:

| | **2007** | 2006 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Total borrowings | **2,699,174** | 1,775,307 |
| Less: Cash and bank balances (Note 27) | **(418,192)** | (211,150) |
| Net debt | **2,280,982** | 1,564,157 |
| Total capital | **2,822,806** | 937,727 |
| Gearing ratio | **81%** | 167% |

The increase in net debt during 2007 resulted primarily from the acquisition of 80% of the issued share capital of Aspocomp Asia Limited and its subsidiaries in November 2007.

#### (c) Fair value estimation

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. Estimated discounted cash flows are used to determine the fair value for the financial instruments.

The carrying value less impairment provision of trade receivables and payables are a reasonable approximation of their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

## 4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions 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.

### (a) Useful lives of property, plant and equipment

The Group's management determines the estimated useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles. Management will increase the depreciation charge where useful lives are less than previously estimated lives, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

### (b) Provision for impairment of trade and other receivables

The Group makes provision for impairment of trade and other receivables based on an assessment of the recoverability of these receivables. Provisions are applied to trade and other receivables where events or changes in circumstances indicate that the balances may not be collectible. The identification of impairment of trade and other receivables requires the use of judgement and estimates. Where the expectation is different from the original estimate, such difference will impact the carrying value of receivables and provision for impairment losses in the period in which such estimate has been changed.

### (c) Net realisable values of stocks and work in progress

Stocks and work in progress are carried at the lower of cost and net realisable value. The cost of stocks and work in progress is written down to net realisable value when there is an objective evidence that the cost of stocks and work in progress may not be recoverable. The cost of stocks and work in progress may not be recoverable if those stocks and work in progress are damaged, if they have become wholly or partially obsolete, or if their selling prices have declined. The cost of stocks and work in progress may also not be recoverable if the estimated costs to be incurred to make the sale have increased. The amount written off to the profit and loss account is the difference between the carrying value and net realisable value of the stocks and work in progress. In determining whether the cost of stocks and work in progress can be recoverable, significant judgement is required. In making this judgement, the Group evaluates, among other factors, the duration and extent by all means to which the amount will be recovered.

## Notes to the Financial Statements

### 4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

#### (d) Impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Note 2(e)(i). The recoverable amounts of CGUs have been determined based on value-in-use calculations. These calculations require the use of estimates. Please refer to Note 19 for key assumptions used for value-in-use calculations for goodwill impairment reviews.

#### (e) Present value of financial liabilities

The Group's management determines the estimated redemption value of the financial liabilities by using a predetermined formula based on the Put Option Deed. This formula requires the use of estimates and assumptions which are stated in Note 32.

### 5 SEGMENT INFORMATION

#### (a) Analysis of sales by category

Sales for the years ended 31 December 2006 and 2007 represent principally sales of printed circuit boards ("PCB") and copper clad laminates and prepreg ("Laminates").

#### (b) Primary reporting format – business segments

The Group is organised into two main business segments: (i) Manufacturing and distribution of PCB including provision of circuit design, quick-turn-around ("QTA") services and drilling and routing services; (ii) Manufacturing and distribution of Laminates.

Segment assets consist primarily of property, plant and equipment, leasehold land and land use rights, intangible assets, available-for-sale financial assets, stocks and work in progress, debtors and prepayments and cash and bank balances. They exclude items such as deferred tax assets, taxation recoverable and amount due from a related party.

Segment liabilities comprise operating liabilities. They exclude items such as taxation payable, deferred tax liabilities and amounts due to related parties.

Capital expenditure comprises mainly additions to property, plant and equipment, leasehold land and land use rights and intangible assets as set out in Notes 16, 17 and 18, respectively, including additions resulting from acquisition through business combination.

## 5 SEGMENT INFORMATION *(Continued)*

### (b) Primary reporting format – business segments *(Continued)*

Unallocated assets and liabilities represent assets and liabilities not dedicated to a particular segment, consist primarily of taxation and amounts due from/to related parties.

Inter-segment sales were conducted with terms mutually agreed among the Group companies.

The segment results for the year are as follows:

| | **2007 HK$'000** | 2006 HK$'000 |
|---|---|---|
| **Revenue** | | |
| PCB | **4,108,638** | 2,838,773 |
| Inter-segment revenue | **–** | – |
| Subtotal for PCB | **4,108,638** | 2,838,773 |
| Laminates | **663,943** | 512,466 |
| Inter-segment revenue | **(282,319)** | (210,841) |
| Subtotal for Laminates | **381,624** | 301,625 |
| Total revenue | **4,490,262** | 3,140,398 |
| **Segment results** | | |
| PCB | **448,462** | 412,303 |
| Laminates | **48,792** | 57,864 |
| Loss on share reform of an associated company | **–** | (52,237) |
| Interest income | **27,300** | 6,034 |
| Finance costs | **(109,737)** | (88,171) |
| Share of net profit of associated companies | **107,858** | 97,849 |
| Income tax expense | **(72,116)** | (48,718) |
| Profit for the year | **450,559** | 384,924 |
| **Segment assets** | | |
| PCB | **6,416,918** | 3,553,250 |
| Laminates | **563,084** | 440,968 |
| Associated companies | **579,543** | 441,409 |
| Unallocated assets | **58,269** | 2,220 |
| Total assets | **7,617,814** | 4,437,847 |
| **Segment liabilities** | | |
| PCB | **4,268,289** | 2,285,096 |
| Laminates | **268,915** | 353,600 |
| Associated companies | **150,669** | 120,742 |
| Unallocated liabilities | **107,135** | 740,682 |
| Total liabilities | **4,795,008** | 3,500,120 |
| **Capital expenditure** | | |
| PCB | **2,119,814** | 665,753 |
| Laminates | **170,288** | 19,494 |
| Total capital expenditure | **2,290,102** | 685,247 |

## Notes to the Financial Statements

### 5 SEGMENT INFORMATION *(Continued)*

#### (b) Primary reporting format – business segments *(Continued)*

Other segment items included in the consolidated profit and loss account are as follows:

| | **2007** **HK$'000** | 2006 HK$'000 |
|---|---|---|
| **Depreciation of property, plant and equipment** | | |
| PCB | **278,663** | 200,264 |
| Laminates | **13,097** | 8,506 |
| Total depreciation of property, plant and equipment | **291,760** | 208,770 |
| **Amortisation of leasehold land and land use rights** | | |
| PCB | **2,167** | 1,876 |
| Laminates | **737** | 596 |
| Total amortisation of leasehold land and land use rights | **2,904** | 2,472 |
| **Impairment of property, plant and equipment** | | |
| PCB | **10,612** | – |
| Laminates | **–** | – |
| Total impairment of property, plant and equipment | **10,612** | – |
| **Provision for bad and doubtful debts** | | |
| PCB | **6,587** | 15,818 |
| Laminates | **149** | 192 |
| Total provision for bad and doubtful debts | **6,736** | 16,010 |
| **Provision for stocks and work in progress** | | |
| PCB | **12,572** | 12,264 |
| Laminates | **1,026** | (81) |
| Total provision for stocks and work in progress | **13,598** | 12,183 |
| **Amortisation of intangible assets** | | |
| PCB | **1,337** | 1,170 |
| Laminates | **–** | – |
| Total amortisation of intangible assets | **1,337** | 1,170 |

## 5 SEGMENT INFORMATION *(Continued)*

### (c) Secondary reporting format – geographical segments

The Group primarily operates in Hong Kong and the PRC. Sales are made to overseas customers as well as customers in Hong Kong and the PRC.

The Group's revenue by geographical location are determined by the final destination to where the products are delivered:

| | **2007** | 2006 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| PRC | **3,038,429** | 1,959,283 |
| Hong Kong | **411,155** | 186,272 |
| North Asia | **278,155** | 447,602 |
| North America | **223,689** | 182,759 |
| Europe | **308,387** | 224,517 |
| Southeast Asia | **230,447** | 139,965 |
| Total revenue | **4,490,262** | 3,140,398 |

The Group's assets are located in the following geographical areas:

| | **2007** | 2006 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Hong Kong | **1,346,397** | 1,036,940 |
| PRC | **5,262,440** | 2,957,278 |
| Finland | **301,489** | – |
| India | **69,676** | – |
| Associated companies | **579,543** | 441,409 |
| Unallocated assets | **58,269** | 2,220 |
| Total assets | **7,617,814** | 4,437,847 |

## Notes to the Financial Statements

### 5 SEGMENT INFORMATION *(Continued)*

#### (c) Secondary reporting format - geographical segments *(Continued)*

The Group's capital expenditure, based on where the assets are located, is allocated as follows:

| | **2007** | 2006 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Hong Kong | **43,106** | 54,387 |
| PRC | **1,902,618** | 630,860 |
| Finland | **280,400** | – |
| India | **63,978** | – |
| Total capital expenditure | **2,290,102** | 685,247 |

### 6 OTHER INCOME

| | **2007** | 2006 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Sales of scrap | **129,767** | 64,805 |
| Investment tax credits | **34,414** | 16,317 |
| Tooling charges | **5,757** | 10,146 |
| Sundries | **7,002** | 4,441 |
| Sales of raw materials | **69** | 328 |
| Gain on partial disposal of a subsidiary (Note 39(a)) | **41** | – |
| Income on acquisition of additional equity interest of a subsidiary | **–** | 1,108 |
| | **177,050** | 97,145 |

Investment tax credits represent incentives receivable as a result of the re-investment of the dividend incomes from subsidiaries and associated companies in the PRC.

## 7 SHARE AWARD EXPENSES

As previously disclosed in the prospectus issued by the Company on 22 January 2007 for the purpose of the Company's initial public offering in February 2007, the controlling shareholder of the Company, Su Sih (BVI) Limited ("SuSih"), had granted 134,800,000 shares from its own shareholding to the employees (including the Chief Executive Officer) and a consultant to SuSih through Total Glory Holdings Limited (a wholly owned subsidiary of SuSih and special vehicle established by SuSih for this purpose) so as to allow them to share in the Group's success and to incentivise and reward them.

