至卓 TOPSEARCH

Topsearch International (Holdings) Limited

至卓國際(控股)有限公司*

(Incorporated in Bermuda with limited liability)

Stock code : 2323

* *For identification purposes only*

Interim Report **2008**

Content

FINANCIAL PERFORMANCE

Compared to the results in the same period in 2007, the business operation of Topsearch International (Holdings) Limited (the “Company”) and its subsidiaries (the “Group) was adversely impacted by the economic slow-down of global economy and the continuing increase of raw materials prices. As a result, the Group’s loss before tax was HK$55 million, as compared to profit before tax of HK$6.7 million in the corresponding period of 2007. Loss per share was 5.29 Hong Kong cents, as compared to earnings per share of 1.02 Hong Kong cents in the corresponding period of 2007.

DIVIDENDS

The board of directors (the “Board” or “Directors”) does not recommend the payments of any interim dividend for the six months ended 30 June 2008.

BUSINESS REVIEW

As disclosed in the annual report of the Company for the year ended 31 December 2007, the economy recession in the U.S.A. at the beginning of 2008 has resulted in a rather sudden down-turn of order bookings, especially for demands of printed circuits boards (“PCBs”) in the hard disk drive industry. The resulting business slow-down led to price erosion of low-layer count PCBs and production under-capacity.

As a result, the revenue of the Group had not been picked up from the corresponding period of 2007 that was negatively impacted by the business interruption caused by the fire incidence occurred in December 2006 in the Shekou plant. Revenue dropped 1.6% from HK$761 million in the corresponding period of 2007 to HK$748 million during the period under review. Together with the appreciation of Renminbi (“RMB”), continuing increase of raw materials prices and production under-capacity led to increase in average production overheads and expenses. Gross profit of HK$42 million had decreased 34% over that of same period in 2007. Gross profit margin decreased from 8.3% in the corresponding period of 2007 to 5.6% during the period under review.

Despite the Group recorded a net loss of HK$53 million for the six months ended 30 June 2008, the Group’s net cash inflow from operating activities was HK$163 million, as compared to HK$108 million in the same period in 2007. In view of the increase in cash outflow from financing activities, a controlling shareholder of the Company advanced HK$43 million to the Company for general working capital requirements during the period and a further RMB4 million (approximately HK$4.6 million) was advanced to the Company subsequent to the balance sheet date. To improve immediate liquidity of the Group, subsequent to the balance sheet date, the Group has arranged additional banking facilities to enable the Group to meet its financial obligations as and when they fall due.

As disclosed in the annual report of the Company for the year ended 31 December 2007, most of the production capacity in the Shekou plant has been re-established and relocation of the Group's production capacity from the Shekou plant to the Shaoguan plant was carried out fairly successfully by the end of 2007. To cope with high production overheads and expenses in the Shekou plant, the Shekou plant will continue to be downsized. The Group will further relocate machineries from the existing plant in Shekou to the Shaoguan plant. When the relocation is completed, it is expected that the production capacity of the Shaoguan plant will be increased up to 1.8 million square feet per month by the end of second quarter of 2009. Management of the Group is of the opinion that when the relocation is completed and both plants are running smoothly, the performance of the Group will be improved tremendously.

As disclosed in the annual report of the Company for the year ended 31 December 2007, the construction of the Tongliao plant was substantially completed. Once the relocation of production capacity from the Shekou plant to the Shaoguan plant is substantially completed, the Group will adopt a prudent approach to schedule the mass-production of the Tongliao plant. Such prudent approach will allow the Group to focus on the operations of the Shekou plant and the Shaoguan plant so as to improve the financial performance of the Group. While there is no solid plan as to when the mass production of PCBs in the Tongliao plant will commence, the Group will start trial run of production and maintain a small scale of operation of the Tongliao plant. With the relatively small scale of production of this new plant, it is not expected that significant profit contribution and working capital requirement will be made by the Tongliao plant to the Group in the year of 2008.