The shares granted as aforesaid represent approximately 6.74% of the Company's total issued share capital immediately after the date of Listing.

Out of the total 134,800,000 shares, 105,448,000 shares are not subject to the return condition whereas for the 29,352,000 shares which are subject to return condition. The Company is required to recognise the value of such shares as a non-cash employee benefit expense on a straight line basis over the relevant vesting period.

In respect of those granted shares which are not subject to the return condition and based on the offer price of HK$2.25 per share, share award expenses of a total of HK$237.3 million were charged to the profit and loss account for the year ended 31 December 2007.

In respect of those granted shares which are subject to the return condition and based on the offer price of HK$2.25 per share, share award expenses of HK$17.2 million were charged to the profit and loss account in 2007 whereas HK$17.2 million, HK$17.2 million, HK$9.9 million and HK$4.4 million will be charged for each of the financial years ending 31 December 2008, 2009, 2010, and 2011 respectively.

For the share award expenses charged for the year ended 31 December 2007, corresponding amounts were credited as an employee share-based compensation reserve under equity in the financial statements of the Company.

## 8 EMPLOYEE BENEFIT EXPENSES (INCLUDING DIRECTORS' EMOLUMENTS)

| | **2007** | 2006 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Wages and salaries | **590,904** | 400,923 |
| Share award expenses (Note 7) | **254,502** | – |
| Retirement benefit costs | **22,927** | 18,146 |
| | **868,333** | 419,069 |

The Group participates in employee social security plans, including pension, medical and other welfare benefits organised by the municipal government in the PRC in accordance with relevant regulations. Contributions are calculated based on certain percentages of the total salary costs of employees, subject to certain ceilings. The assets of the plans are held separately by the municipal government, which is responsible for the entire pension obligations payable to the retired employees. The Group has no other obligations except for making these specific contributions to the plans.

The Group also operates a defined contribution scheme in accordance with the requirements of the Mandatory Provident Fund Ordinance for all eligible employees in Hong Kong. Contributions to the scheme are calculated based on certain percentage of the applicable salary costs or pre-determined fixed sums. The assets of the scheme are held under separate independent trust funds.

### (a) Directors' emoluments

| | **2007** | 2006 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Fees | **1,314** | 145 |
| Other emoluments | **173,268** | 13,412 |
| | **174,582** | 13,557 |

## 8 EMPLOYEE BENEFIT EXPENSES (INCLUDING DIRECTORS' EMOLUMENTS) *(Continued)*

### (a) Directors' emoluments *(Continued)*

The remuneration of every director of the Company for the year ended 31 December 2006 is set out below:

| Name of director | Fees<br>HK$'000 | Salary<br>HK$'000 | Discretionary bonuses<br>HK$'000 | Other benefits<br>HK$'000 | Employer's contribution to pension scheme<br>HK$'000 | Total<br>HK$'000 |
|---|---|---|---|---|---|---|
| Tang Hsiang Chien | 73 | – | – | – | – | 73 |
| Tang Chung Yen, Tom | 36 | 3,491 | 1,046 | 1,042 | 148 | 5,763 |
| Tang Ying Ming, Mai | 36 | 3,327 | – | – | 143 | 3,506 |
| Chung Tai Keung, Canice | – | 2,897 | – | 1,209 | 109 | 4,215 |
| Leung Kwan Yuen, Andrew | – | – | – | – | – | – |
| Lee, Eugene | – | – | – | – | – | – |
| Li Ka Cheung, Eric | – | – | – | – | – | – |
| | 145 | 9,715 | 1,046 | 2,251 | 400 | 13,557 |

The remuneration of every director of the Company for the year ended 31 December 2007 is set out below:

| Name of director | Share award expenses (Note 7)<br>HK$'000 | Fees<br>HK$'000 | Salary<br>HK$'000 | Discretionary bonuses<br>HK$'000 | Other benefits<br>HK$'000 | Employer's contribution to pension scheme<br>HK$'000 | Total<br>HK$'000 |
|---|---|---|---|---|---|---|---|
| Tang Hsiang Chien | – | 75 | 4,200 | 300 | – | 180 | 4,755 |
| Tang Chung Yen, Tom | – | 38 | 6,300 | – | – | 270 | 6,608 |
| Tang Ying Ming, Mai | – | 38 | 5,320 | – | – | 228 | 5,586 |
| Chung Tai Keung, Canice | 149,400 | – | 3,920 | 1,230 | 1,680 | 240 | 156,470 |
| Leung Kwan Yuen, Andrew | – | 349 | – | – | – | – | 349 |
| Lee, Eugene | – | 465 | – | – | – | – | 465 |
| Li Ka Cheung, Eric | – | 349 | – | – | – | – | 349 |
| | 149,400 | 1,314 | 19,740 | 1,530 | 1,680 | 918 | 174,582 |

No directors waived or agreed to waive any emoluments during the years ended 31 December 2006 and 2007. No incentive payment for joining the Group or compensation for loss of office was paid or payable to any directors during the years ended 31 December 2006 and 2007.

## Notes to the Financial Statements

### 8 EMPLOYEE BENEFIT EXPENSES (INCLUDING DIRECTORS' EMOLUMENTS) *(Continued)*

#### (b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group include four (2006: three) directors for the year ended 31 December 2007, whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining one (2006: two) individuals for the year ended 31 December 2007 are as follows:

| | **2007** | 2006 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Basic salaries, bonuses, allowances and benefits in kind | **2,380** | 4,432 |
| Share award expenses (Note 7) | **14,500** | – |
| Retirement benefit – defined contribution scheme | **43** | 65 |
| | **16,923** | 4,497 |

The emoluments fell within the following bands:

| | **No. of individuals** | |
|---|---|---|
| | **2007** | 2006 |
| **Emolument bands** | | |
| Under HK$1,000,000 | **–** | – |
| HK$1,000,001 – HK$1,500,000 | **–** | – |
| HK$1,500,001 – HK$2,000,000 | **–** | 1 |
| HK$2,000,001 – HK$2,500,000 | **–** | – |
| HK$2,500,001 – HK$3,000,000 | **–** | – |
| HK$3,000,001 – HK$3,500,000 | **–** | 1 |
| Over HK$3,500,001 | **1** | – |
| | **1** | 2 |

## 9 EXPENSES BY NATURE

| | 2007<br>HK$'000 | 2006<br>HK$'000 |
|---|---|---|
| Raw materials and consumables used | **2,254,881** | 1,568,490 |
| Employee benefit expenses (Note 8) | **868,333** | 419,069 |
| Amortisation of intangible assets | **1,337** | 1,170 |
| Amortisation of leasehold land and land use rights | **2,904** | 2,472 |
| Depreciation of property, plant and equipment | **291,760** | 208,770 |
| Impairment of property, plant and equipment | **10,612** | – |
| Loss/(gain) on disposal of property, plant and equipment | **2,599** | (684) |
| Provision for bad and doubtful debts | **6,736** | 16,010 |
| Provision for stocks and work in progress | **13,598** | 12,183 |
| Sales commission | **27,430** | 12,367 |
| Management fee expense to a related company | **–** | 5,000 |
| Subcontracting expenses | **90,283** | 79,688 |
| Auditors' remuneration | **4,661** | 2,887 |
| Operating lease rental expense | | |
| – Land and buildings | **5,010** | 3,365 |
| Others | **589,914** | 436,589 |
| Total cost of sales, selling and distribution expenses, general and administrative expenses and share award expenses | **4,170,058** | 2,767,376 |

## 10 INTEREST INCOME

| | 2007<br>HK$'000 | 2006<br>HK$'000 |
|---|---|---|
| Interest income from deposits relating to share subscription under the global offering | **13,983** | – |
| Interest income from banks | **13,317** | 6,034 |
| | **27,300** | 6,034 |

## Notes to the Financial Statements

### 11 FINANCE COSTS

| | 2007 HK$'000 | 2006 HK$'000 |
|---|---|---|
| Interest expenses on bank loans, overdrafts and other short-term loans wholly repayable within five years | **109,737** | 88,171 |

### 12 INCOME TAX EXPENSE

The amounts of taxation charged to the consolidated profit and loss account represent:

| | 2007 HK$'000 | 2006 HK$'000 |
|---|---|---|
| Current income tax | | |
| – Hong Kong profits tax | **5,859** | 3,151 |
| – Overseas taxation | **73,472** | 44,875 |
| Deferred income tax (Note 31) | **(7,215)** | 692 |
| | **72,116** | 48,718 |

Taxation has been provided at the appropriate tax rates prevailing in the countries in which the Group operates. Hong Kong profits tax has been provided at the rate of 17.5% (2006: 17.5%) on the estimated assessable profit for the year ended 31 December 2007. The rates applicable for income tax in the PRC is 33% (2006: 33%) for the year ended 31 December 2007.

Pursuant to relevant laws and regulations in the PRC, certain of the Company's subsidiaries are entitled to exemption from income tax under tax holidays and concessions. Income tax was calculated at rates given under the concessions.

On 16 March 2007, the National People's Congress of the PRC approved the Corporate Income Tax Law (the "new CIT Law"). The new CIT Law increases the corporate income tax rate for foreign investment enterprises from existing preferential rates to 25% with effect from 1 January 2008. Companies incorporated before 16 March 2007 and currently taxed at the rate lower than 25% may be offered a gradual increase of tax rate to 25% within 5 years. Certain subsidiaries of the Company incorporated in the PRC will enjoy preferential income tax rate from 2008 to 2011 and be taxed at the rate of 25% from 2012 or when the preferential treatment expires.

## 12 INCOME TAX EXPENSE *(Continued)*

The taxation of the Group's profit before income tax and share of net profit of associated companies differs from the theoretical amount that would arise using the applicable tax rate, being the weighted average of tax rates prevailing in the territories in which the Group operates, as follows:

| | **2007**<br>**HK$'000** | 2006<br>HK$'000 |
|---|---|---|
| Profit before income tax and share of net profit of associated companies | **414,817** | 335,793 |
| Tax calculated at applicable tax rate | **164,723** | 116,031 |
| Effect of relief on income tax | **(133,516)** | (87,477) |
| Expenses not deductible for taxation purpose | **73,134** | 42,400 |
| Income not subject to taxation | **(31,042)** | (27,863) |
| Effect of change in tax rate | **(10,940)** | – |
| Unrecognised tax loss utilised during the year | **(15,900)** | – |
| Tax losses for which no deferred income tax recognised | **25,657** | 5,627 |
| Income tax expense | **72,116** | 48,718 |

| | **2007** | 2006 |
|---|---|---|
| Weighted average domestic applicable tax rate | **39.7%** | 34.6% |

The change in weighted average domestic applicable tax rates above is mainly caused by a change in mix of profit earned in different tax jurisdictions and changes in respective tax rates as mentioned above.

## 13 PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The profit attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of approximately HK$39,559,000 (2006: loss of HK$597,000).

## Notes to the Financial Statements

### 14 EARNINGS PER SHARE

**(a) Basic**

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of shares in issue during the year.

| | **2007** | 2006 |
|---|---|---|
| Profit attributable to equity holders of the Company (HK$'000) | **341,648** | 320,017 |
| Weighted average number of shares in issue (shares in thousands) | **1,956,164** | 1,500,000 |
| Basic earnings per share (HK dollar per share) | **0.17** | 0.21 |

**(b) Diluted**

Diluted earnings per share is calculated by adjusting the weighted average number of shares outstanding to assume conversion of all dilutive potential shares.

During the years ended 31 December 2006 and 2007, there were no potential dilutive shares outstanding.

### 15 DIVIDENDS

The interim dividend paid in 2007 was HK$40 million (HK$0.02 per share) (2006: Nil). A final dividend in respect of the year ended 31 December 2007 of HK$0.04 per share, amounting of a total dividend of HK$80 million, is proposed on 18 March 2008, which is subject to approval at the Annual General Meeting on 2 June 2008. These financial statements do not reflect this dividend payable.

| | **2007**<br>**HK$'000** | 2006<br>HK$'000 |
|---|---|---|
| Interim dividend paid of HK$0.02 (2006: Nil) per share | **40,000** | – |
| Proposed final dividend of HK$0.04 (2006: Nil) per share | **80,000** | – |
| | **120,000** | – |

## 16 PROPERTY, PLANT AND EQUIPMENT – GROUP

| | Buildings | Leasehold improve-ments | Furniture and equipment | Plant, machinery and equipment | Motor vehicles | Construction in progress | Total |
|---|---|---|---|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| Year ended 31 December 2006 | | | | | | | |
| Opening net book amount | 404,830 | 10,543 | 41,402 | 878,883 | 5,774 | 194,534 | 1,535,966 |
| Exchange differences | 13,056 | – | 1,064 | 38,849 | 179 | 3,269 | 56,417 |
| Additions | 9,447 | 560 | 16,378 | 221,779 | 4,549 | 401,729 | 654,442 |
| Reclassification | 46,985 | 42 | 8,131 | 431,402 | – | (486,560) | – |
| Disposals | (823) | (1,913) | (226) | (3,809) | (25) | (2) | (6,798) |
| Distribution to equity holders | (391) | – | – | – | (66) | – | (457) |
| Depreciation | (26,842) | (1,490) | (12,176) | (165,820) | (2,442) | – | (208,770) |
| Closing net book amount | 446,262 | 7,742 | 54,573 | 1,401,284 | 7,969 | 112,970 | 2,030,800 |
| At 31 December 2006 | | | | | | | |
| Cost | 566,448 | 13,857 | 103,917 | 2,203,193 | 20,416 | 112,970 | 3,020,801 |
| Accumulated depreciation | (120,186) | (6,115) | (49,344) | (801,909) | (12,447) | – | (990,001) |
| Net book amount | 446,262 | 7,742 | 54,573 | 1,401,284 | 7,969 | 112,970 | 2,030,800 |
| Year ended 31 December 2007 | | | | | | | |
| Opening net book amount | **446,262** | **7,742** | **54,573** | **1,401,284** | **7,969** | **112,970** | **2,030,800** |
| Exchange differences | **30,449** | **–** | **4,454** | **106,326** | **401** | **43,760** | **185,390** |
| Additions | **8,950** | **864** | **22,055** | **298,404** | **5,372** | **1,051,685** | **1,387,330** |
| Acquisition through business combination (Note 39(b)) | **160,233** | **–** | **4,998** | **298,651** | **127** | **362,241** | **826,250** |
| Reclassification | **28,338** | **562** | **49,845** | **156,857** | **–** | **(235,602)** | **–** |
| Disposals | **(173)** | **(19)** | **(191)** | **(5,034)** | **–** | **(613)** | **(6,030)** |
| Depreciation | **(31,820)** | **(451)** | **(28,835)** | **(227,377)** | **(3,277)** | **–** | **(291,760)** |
| Impairment | **–** | **–** | **(579)** | **(10,033)** | **–** | **–** | **(10,612)** |
| Closing net book amount | **642,239** | **8,698** | **106,320** | **2,019,078** | **10,592** | **1,334,441** | **4,121,368** |
| At 31 December 2007 | | | | | | | |
| Cost | **801,977** | **15,234** | **226,252** | **3,028,310** | **24,564** | **1,334,441** | **5,430,778** |
| Accumulated depreciation and accumulated impairment | **(159,738)** | **(6,536)** | **(119,932)** | **(1,009,232)** | **(13,972)** | **–** | **(1,309,410)** |
| Net book amount | **642,239** | **8,698** | **106,320** | **2,019,078** | **10,592** | **1,334,441** | **4,121,368** |

## 16 PROPERTY, PLANT AND EQUIPMENT – GROUP *(Continued)*

Depreciation expenses for years ended 31 December 2006 and 2007 have been charged to the profit and loss account as below:

| | **2007** | 2006 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Cost of sales | **271,912** | 192,229 |
| Selling and distribution expenses | **3,580** | 3,490 |
| General and administrative expenses | **16,268** | 13,051 |
| | **291,760** | 208,770 |

Impairment loss of approximately HK$10,612,000 (2006: Nil) has been charged to general and administrative expenses for the year ended 31 December 2007.

## 17 LEASEHOLD LAND AND LAND USE RIGHTS – GROUP

The Group's interest in leasehold land and land use rights represents prepaid operating lease payments and their net book value are analysed as follows:

| | **2007** | 2006 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Opening net book amount | **114,549** | 83,654 |
| Exchange differences | **6,882** | 2,562 |
| Additions | **–** | 30,805 |
| Acquisition through business combination (Note 39(b)) | **55,893** | – |
| Amortisation | **(2,904)** | (2,472) |
| Closing net book amount | **174,420** | 114,549 |
| End of the year | | |
| Cost | **187,691** | 124,378 |
| Accumulated amortisation | **(13,271)** | (9,829) |
| Net book amount | **174,420** | 114,549 |

Amortisation of prepaid operating lease payments of approximately HK$2,747,000 (2006: HK$2,458,000) and HK$157,000 (2006: HK$14,000) has been included in general and administrative expenses and cost of sales in the consolidated profit and loss account respectively.

## 17 LEASEHOLD LAND AND LAND USE RIGHTS – GROUP *(Continued)*

| | **2007** | 2006 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| In Hong Kong held on: | | |
| Leases of leasehold land between 10 to 50 years | **28,669** | 29,388 |
| In the PRC held on: | | |
| Leases of land use rights between 10 to 50 years | **139,595** | 85,161 |
| In India held on: | | |
| Leases of land use rights between 10 to 50 years | **6,156** | – |
| | **174,420** | 114,549 |

In regards with the leasehold land and land use rights owned and occupied by the Group, the Group holds all of the relevant certificates of state-owned land use rights except for a piece of land in the PRC for which the net book value as at 31 December 2007 amounted to approximately HK$9,024,000 (2006: HK$9,177,000).

## Notes to the Financial Statements

### 18 INTANGIBLE ASSETS – GROUP

| | Technologies fee HK$'000 | Customer relationship HK$'000 | Others HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| Year ended 31 December 2006 | | | | |
| Opening net book amount | 8,775 | – | 479 | 9,254 |
| Amortisation | (1,170) | – | – | (1,170) |
| Closing net book amount | 7,605 | – | 479 | 8,084 |
| At 31 December 2006 | | | | |
| Cost | 11,700 | – | 800 | 12,500 |
| Accumulated amortisation | (4,095) | – | (321) | (4,416) |
| Net book amount | 7,605 | – | 479 | 8,084 |
| Year ended 31 December 2007 | | | | |
| Opening net book amount | 7,605 | – | 479 | 8,084 |
| Exchange differences | – | 294 | – | 294 |
| Acquisition through business combination (Note 39(b)) | – | 20,629 | – | 20,629 |
| Amortisation | (1,170) | (167) | – | (1,337) |
| Closing net book amount | 6,435 | 20,756 | 479 | 27,670 |
| At 31 December 2007 | | | | |
| Cost | 11,700 | 20,931 | 800 | 33,431 |
| Accumulated amortisation | (5,265) | (175) | (321) | (5,761) |
| Net book amount | 6,435 | 20,756 | 479 | 27,670 |

Amortisation of approximately HK$1,337,000 (2006: HK$1,170,000) has been included in general and administrative expenses in the consolidated profit and loss account.