The Group shall continue to allocate resources to upgrade its technical capabilities and enhance its marketing efforts to expand market coverage and further improve product mix.

PROSPECTS

The business environment surrounding most of the low-end products customers of the Group was poor in the first six months of 2008 and the management of the Group was disappointed to see such soft demand as a result of the poor business environment. Although earlier in April 2008, a lot of these customers were expecting a strong come back starting from the second half of the year, such strong come back does happen but only mildly, when compared to the same peak seasons of the industry in previous years. Because of the mild increase in demand, any price increase, especially in the low-end products, is unlikely to be successful despite both raw materials price and overheads are still very much on the high side.

The continued appreciation of RMB, though slowed down temporarily in the recent weeks, together with the enforcement of new labour laws in the PRC starting from January 2008 and much more stringent enforcement of environmental controls, have already brought tremendous burden to all manufacturing and export industries in China. And the PCB industry has not been fortunate to escape such impacts.

Although the Group has also suffered from the continuous appreciation of RMB throughout the last two years, and this has been cited as one of the major reasons for the disappointing performance of the Group lately, our interim balance sheet has registered a gain in our total equity in the amount of HK$23 million despite the operating loss reported, primarily because of the unrealised translation gain resulted in all of our fixed assets booked in RMB. Partial amount of such gain would be realised once we are able to relocate our production base in Shekou thereby making certain properties available for disposal.

While the management of the Group is not highly optimistic about the near term future business environment, they are still seeing a silver lining in the clouds once all the productions and operations can be re-located to Shaoguan where the operating conditions would be much more favourable as compared to Shekou, Shenzhen. The difficulties in completing this in the ensuing 12 to 18 months would be the transfer of high-end products such as 10 layers up, HDI, or boards with blind buried vias etc., which the Group will definitely want to retain such business as their margins are profitable, and the continuous growth of such business will eventually bring a re-birth of the Group from its current unsatisfactory performance. Management of the Group is working diligently every day trying to shorten such transition period and is confident this can be completed within targets.

APPRECIATION

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

CHEOK HO FUNG
Chairman and Chief Executive Officer

Hong Kong, 19 September 2008

FINANCIAL REVIEW

For the six months ended 30 June 2008, the Group's revenue was approximately HK$748 million, representing a decrease of 1.6% over that of the same period in 2007 due to the economic slow-down of global economy. Operating loss before interest and tax was HK$44 million, as compared to operating profit before interest and tax of HK$28 million in the same period in 2007. Loss attributable to shareholders amounted to HK$53 million, as compared to profit of HK$8.7 million in the same period in 2007. Basic loss per share was 5.29 Hong Kong cents, as compared to basic earnings per share of 1.02 Hong Kong cents in the first half in 2007.

The Group's shipment volume increased by 3.6% with the average sales price decreased by 5.1%. Material costs maintained at high level due to the continuing trending up of major raw materials. Production overheads stood at high level during the period under review, representing a drop of 2% over that of in the same period in 2007, that was mainly attributed to the relatively fixed nature of production overheads, rising labor costs, low utilization of production capacities and the provision of worker severance payments. Overall, the gross profit margin dropped from 8.3% in the last period to 5.6% in the first half of 2008.

LIQUIDITY AND FINANCIAL RESOURCES

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

As at 30 June 2008, the Group had total assets of HK$2,318 million (31 December 2007: HK$2,454 million) and interest-bearing borrowings of HK$471 million (31 December 2007: HK$610 million), representing a gearing ratio, defined as interest-bearing borrowings over total assets, of 20% (31 December 2007: 25%).

The Group's net current liabilities of HK$215 million (31 December 2007: HK$69 million) consisted of current assets of HK$672 million (31 December 2007: HK$846 million) and current liabilities of HK$887 million (31 December 2007: HK$914 million), representing a current ratio of 0.76 (31 December 2007: 0.92).

As at 30 June 2008, the Group's current assets consisted of HK$41 million (31 December 2007: HK$87 million) held as cash and cash equivalents, of which 9% was in Hong Kong dollars ("HKD"), 48% was in United States dollars ("USD"), 40% was in RMB and 3% in other currencies.