## 19 GOODWILL – GROUP

Goodwill arising from PCB segment:

| | **2007** **HK$'000** | 2006 HK$'000 |
|---|---|---|
| Opening net book amount | **14,477** | 14,055 |
| Exchange differences | **1,014** | 477 |
| Impairment of goodwill | **–** | (55) |
| Acquisition through business combination (Note 39(b)) | **106,738** | – |
| Closing net book amount | **122,229** | 14,477 |

| | **2007** **HK$'000** | 2006 HK$'000 |
|---|---|---|
| End of the year | | |
| Cost | **141,953** | 34,201 |
| Accumulated amortisation | **(19,724)** | (19,724) |
| | **122,229** | 14,477 |

**Impairment test for goodwill**

Goodwill is allocated to the Group's CGUs identified according to the country of operation. The allocation by country of operation is presented below:

| | **2007** **HK$'000** | 2006 HK$'000 |
|---|---|---|
| PRC | **122,229** | 14,477 |

For the purposes of impairment reviews, the recoverable amount of goodwill is determined based on value-in-use calculations. The value-in-use calculations use cash flow projections based on the extrapolation of the latest unaudited financial results of each CGU to a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated below. There are a number of assumptions and estimates involved for the preparation of cash flow projections for the year.

## Notes to the Financial Statements

### 19 GOODWILL – GROUP *(Continued)*

Key assumptions used for value-in-use calculations for goodwill for each of the years ended 31 December 2008, 2009, 2010, 2011 and 2012 are gross profit margin, growth rate and discount rate of 23%, 20% and 8.3% respectively.

These assumptions have been used for the analysis of each CGU within the business segment. The directors prepared the financial budgets reflecting actual and prior year performance and market development expectations. The growth rates used are consistent with the industry growth estimates. The directors estimate discount rate using pre-tax rates that reflect market assessments of the time value of money of the Group for the year ended 31 December 2007. Judgement is required to determine key assumptions adopted in the cash flow projections and changes to key assumptions can significantly affect these cash flow projections.

### 20 INVESTMENTS IN ASSOCIATED COMPANIES – GROUP

| | **2007**<br>**HK$'000** | 2006<br>HK$'000 |
|---|---|---|
| Share of net assets | **578,871** | 440,782 |
| Goodwill | **672** | 627 |
| | **579,543** | 441,409 |

The movements of share of net assets and goodwill of associated companies are as follows:

| | **2007**<br>**HK$'000** | 2006<br>HK$'000 |
|---|---|---|
| Beginning of the year | **441,409** | 389,947 |
| Exchange differences | **36,037** | 13,657 |
| Additional investments in an associated company | **20,750** | 33,305 |
| Loss on share reform of an associated company (Note) | **–** | (52,237) |
| Share of associated companies' results | | |
| – net profit after taxation | **107,858** | 97,849 |
| – dividend received | **(26,511)** | (41,112) |
| End of the year | **579,543** | 441,409 |

Note:

GSST is listed on the Shanghai Stock Exchange. The Group's shares in GSST carrying at cost as at 31 December 2005 of HK$70.1 million were promoter shares, which were restricted and could not be freely traded on the public market. On 19 January 2006, GSST approved to convert all restricted shares to unrestricted shares by paying 3.3 shares to the shareholders of every 10 unrestricted shares (the "Share Reform"). Immediately after the Share Reform, the number of shares and percentage of equity held by the Group decreased from 165,305,000 shares to 141,525,000 shares and from 25.91% to 22.18% respectively and such shares became gradually tradable effective from 9 March 2007. Pursuant to this Share Reform, the Group's share of net assets value in GSST had decreased by an amount of HK$52,237,000 and was charged to the profit and loss account for the year ended 31 December 2006.

## 20 INVESTMENTS IN ASSOCIATED COMPANIES – GROUP *(Continued)*

The aggregate amounts of each of current assets, non-current assets, current liabilities, non-current liabilities, income and expenses related to the Group's investments in associated companies are as follows:

| | **2007** **HK$'000** | 2006 HK$'000 |
|---|---|---|
| Assets | | |
| Non-current assets | **578,155** | 365,549 |
| Current assets | **788,048** | 537,867 |
| | **1,366,203** | 903,416 |
| Liabilities | | |
| Non-current liabilities | **128,369** | 84,094 |
| Current liabilities | **658,963** | 378,540 |
| | **787,332** | 462,634 |
| Net assets | **578,871** | 440,782 |
| Share of net assets of: | | |
| A listed associated company | **458,911** | 355,901 |
| An unlisted associated company | **119,960** | 84,881 |
| | **578,871** | 440,782 |
| Income | **1,197,411** | 917,130 |
| Expenses | **(1,089,553)** | (819,281) |
| Profit after income tax | **107,858** | 97,849 |

## Notes to the Financial Statements

### 20 INVESTMENTS IN ASSOCIATED COMPANIES – GROUP *(Continued)*

The Group's interests in its associated companies are as follows:

| Name | Country of incorporation | Principal activities | Percentage of equity held |
|---|---|---|---|
| Guangdong Shengyi Sci. Tech Co., Ltd. ("GSST") | PRC | Manufacturing of copper clad laminates | 22.18 |
| Suzhou Shengyi Sci. Tech Co., Ltd. ("SSST")[1] | PRC | Manufacturing of copper clad laminates | 41.64 |

[1] Indirect associated company

Based on the market price of the shares of GSST, the market value of the Group's shares as of 31 December 2007 was approximately as follows:

| | **2007** **HK$'000** | 2006 HK$'000 |
|---|---|---|
| Market value of the listed equity securities | **3,604,569** | 1,736,981 |

## 21 INVESTMENTS IN SUBSIDIARIES – COMPANY

| | **2007** | 2006 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Unlisted investment, at cost | **777,000** | 777,000 |

The following is a list of all the subsidiaries as at 31 December 2007:

| **Name** | **Place of incorporation/ establishment** | **Principal activities and place of operation** | **Issued and fully paid up share capital/ registered capital** | **Percentage of beneficial interest attributable to the Group** |
|---|---|---|---|---|
| ACP Electronics Co., Ltd. ("ACPE")[2] | PRC | Manufacturing and sales of high precision printed circuit boards/ PRC | US$51,400,000 | 80.00 |
| Asia Rich Enterprises Limited ("MA (BVI)")[3] | BVI | Investment holding/ BVI | US$1 | 80.00 |
| Aspocomp Asia Limited ("MAH")[3] | BVI | Investment holding/ BVI | US$50,000 | 80.00 |
| Aspocomp Chin-Poon Holdings Limited ("ACPH")[3] | BVI | Investment holding/ BVI | US$54,300,000 | 80.00 |
| Aspocomp Electronics India Private Limited ("ACI")[3] | India | Manufacturing of printed circuit boards/India | INR100,000 | 80.00 |
| AVA International Limited[3] | Hong Kong | Investment holding/ Hong Kong | HK$2,000,000 | 100.00 |
| Bounce Up Limited ("MA (HK)")[3] | Hong Kong | Investment holding/ Hong Kong | HK$1 | 80.00 |
| Circuit Net Technology Limited[3] | BVI | Investment holding/ BVI | US$1,285 | 100.00 |

## Notes to the Financial Statements

### 21 INVESTMENTS IN SUBSIDIARIES – COMPANY *(Continued)*

| Name | Place of incorporation/ establishment | Principal activities and place of operation | Issued and fully paid up share capital/ registered capital | Percentage of beneficial interest attributable to the Group |
|---|---|---|---|---|
| Dongguan Meadville Circuits Limited[2] | PRC | Manufacturing of printed circuit boards/PRC | US$78,000,000 | 80.00 |
| Dongguan Shengyi Electronics Ltd.[2] | PRC | Manufacturing of printed circuit boards/PRC | US$89,420,000 | 70.20 |
| Guangzhou Meadville Electronics Co., Ltd.[2] | PRC | Manufacturing of printed circuit boards/PRC | US$60,000,000 | 100.00 |
| OPC Manufacturing Limited[3] | Hong Kong | Manufacturing of printed circuit boards/ Hong Kong | HK$8,000,000 | 100.00 |
| Meadville Innovations (Shanghai) Co., Ltd.[2] | PRC | Provision of printed circuit board design services/PRC | US$1,000,000 | 100.00 |
| Meadville International Trading (Shanghai) Co., Ltd.[2] | PRC | Trading of printed circuit boards and liaison office/PRC | US$500,000 | 100.00 |
| Meadville Enterprises (HK) Limited[3] | Hong Kong | Administration and treasury/ Hong Kong | HK$1 | 100.00 |
| Mica-Ava (No.3) Limited ("MA3")[3] | BVI | Investment holding/ BVI | US$50,000 | 93.71 |
| Mica-Ava China Limited[3] | Hong Kong | Investment holding/ Hong Kong | HK$78,000 | 100.00 |
| Mica-AVA (Guangzhou) Material Company Ltd. ("MAGL")[2] | PRC | Manufacturing of copper clad laminates/PRC | US$42,000,000 | 93.71 |

## 21 INVESTMENTS IN SUBSIDIARIES – COMPANY *(Continued)*

| Name | Place of incorporation/ establishment | Principal activities and place of operation | Issued and fully paid up share capital/ registered capital | Percentage of beneficial interest attributable to the Group |
|---|---|---|---|---|
| Mica-Ava (Far East) Industrial Limited[3] | Hong Kong | Manufacturing of copper clad laminates/ Hong Kong | HK$13,088 | 93.71 |
| MTG Investment (BVI) Limited[1, 3] | BVI | Investment holding/ BVI | US$1 | 100.00 |
| MTG Laminate (BVI) Limited[3] | BVI | Investment holding/ BVI | US$1 | 100.00 |
| MTG Management (BVI) Limited[3] | BVI | Investment holding/ BVI | US$1 | 100.00 |
| MTG PCB (BVI) Limited[3] | BVI | Investment holding/ BVI | US$1 | 100.00 |
| MTG (PCB) No.2 (BVI) Limited ("MTG (PCB2)")[3] | BVI | Investment holding/ BVI | HK$600,000,000 | 100.00 |
| Oriental Printed Circuits, Inc.[3] | United States of America | Dormant/ United States of America | US$4,151,440 | 100.00 |
| Oriental Printed Circuits (USA), Inc.[3] | United States of America | Sales liaison office/ United States of America | US$100,000 | 100.00 |
| Oriental Printed Circuits Limited[3] | Hong Kong | Sales and distribution of printed circuit boards/ Hong Kong | HK$50,000,000 | 100.00 |

## Notes to the Financial Statements

### 21 INVESTMENTS IN SUBSIDIARIES – COMPANY *(Continued)*

| Name | Place of incorporation/ establishment | Principal activities and place of operation | Issued and fully paid up share capital/ registered capital | Percentage of beneficial interest attributable to the Group |
|---|---|---|---|---|
| Shanghai Kaiser Electronics Co., Ltd.[2] | PRC | Provision of printed circuit boards drilling service/PRC | US$16,420,000 | 100.00 |
| Shanghai Meadville Electronics Co., Ltd.[2] | PRC | Manufacturing of printed circuit boards/PRC | US$67,500,000 | 100.00 |
| Shanghai Meadville Science & Technology Co., Ltd.[2] | PRC | Research and development of high-end multi-layer printed circuit boards/ PRC | US$48,000,000 | 100.00 |
| State Link Trading Limited[3] | BVI | Importer of printed circuit boards/ BVI | US$1 | 100.00 |

1 Direct subsidiary
2 Foreign investment enterprise
3 Limited liability company

## 21 INVESTMENTS IN SUBSIDIARIES – COMPANY *(Continued)*

No change in the percentage of beneficial interest of the above principal subsidiaries attributable to the Group during the year ended 31 December 2007, except for the following subsidiaries:

| | **2007** | 2006 |
|---|---|---|
| | **%** | % |
| MAGL | **93.71** | 100.00 |
| MA3 | **93.71** | 100.00 |
| MTG (PCB2) | **100.00** | – |
| ACPE (Note) | **80.00** | – |
| MA (BVI) (Note) | **80.00** | – |
| MAH (Note) | **80.00** | – |
| ACPH (Note) | **80.00** | – |
| ACI (Note) | **80.00** | – |
| MA (HK) (Note) | **80.00** | – |

Note:

On 15 November 2007, the Company entered into sales and purchase agreement (the “Agreement”) with Aspocomp Group OYJ, a company incorporated in Finland. In accordance with the Agreement, the Company acquired 80% of the issued share capital of Aspocomp Asia Limited and its subsidiaries (with an option to acquire the remaining 20% equity interest in Aspocomp Asia Limited under the Option Deed as described in the following paragraph) for a consideration of approximately EURO61,530,000 (equivalent to approximately HK$707,666,000).

In connection with the acquisition of 80% of the issued share capital of Aspocomp Asia Limited and its subsidiaries, a call option and a put option will be granted to the Company and Aspocomp Group OYJ respectively to purchase/sell the remaining 20% equity interest in Aspocomp Asia Limited in the period from 2013 to 2023 under the Option Deed (as described above). The put option granted under the Option Deed (the “Put Option”) formed a contingent consideration for the acquisition of Aspocomp Asia Limited and was recognised as financial liabilities in the consolidated financial statements of the Group at the present value of the redemption amount.

The Company has taken the view that no minority interest was recognised in respect of the 20% equity interest subject to the Put Option, and deemed to have acquired 100% of the issued share capital of Aspocomp Asia Limited and its subsidiaries at the time when the Put Option was written as part of the Agreement (the “Acquisition”). The goodwill arising from the Acquisition included the goodwill related to the 100% equity interest. At the completion of the Acquisition, Aspocomp Asia Limited was accounted for as a wholly-owned subsidiary of the Group and the results, assets and liabilities of Aspocomp Asia Limited and its subsidiaries were consolidated in the financial statements of the Company.

## Notes to the Financial Statements

### 22 AVAILABLE-FOR-SALE FINANCIAL ASSETS – GROUP

| | **2007** | 2006 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Unlisted security | | |
| Carrying value at beginning of the year | **–** | – |
| Addition | **21,089** | – |
| Carrying value at end of the year | **21,089** | – |

As at 31 December 2007, the carrying amount of unlisted security approximates its fair value.

### 23 FINANCIAL INSTRUMENTS BY CATEGORY

The accounting policies for financial instruments have been applied to the line item below:

**Group**

| | **Loan and receivables** | **Available-for-sale** | **Total** |
|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 |
| **Assets as per consolidated balance sheet** | | | |
| 31 December 2007 | | | |
| Available-for-sale financial assets (Note 22) | **–** | **21,089** | **21,089** |
| Debtors and prepayments (Note 25) | **1,597,034** | **–** | **1,597,034** |
| Amount due from a related party (Note 26) | **39,055** | **–** | **39,055** |
| Cash and bank balances (Note 27) | **418,192** | **–** | **418,192** |
| Total | **2,054,281** | **21,089** | **2,075,370** |
| 31 December 2006 | | | |
| Debtors and prepayments (Note 25) | 1,241,699 | – | 1,241,699 |
| Cash and bank balances (Note 27) | 211,150 | – | 211,150 |
| Total | 1,452,849 | – | 1,452,849 |

## 23 FINANCIAL INSTRUMENTS BY CATEGORY *(Continued)*

**Group**

| | **Other financial liabilities** HK$'000 |
|---|---|
| **Liabilities as per consolidated balance sheet** | |
| 31 December 2007 | |
| Long-term other payables (Note 33) | **115,658** |
| Creditors and accruals (Note 34) | **1,428,268** |
| Borrowings (Note 30) | **2,699,174** |
| Financial liabilities (Note 32) | **264,394** |
| Amount due to a subsidiary of a minority shareholder of a subsidiary (Note 35) | **29,367** |
| Amounts due to associated companies (Note 35) | **150,669** |
| Amount due to a minority shareholder (Note 36) | **343** |
| Total | **4,687,873** |
| 31 December 2006 | |
| Creditors and accruals (Note 34) | 800,030 |
| Borrowings (Note 30) | 1,775,307 |
| Amount due to a subsidiary of a minority shareholder of a subsidiary (Note 35) | 63,359 |
| Amounts due to associated companies (Note 35) | 120,742 |
| Amounts due to related parties (Note 26) | 709,598 |
| Total | 3,469,036 |

## Notes to the Financial Statements

### 23 FINANCIAL INSTRUMENTS BY CATEGORY *(Continued)*

**Company**

| | **Loan and receivables** HK$'000 |
|---|---|
| **Assets as per balance sheet** | |
| 31 December 2007 | |
| Debtors and prepayments (Note 25) | **312** |
| Amounts due from subsidiaries (Note 37) | **1,315,749** |
| Cash and bank balances (Note 27) | **339** |
| Total | **1,316,400** |
| 31 December 2006 | |
| Debtors and prepayments (Note 25) | 7,532 |
| Total | 7,532 |

| | **Other financial liabilities** HK$'000 |
|---|---|
| **Liabilities as per balance sheet** | |
| 31 December 2007 | |
| Creditors and accruals (Note 34) | **17,324** |
| Total | **17,324** |
| 31 December 2006 | |
| Creditors and accruals (Note 34) | 1,004 |
| Amounts due to subsidiaries (Note 37) | 7,125 |
| Total | 8,129 |

## 24 STOCKS AND WORK IN PROGRESS – GROUP

| | 2007<br>HK$'000 | 2006<br>HK$'000 |
|---|---|---|
| Raw materials | **162,314** | 136,733 |
| Work in progress | **133,448** | 93,488 |
| Finished goods | **201,203** | 139,644 |
| Consumable stocks | **1,035** | 3,594 |
| | **498,000** | 373,459 |

The cost of inventories recognised as expenses and included in cost of sales is as follows:

| | 2007<br>HK$'000 | 2006<br>HK$'000 |
|---|---|---|
| Cost of inventories | **3,430,222** | 2,486,560 |

Write-downs of stocks amounted to approximately HK$13,598,000 (2006: HK$12,183,000) which have been included in cost of sales in the consolidated profit and loss account.

## 25 DEBTORS AND PREPAYMENTS

| | Group | | Company | |
|---|---|---|---|---|
| | 2007<br>HK$'000 | 2006<br>HK$'000 | 2007<br>HK$'000 | 2006<br>HK$'000 |
| Debtors | **1,471,542** | 1,124,995 | **–** | – |
| Prepayments and other receivables | **125,492** | 116,704 | **312** | 7,532 |
| | **1,597,034** | 1,241,699 | **312** | 7,532 |

The carrying amounts of debtors and prepayments approximate their fair values.

## Notes to the Financial Statements

### 25 DEBTORS AND PREPAYMENTS *(Continued)*

During the year, the Group normally granted credit terms of 60-90 days. The ageing analysis of the debtors, based on the invoice date and net of provision, is as follows:

| | Group | |
|---|---|---|
| | **2007** | 2006 |
| | **HK$'000** | HK$'000 |
| Within credit period | **977,641** | 827,403 |
| 0 – 30 days | **235,108** | 171,962 |
| 31 – 60 days | **138,175** | 61,396 |
| 61 – 90 days | **72,902** | 26,449 |
| Over 90 days | **47,716** | 37,785 |
| | **1,471,542** | 1,124,995 |

As of 31 December 2007, debtors of approximately HK$43,676,000 (2006: HK$75,599,000) were impaired. The amount of the provision was HK$31,903,000 as of 31 December 2007 (2006: HK$49,808,000). The individually impaired receivables mainly relate to customers, which are in unexpected difficult economic situations. It was assessed that a portion of the receivables is expected to be recovered.