INTEREST-BEARING BORROWINGS

As at 30 June 2008, the Group had the interest-bearing borrowings as follows:

	30 June 2008 (Unaudited) *HK$'000*	31 December 2007 (Audited) *HK$'000*
Amounts payable:		
Within one year	**383,245**	391,309
In the second year	**80,697**	167,447
In the third to fifth years, inclusive	**6,959**	51,141
	470,901	609,897
Less: Portion classified as current liabilities	**(383,245)**	(391,309)
Long term portion	**87,656**	218,588

Of the total interest-bearing borrowings, HKD denominated loans accounted for 82% (31 December 2007: 83.5%) and the remaining 18% (31 December 2007: 16.5%) balance were USD denominated loans as at 30 June 2008. Almost all of interest-bearing borrowings are charged with floating rates. The Board does not recognize a significant seasonality of borrowing requirements.

Certain banking facilities ("Banking Facilities") granted to the Group have stipulated various covenants including current ratio of not less than 0.9, interest cover ratio of not less than 4 and negative pledge undertaking of the Group not to create or permit to subsist any security over its assets.

As at the balance sheet date, the said covenants concerning the financial ratios were breached by the Group. Subsequent to the balance sheet date, the said covenants of the negative pledge were also breached by the Group by the mortgage of certain land and buildings of the Group as security of the Facility (as defined below). As a result of the aforesaid breaches, the long term outstanding loans of HK$83 million under these Banking Facilities have been reclassified as current liabilities.

Subsequent to the balance sheet date on 28 July 2008 and 25 August 2008, the Group has been granted banking facilities ("the Facility") of RMB270 million (approximately HK$307 million) from two banks in the PRC. The banking facilities are secured by certain land and buildings of the Group. The Group intends to use the Facility for the refinancing of outstanding balances of two syndicated loan facilities totalling HK$176 million and for other general working capital requirements and as a result of such arrangement, the Group has breached the aforesaid negative pledge undertakings. The Group has closely discussed with the relevant lenders to obtain a waiver of the aforesaid breaches.

On 11 September 2008, the Group received from two principal banks a draft term sheet for a HK$200 million factoring facility ("the Factoring Facility"). The Factoring Facility will require a security of a floating charge over the Group's trade receivables. The Group intends to use the Factoring Facility to refinance the remaining outstanding loans and finance lease obligations due to these two banks.

MATERIAL ACQUISITIONS OR DISPOSALS

The Group neither held any significant non-consolidated investments nor underwent any material acquisitions or disposals of subsidiaries and associates during the first half of 2008.

FOREIGN EXCHANGE EXPOSURE

Sales of the Group's products are principally denominated in USD and the purchases of materials and payments of operational expenses are mainly denominated in USD, HKD and RMB. Approximately 49% of the Group's purchases and 79% of the Group's expenses are denominated in RMB. As the Group imported a substantial portion of its critical raw materials and machines from overseas which were non-RMB denominated, this would help to mitigate the full effects arising from RMB appreciation.

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

NUMBER AND REMUNERATION OF EMPLOYEES

As at 30 June 2008, excluding the associate, the Group had approximately 6,935 employees (31 December 2007: 7,244). For the six months ended 30 June 2008, total staff costs amounted to HK$106 million (30 June 2007: HK$101 million). Under the Group's remuneration policy, employees are rewarded in line with market rate and in compliance with statutory requirements of all jurisdictions where it operates.

CONTINGENT LIABILITIES

As disclosed in the annual report of the Company for the year ended 31 December 2007, on 1 March 2006, a former customer has filed a claim against one of the subsidiaries of the Company seeking incidental and consequential damages associated with the alleged failures of the products sold by the subsidiary and claimed the subsidiary for damages amounting to about US$8 million. Subsequent to the balance sheet date, the subsidiary settled the claim with the former customer and the case was dismissed by the order of the court on 25 August 2008. No material under or overprovision was noted as at the balance sheet date.