As of 31 December 2007, debtors of approximately HK$482,128,000 (2006: HK$271,800,000) were past due but not considered impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these debtors is as follows:

| | **2007** | 2006 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| 0 – 30 days | **235,108** | 171,962 |
| 31 – 60 days | **138,175** | 61,396 |
| 61 – 90 days | **64,137** | 14,552 |
| Over 90 days | **44,708** | 23,890 |
| | **482,128** | 271,800 |

## 25 DEBTORS AND PREPAYMENTS *(Continued)*

The carrying amounts of the Group's and Company's debtors and prepayments are denominated in the following currencies:

| | Group | | Company | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| HK$ | **24,440** | 130,531 | **251** | 7,532 |
| US$ | **783,160** | 467,004 | **61** | – |
| RMB | **785,117** | 639,607 | **–** | – |
| EURO | **2,257** | 2,866 | **–** | – |
| Other currencies | **2,060** | 1,691 | **–** | – |
| | **1,597,034** | 1,241,699 | **312** | 7,532 |

Movements on the provision for impairment of debtors are as follows:

| | **2007** | 2006 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| At beginning of the year | **49,808** | 41,605 |
| Provision for receivable impairment | **12,240** | 17,127 |
| Receivables written off during the year as uncollectible | **(25,640)** | (8,580) |
| Unused amounts reversed | **(5,504)** | (1,117) |
| Exchange differences | **999** | 773 |
| At end of the year | **31,903** | 49,808 |

The creation and release of provision for impaired receivables have been included in selling and distribution expenses in the profit and loss account. Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

The other classes within debtors and prepayments do not contain impaired assets.

The maximum exposure to credit risk at the reporting date is the fair value of each class of receivable mentioned above. The Group does not hold any collateral as security.

## Notes to the Financial Statements

### 26 AMOUNTS DUE FROM/(TO) RELATED PARTIES

The amounts due from/(to) related parties are unsecured, interest-free and repayable on demand.

### 27 CASH AND BANK BALANCES

| | Group | | Company | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Cash in hand | **404** | 1,960 | **–** | – |
| Bank balances | **417,788** | 209,190 | **339** | – |
| | **418,192** | 211,150 | **339** | – |

Cash and bank balances were denominated in the following currencies:

| | Group | | Company | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| HK$ | **20,941** | 5,801 | **339** | – |
| RMB | **203,620** | 73,309 | **–** | – |
| US$ | **139,293** | 118,831 | **–** | – |
| Other currencies | **54,338** | 13,209 | **–** | – |
| | **418,192** | 211,150 | **339** | – |

Cash and bank balances include the following:

| | **2007** | 2006 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Bank balances restricted for tax and customs duty purposes | **3,901** | 1,424 |

Some of the Group's bank balances denominated in RMB are deposited with banks in the PRC. The remittance of funds out of these bank accounts is subject to the rules and regulations of foreign exchange control by the PRC Government.

## 28 SHARE CAPITAL

| | Number of shares | Nominal value of shares HK$'000 | Share premium HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| **Authorised** | | | | |
| Shares of HK$0.1 each upon incorporation | 3,800,000 | 380 | – | 380 |
| Sub-division of issued shares | 34,200,000 | – | – | – |
| | 38,000,000 | 380 | – | 380 |
| Increase in authorised share capital of HK$0.01 each | 19,962,000,000 | 199,620 | – | 199,620 |
| At 31 December 2006 and 2007 | 20,000,000,000 | 200,000 | – | 200,000 |
| **Issued and fully paid** | | | | |
| Shares of HK$0.1 each issued | 1 | – | – | – |
| Sub-division of issued shares | 9 | – | – | – |
| | 10 | – | – | – |
| Shares issued to Tang Hsiang Chien credited as fully paid of HK$0.01 each | 235,305,000 | 2,353 | 119,535 | 121,888 |
| Shares issued to SuSih credited as fully paid of HK$0.01 each | 1,264,694,990 | 12,647 | 642,465 | 655,112 |
| At 31 December 2006 | 1,500,000,000 | 15,000 | 762,000 | 777,000 |
| Share issued by global offering as fully paid of HK$0.01 each (Note) | 500,000,000 | 5,000 | 1,040,612 | 1,045,612 |
| At 31 December 2007 | 2,000,000,000 | 20,000 | 1,802,612 | 1,822,612 |

Note:

On 2 February 2007, the Company completed a global offering of 500,000,000 shares with a par value of HK$0.01 each at a price of HK$2.25 per share and raised HK$1,125,000,000 share proceeds. All these shares rank pari passu in respect with the then existing shares. The Company's shares commenced trading on the Stock Exchange on 2 February 2007. The listing proceeds of the aforementioned shares, net of direct listing expenses of amount approximately HK$79,388,000, amounted to approximately HK$1,045,612,000. The resulting share premium amounted to approximately HK$1,040,612,000.

## Notes to the Financial Statements

### 29 RESERVES

#### (a) Group

| | Merger reserve HK$'000 Note (i) | Employee share-based compensation reserve HK$'000 Note (iii) | General reserve HK$'000 Note (iv) | Exchange reserve HK$'000 | Retained profits HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|
| At 1 January 2006 | (549,769) | – | 68,286 | 22,789 | 808,482 | 349,788 |
| Exchange differences | 2,934 | – | 336 | 41,529 | – | 44,799 |
| Profit for the year | – | – | – | – | 320,017 | 320,017 |
| Partial consideration pursuant to the reorganisation | (700,000) | – | – | – | – | (700,000) |
| Distribution to equity holders (Note (ii)) | – | – | – | – | (57,793) | (57,793) |
| Transfer | – | – | 12,773 | – | (12,773) | – |
| At 31 December 2006 | (1,246,835) | – | 81,395 | 64,318 | 1,057,933 | (43,189) |
| Exchange differences | – | – | 713 | 126,627 | 600 | 127,940 |
| Profit for the year | – | – | – | – | 341,648 | 341,648 |
| Shares granted per share award scheme (Note 7) | – | 254,502 | – | – | – | 254,502 |
| Interim dividend (Note 15) | – | (40,000) | – | – | – | (40,000) |
| Proposed final dividend (Note 15) | – | (80,000) | – | – | – | (80,000) |
| Transfer | – | – | 48,461 | – | (48,461) | – |
| At 31 December 2007 | (1,246,835) | 134,502 | 130,569 | 190,945 | 1,351,720 | 560,901 |

Notes:

(i) The merger reserve of the Group represents the difference between the nominal amount of the share capital issued by the Company and the nominal amount of the share capital of the subsidiaries transferred to the Company pursuant to the reorganisation.

(ii) The reduction during the year ended 31 December 2006 represented the assets and liabilities related to the photomask business which were excluded from the Group as a result of the reorganisation. The above reduction is reflected as a distribution made to the equity holders of the Company.

(iii) The employee share-based compensation reserve related to the share award expenses, details of which are described in Note 7.

(iv) As stipulated by regulations in the PRC, the Company's subsidiaries established and operated in the PRC are required to appropriate a portion of their after-tax profit (after offsetting prior year losses) to the general reserve, at rates determined by their respective boards of directors. The general reserve can be utilised to offset prior year losses or be utilised for the issuance of bonus shares. During the year ended 31 December 2007, the boards of directors of the Company's subsidiaries in the PRC appropriated an aggregate amount of approximately HK$48,461,000 (2006: HK$12,773,000) to the general reserve.

## 29 RESERVES *(Continued)*

### (b) Company

| | Employee share-based compensation reserve HK$'000 | Retained profit (accumulated loss) HK$'000 | Total HK$'000 |
|---|---|---|---|
| At 1 January 2006 | – | – | – |
| Loss for the year | – | (597) | (597) |
| At 31 December 2006 | – | (597) | (597) |
| Profit for the year | – | 39,559 | 39,559 |
| Shares granted per share award scheme (Note 7) | 254,502 | – | 254,502 |
| Interim dividend (Note 15) | (40,000) | – | (40,000) |
| Proposed final dividend (Note 15) | (80,000) | – | (80,000) |
| At 31 December 2007 | 134,502 | 38,962 | 173,464 |

## 30 BORROWINGS – GROUP

| | 2007 HK$'000 | 2006 HK$'000 |
|---|---|---|
| **Non-current** | | |
| Long-term bank loans (Note a) | **1,738,067** | 749,060 |
| **Current** | | |
| Current portion of long-term bank loans (Note a) | **394,334** | 166,200 |
| Short-term bank loans (Note b) | **566,773** | 817,537 |
| Bank overdrafts (Note b) | **–** | 42,510 |
| | **961,107** | 1,026,247 |

(a)

| | 2007 HK$'000 | 2006 HK$'000 |
|---|---|---|
| Long-term bank loans | **2,132,401** | 915,260 |
| Less: current portion included under current liabilities | **(394,334)** | (166,200) |
| Long-term portion under non-current liabilities | **1,738,067** | 749,060 |

All long-term bank loans are unsecured and carry interest ranging from 0.67% to 1.20% above Hong Kong Inter Bank Offering Rate or Singapore Inter Bank Offering Rate and are repayable in equal monthly, equal quarterly or semi-annual instalments up to 2012.

The carrying amounts and fair values of the long-term bank loans are as follows:

| | 2007 HK$'000 | 2006 HK$'000 |
|---|---|---|
| Long-term bank loans | | |
| Carrying amounts | **2,132,401** | 915,260 |
| Fair values | **2,192,181** | 927,277 |

The fair values of current borrowings equal their carrying amounts as the impact of discounting is not significant. The fair values of non-current borrowings are estimated based on discounted cash flow approach using the prevailing market rates of interest available to the Group of 4.08% (2006: 5.09%) for financial instruments with substantially the same terms and characteristics for the year ended 31 December 2007, depending on the types and currencies of borrowings.

## 30 BORROWINGS – GROUP *(Continued)*

(b) The carrying amounts of the short-term bank loans and bank overdrafts approximate their fair values. All short-term bank loans are unsecured.

(c) The carrying amounts of bank borrowings are denominated in the following currencies:

| | **2007** | 2006 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| RMB | **570,494** | 593,846 |
| HK$ | **1,093,492** | 569,918 |
| US$ | **966,217** | 610,932 |
| Japanese Yen ("JPY") | **23,253** | – |
| EURO | **45,718** | 611 |
| | **2,699,174** | 1,775,307 |

(d) The effective interest rates (per annum) at the balance sheet dates are as follows:

| | As at 31 December 2006 | | | | |
|---|---|---|---|---|---|
| | RMB | HK$ | US$ | JPY | EURO |
| Long-term loans | 5.58% | 5.11% | 6.51% | – | – |
| Short-term loans | 5.09% | 4.95% | 6.32% | – | 5.63% |
| Bank overdrafts | 5.58% | 7.75% | – | – | – |

| | **As at 31 December 2007** | | | | |
|---|---|---|---|---|---|
| | **RMB** | **HK$** | **US$** | **JPY** | **EURO** |
| Long-term loans | **5.73%** | **4.20%** | **6.23%** | **–** | **–** |
| Short-term loans | **6.34%** | **4.35%** | **6.14%** | **3.03%** | **5.43%** |

## Notes to the Financial Statements

### 30 BORROWINGS – GROUP *(Continued)*

(e) All short-term bank loans and bank overdrafts will mature within one year. The maturity of long-term bank loans is as follows:

| | **2007** **HK$'000** | 2006 HK$'000 |
|---|---|---|
| Within one year | **394,334** | 166,200 |
| Between one and two years | **466,225** | 263,736 |
| Between two and five years | **1,271,842** | 471,524 |
| Wholly repayable within five years | **2,132,401** | 901,460 |
| Over five years | **–** | 13,800 |
| | **2,132,401** | 915,260 |

(f) The Group has the following undrawn borrowing facilities:

| | **2007** **HK$'000** | 2006 HK$'000 |
|---|---|---|
| Fixed rate | | |
| – expiring within one year | **408,472** | 382,293 |
| Floating rate | | |
| – expiring within one year | **2,026,269** | 1,148,817 |
| | **2,434,741** | 1,531,110 |

As at 31 December 2007, the facilities were subject to annual review at various dates.

(g) The exposure of the Group's borrowings to interest rate changes and the contractual repricing dates at the balance sheet dates are as follows:

| | **2007** **HK$'000** | 2006 HK$'000 |
|---|---|---|
| Total borrowings | | |
| – 6 months or less | **674,061** | 906,047 |
| – over 6 months and up to 12 months | **2,025,113** | 869,260 |
| | **2,699,174** | 1,775,307 |

## 31 DEFERRED INCOME TAX – GROUP

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The offset amounts are as follows:

| | **2007** | 2006 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Deferred tax assets: | | |
| – Deferred tax assets to be recovered after more than 12 months | **(13,124)** | – |
| Deferred tax liabilities: | | |
| – Deferred tax liabilities to be settled after more than 12 months | **81,483** | 14,219 |
| Deferred tax liabilities – net | **68,359** | 14,219 |

The gross movement of deferred income tax account is as follows:

| | **2007** | 2006 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Beginning of the year | **14,219** | 13,642 |
| Exchange differences | **(57)** | – |
| (Credited)/charged to consolidated profit and loss account (Note 12) | **(7,215)** | 692 |
| Distribution to equity holders | **–** | (115) |
| Acquisition through business combination (Note 39(b)) | **61,412** | – |
| End of the year | **68,359** | 14,219 |
| Representing: | | |
| Accelerated tax depreciation | **28,774** | 24,329 |
| Taxation losses | **(25,494)** | (10,110) |
| Fair value surplus | **78,203** | – |
| Decelerated tax depreciation | **(13,124)** | – |
| | **68,359** | 14,219 |

## 31 DEFERRED INCOME TAX – GROUP *(Continued)*

The movement in deferred tax assets and liabilities during the year without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

Deferred tax assets:

| | **Decelerated tax depreciation** HK$'000 | **Taxation losses** HK$'000 | **Total** HK$'000 |
|---|---|---|---|
| At 1 January 2006 | – | (4,902) | (4,902) |
| Recognised in the profit and loss account | – | (5,208) | (5,208) |
| At 31 December 2006 | – | (10,110) | (10,110) |
| Exchange differences | (557) | (200) | (757) |
| Recognised in the profit and loss account | (12,567) | 1,290 | (11,277) |
| Acquisition through business combination (Note 39(b)) | – | (16,474) | (16,474) |
| At 31 December 2007 | (13,124) | (25,494) | (38,618) |

## 31 DEFERRED INCOME TAX – GROUP *(Continued)*

Deferred tax liabilities:

| | Fair value surplus HK$'000 | Accelerated tax depreciation HK$'000 | Total HK$'000 |
|---|---|---|---|
| At 1 January 2006 | – | 18,544 | 18,544 |
| Recognised in the profit and loss account | – | 5,900 | 5,900 |
| Distribution to equity holders | – | (115) | (115) |
| At 31 December 2006 | – | 24,329 | 24,329 |
| Exchange differences | 700 | – | 700 |
| Recognised in the profit and loss account | (383) | 4,445 | 4,062 |
| Acquisition through business combination (Note 39(b)) | 77,886 | – | 77,886 |
| At 31 December 2007 | 78,203 | 28,774 | 106,977 |

Deferred income tax assets are recognised for tax losses carry forwards to the extent that the realisation of the related benefit through the future taxable profits is probable. The Group did not recognise deferred income tax assets of HK$60,766,000 (2006: HK$59,858,000) in respect of accumulated losses amounting to HK$262,536,000 (2006: HK$241,622,000) as at 31 December 2007, that can be carried forward against future taxable income. As at 31 December 2007, these tax losses amounting to HK$194,777,000 (2006: HK$114,952,000) will be expired in five years. There is no expiry period for the other tax losses.

## Notes to the Financial Statements

### 32 FINANCIAL LIABILITIES – GROUP

| | 2007<br>HK$'000 | 2006<br>HK$'000 |
|---|---|---|
| Fair value of Put Option | **264,394** | – |

*Note:*

The Put Option mentioned in Note 21 was recognised as financial liabilities in the consolidated financial statements of the Group at the present value of the redemption amount.

For the purposes of determining the present value of the Put Option, the Put Option is determined based on a enterprise value calculation. The enterprise value calculation uses a EBITDA projections based on the extrapolation of the latest unaudited consolidated financial results of Aspocomp Asia Limited to a five-year period and an enterprise value multiplier of 5.5 times. Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated below. There are a number of assumptions and estimates involved for the preparation of EBITDA projections for the year.

Key assumptions used for enterprise value calculation for Put Option for each of the years ended 31 December 2008, 2009, 2010, 2011 and 2012 are gross profit margin, growth rate and discount rate of 17.8%, 25% and 8.3% respectively.

The directors prepared the financial budgets reflecting actual and prior year performance and market development expectations. The growth rates used are consistent with the industry growth estimates. The directors estimate discount rate using pre-tax rates that reflect market assessments of the time value of money of the Group for the year ended 31 December 2007. Judgement is required to determine key assumptions adopted in the EBITDA projections and changes to key assumptions can significantly affect these EBITDA projections.

### 33 LONG-TERM OTHER PAYABLES – GROUP

The balances represent payables for purchases of property, plant and equipment and will be settled after twelve months.

The balances are denominated in the following currencies:

| | 2007<br>HK$'000 | 2006<br>HK$'000 |
|---|---|---|
| US$ | **87,862** | – |
| JPY | **26,272** | – |
| EURO | **1,524** | – |
| | **115,658** | – |

## 34 CREDITORS AND ACCRUALS

| | Group | | Company | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Creditors | **675,853** | 382,330 | **–** | – |
| Accruals | **752,415** | 417,700 | **17,324** | 1,004 |
| | **1,428,268** | 800,030 | **17,324** | 1,004 |

During the year, the Group normally received credit terms of 60-90 days. The ageing analysis of the creditors, based on the invoice date, is as follows:

| | Group | |
|---|---|---|
| | **2007** | 2006 |
| | **HK$'000** | HK$'000 |
| Within credit period | **435,324** | 286,059 |
| 0 – 30 days | **136,473** | 58,823 |
| 31 – 60 days | **60,111** | 21,214 |
| 61 – 90 days | **25,042** | 9,629 |
| Over 90 days | **18,903** | 6,605 |
| | **675,853** | 382,330 |

The carrying amounts of the Group's and Company's creditors and accruals are denominated in the following currencies:

| | Group | | Company | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| HK$ | **244,018** | 266,815 | **16,651** | 1,004 |
| RMB | **659,374** | 356,555 | **267** | – |
| US$ | **366,513** | 162,127 | **392** | – |
| EURO | **91,365** | 3,338 | **4** | – |
| JPY | **46,480** | 9,854 | **10** | – |
| Other currencies | **20,518** | 1,341 | **–** | – |
| | **1,428,268** | 800,030 | **17,324** | 1,004 |

## Notes to the Financial Statements

### 35 AMOUNTS DUE TO A SUBSIDIARY OF A MINORITY SHAREHOLDER OF A SUBSIDIARY/ ASSOCIATED COMPANIES

The amounts due to a subsidiary of a minority shareholder of a subsidiary/associated companies are unsecured, interest-free and payable within normal trade credit terms. The carrying amounts of the amounts due to a minority shareholder/associated companies approximate their fair values.

### 36 AMOUNT DUE TO A MINORITY SHAREHOLDER

The amount due to a minority shareholder is unsecured, interest-free and payable on demand.

### 37 AMOUNTS DUE FROM/(TO) SUBSIDIARIES

The amounts due from/(to) subsidiaries are unsecured, interest-free and payable on demand. The carrying amounts of the amounts due from/(to) subsidiaries approximate their fair values.

### 38 COMMITMENTS

**(a) Capital commitments**

Capital commitments in respect of property, plant and equipment at the balance sheet dates are as follows:

| | **2007** | 2006 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Contracted but not provided for | **658,567** | 271,270 |
| Authorised but not contracted for | **123,153** | 6,998 |
| | **781,720** | 278,268 |

At 31 December 2007, the Group had commitment in respect of the injection of additional capital into certain subsidiaries established in the PRC totalling approximately HK$808,565,000 (2006: HK$433,700,000).

**(b) Operating lease commitments**

The future aggregate minimum lease expense under non-cancellable operating leases in respect of land and buildings is payable as follows:

| | **2007** | 2006 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Within one year | **3,055** | 3,387 |
| One to five years | **3,908** | 2,035 |
| More than five years | **18,956** | 5,027 |
| | **25,919** | 10,449 |

## 39 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

### (a) Partial disposal of a subsidiary

In April 2007, the Group disposed of 6.29% interest in a subsidiary, MA3, at a consideration of US$1,887,000 (approximately HK$14,718,600), to a minority shareholder of a subsidiary.

Details of the net assets disposed of are as follows:

| | Acquiree's carrying amount 2007 HK$'000 |
|---|---|
| Net assets disposed of | |
| Property, plant and equipment | 3,579 |
| Land use right | 8,596 |
| Debtors and prepayments | 29,039 |
| Cash and bank balances | 200,651 |
| Creditors and accruals | (248) |
| Balances with group companies | (8,267) |
| Net assets value | 233,350 |
| Disposal of share of net assets value (6.29%) | 14,678 |
| Gain on partial disposal of a subsidiary (Note 6) | 41 |
| Total consideration | 14,719 |

### (b) Acquisition of a subsidiary through business combination

On 30 November 2007, the Group acquired 80% of the share capital of Aspocomp Asia Limited ("ASPA") from a third party, Aspocomp Group OYJ, a company incorporated in Finland, for a consideration of approximately HK$724,166,000. The acquired business contributed approximately HK$36,123,000 revenue and loss after income tax of approximately HK$1,136,000 to the Group for period from 1 December 2007 to 31 December 2007. If the acquisition had occurred on 1 January 2007, the Group's revenue would have been approximately HK$4,872,869,000 for the year ended 31 December 2007, and profit after income tax would have been approximately HK$466,118,000 for the year ended 31 December 2007. These amounts have been calculated using the Group's accounting policies and by adjusting the results of the subsidiary to reflect the additional depreciation and amortisation that would have been charged assuming the fair value adjustments to property, plant and equipment and intangible assets had applied from 1 January 2007, together with the consequential tax effects.

## Notes to the Financial Statements

### 39 CONSOLIDATED CASH FLOW STATEMENT *(Continued)*

#### (b) Acquisition of a subsidiary through business combination *(Continued)*

Details of the net assets acquired and goodwill are as follows:

| | HK$'000 |
|---|---|
| Purchase consideration: | |
| – Cash paid | 707,666 |
| – Financial liabilities – Put Option (Note 32) | 264,394 |
| – Direct costs relating to the acquisition | 16,500 |
| Total purchase consideration | 988,560 |
| Fair value of net assets acquired – shown as below | (881,822) |
| Goodwill (Note 19) | 106,738 |

The goodwill is attributable to the workforce of the acquired business and the significant synergies expected to arise after the Group's acquisition of ASPA.

## 39 CONSOLIDATED CASH FLOW STATEMENT *(Continued)*

### (b) Acquisition of a subsidiary through business combination *(Continued)*

The assets and liabilities as of 30 November 2007 arising from the acquisition are as follows:

| | Acquiree's carrying amount before acquisition HK$'000 | Fair value adjustment HK$'000 | Acquiree's carrying amount HK$'000 |
|---|---|---|---|
| Net assets acquired: | | | |
| Property, plant and equipment | 568,776 | 257,474 | 826,250 |
| Leasehold land and land use rights | 21,099 | 34,794 | 55,893 |
| Intangible assets | – | 20,629 | 20,629 |
| Stocks and work in progress | 27,782 | – | 27,782 |
| Debtors and prepayments | 216,121 | – | 216,121 |
| Deferred tax assets | 16,474 | – | 16,474 |
| Cash and bank balances | 29,451 | – | 29,451 |
| Creditors and accruals | (171,772) | – | (171,772) |
| Taxation payable | (3,905) | – | (3,905) |
| Borrowings | (57,215) | – | (57,215) |
| Deferred tax liabilities | – | (77,886) | (77,886) |
| | 646,811 | 235,011 | 881,822 |
| Goodwill | | | 106,738 |
| | | | 988,560 |
| Satisfied by: | | | |
| Cash consideration | | | 724,166 |
| Financial liabilities | | | 264,394 |
| | | | 988,560 |
| Net cash outflow arising on acquisition | | | |
| Cash consideration | | | 724,166 |
| Bank balances and cash acquired | | | (29,451) |
| Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries | | | 694,715 |

## Notes to the Financial Statements

### 39 CONSOLIDATED CASH FLOW STATEMENT *(Continued)*

#### (c) Partial consideration pursuant to the reorganisation

The balance represents the partial consideration paid pursuant to an agreement dated 30 December 2006 entered into between MTG Investment (BVI) Limited and Photomask (HK) Limited ("PHKL"), the former holding company, for the purpose of preparation of the listing of shares of the Company on the Stock Exchange to PHKL, to acquire the equity interest in the subsidiaries of PHKL which are engaged in the PCB and Laminates Business.

#### (d) Analysis of cash and cash equivalents

| | **2007** | 2006 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Cash and bank balances (Note 27) | **418,192** | 211,150 |
| Bank overdrafts (Note 30) | **–** | (42,510) |
| | **418,192** | 168,640 |
| Less: Cash restricted for tax and customs duty purposes (Note 27) | **(3,901)** | (1,424) |
| Cash and cash equivalents | **414,291** | 167,216 |

## 40 RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability, directly or indirectly control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control.

The Group is controlled by Su Sih (BVI) Limited ("SuSih"), which owns 58.42% of the Company's shares. The ultimate parent of the Group is SuSih.

The Group regularly conducts transactions in the normal course of business with the associated companies and related parties, details of which during the year are:

### (a) Purchases of raw materials (Note i)

| | **2007** | 2006 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Associated companies | | |
| GSST | **421,549** | 304,836 |
| SSST | **37,272** | 34,280 |
| Minority shareholder of a subsidiary | | |
| Hitachi Chemical Co. (Hong Kong) Limited | **156,910** | 176,922 |

### (b) Purchases of finished goods (Note i)

| | **2007** | 2006 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Minority shareholder of a subsidiary | | |
| Hitachi Chemical Co. (Hong Kong) Limited | **1,869** | 2,361 |

## Notes to the Financial Statements

### 40 RELATED PARTY TRANSACTIONS *(Continued)*

#### (c) Interest income

| | **2007** | 2006 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Companies beneficially owned by directors of the Company | | |
| Su Sih Enterprises Limited | **–** | 714 |
| Le Baron International Ltd. | **–** | 1,275 |
| A director | | |
| Tang Hsiang Chien | **–** | 1,754 |

#### (d) Management fee expenses

| | **2007** | 2006 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Company beneficially owned by directors of the Company | | |
| Su Sih Enterprises Limited | **–** | 5,000 |

#### (e) Sales of finished goods (Note ii)

| | **2007** | 2006 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Minority shareholder of a subsidiary | | |
| Hitachi Chemical Co. (Hong Kong) Limited | **75,471** | 27,230 |

## 40 RELATED PARTY TRANSACTIONS *(Continued)*

### (f) Amounts due from/(to) related parties

| | Note | **2007** **HK$'000** | 2006 HK$'000 |
|---|---|---|---|
| A related company | | | |
| Non-trade balance | | | |
| Aspocomp Group OYJ | 26 | **39,055** | – |
| Related parties | | | |
| Non-trade balances | | | |
| Companies beneficially owned by directors of the Company | | | |
| Qingyi Precision Maskmaking (Shenzhen) Ltd. | | **–** | 5 |
| PHKL | | **–** | (709,603) |
| | | **–** | (709,598) |
| A subsidiary of a minority shareholder of a subsidiary | | | |
| Trade balance | | | |
| Hitachi Chemical Co. (Hong Kong) Limited | 35 | **(29,367)** | (63,359) |
| Associated companies | | | |
| Trade balance | | | |
| GSST | | **(146,062)** | (110,026) |
| SSST | | **(4,607)** | (10,716) |
| | 35 | **(150,669)** | (120,742) |
| A minority shareholder | | | |
| Dividend payable | | | |
| GSST | 36 | **(343)** | – |

## Notes to the Financial Statements

### 40 RELATED PARTY TRANSACTIONS *(Continued)*

#### (g) Key management compensation

| | **2007** | 2006 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Basic salaries, allowances and benefits in kind | **39,956** | 31,219 |
| Share award expenses (Note 7) | **171,831** | – |
| Bonuses | **11,559** | 5,919 |
| | **223,346** | 37,138 |

Notes:

(i) Purchases of raw materials/finished goods from associated companies and a minority shareholder of a subsidiary are made at prices and terms no less than those charged by and contracted with other third party suppliers of the Group.

(ii) Sales of finished goods are made at prices and terms no less than those sold by and contracted with other third party customers of the Group which are due within a normal credit year.