CAPITAL COMMITMENTS

As at 30 June 2008, the Group's capital commitments contracted but not provided for amounted to HK$46 million (31 December 2007: HK$48 million). All of these capital commitments were related to construction of factory buildings or acquisition of land and plant and machinery.

DIVIDENDS

The Directors do no recommend the payment of an interim dividend for the six months ended 30 June 2008 (30 June 2007: Nil).

DIRECTORS' INTEREST IN CONTRACTS

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

DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES

1. Directors' interests in Shares

As at 30 June 2008, the interests and short positions of the directors in the shares, underlying share capital and underlying shares and debentures of the Company or its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO") as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, were as follows:

(a) The Company

Name of director		Nature of interest		Number of ordinary shares held	Percentage of issued capital
Mr. Cheok Ho Fung		Direct	Long position	78,250,000	7.83%
	Note	Deemed	Long position	432,000,000	43.20%
Total				510,250,000	51.03%

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

(b) Associated Corporation — Inni International Inc.

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

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

DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES *(continued)*

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

(c) *Subsidiary — Topsearch Industries (Holdings) Limited*

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

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

2. Directors' Interests in Share Options of the Company

As at 30 June 2008, none of the Company's directors held share options of the Company.

3. Directors' Interest in Underlying Shares of Equity Derivatives of the Company — bonus issue of warrants on the basis of one warrant for every ten existing Shares held by the Shareholders on 5 June 2006:

Name of Directors	Nature of interest	Date of grant of warrants	Exercise period of warrants	Subscription price of warrants	Number of warrants outstanding	Number of total underlying shares	Approximate Percentage of total shareholding
Mr. Cheok Ho Fung	Direct	5 June 2006	26 June 2006 to 31 October 2008	1.20	4,800,000	4,800,000	0.48%
Inni International Inc	Deemed	5 June 2006	26 June 2006 to 31 October 2008	1.20	43,200,000	43,200,000	4.32%
				Total	48,000,000	48,000,000	4.80%

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

Saved as discussed above, as at 30 June 2008, none of the directors or chief executives had registered an interest or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded 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.

SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS' INTERESTS IN SHARES AND UNDERLYING SHARES

1. Long positions in Shares:

As at 30 June 2008, the interests or short positions of every person in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO were as follows:

Name of shareholders	*Notes*			Number of ordinary shares held	Percentage of issued capital
Inni International Inc.		Direct	Long position	432,000,000	43.20%
Mr. Cheok Ho Fung		Direct	Long position	78,250,000	7.83%
	(i)	Deemed	Long position	432,000,000	43.20%
			Total	510,250,000	51.03%
Mrs. Cheok Chu Wai Min	*(ii)*	Deemed	Long position	510,250,000	51.03%
Hallgain Management Limited	*(iii)*	Deemed	Long position	206,992,000	20.70%
Kingboard Chemical		Direct	Long position	2,766,000	0.28%
Holdings Limited	*(iii)*	Deemed	Long position	204,226,000	20.42%
			Total	206,992,000	20.70%
Jamplan (BVI) Limited	*(iii)*	Deemed	Long position	204,226,000	20.42%
Kingboard Investments Limited		Direct	Long position	204,024,000	20.40%
Majestic Wealth Limited		Direct	Long position	93,400,000	9.34%

Notes:

(i) The above interest in the name of Inni International Inc. was also disclosed as interest of Mr. Cheok Ho Fung in the above section headed "Directors' Interests in Shares and Underlying Shares".

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

(iii) Kingboard Investments Limited and Kingboard Laminates Limited, holder of 204,024,000 and 202,000 shares in the Company respectively, are wholly-owned subsidiaries of Jamplan (BVI) Limited which in turn is a wholly-owned subsidiary of Kingboard Chemical Holdings Limited. Hallgain Management Limited owns 31.01% equity shares in Kingboard Chemical Holdings Limited.

SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS' INTERESTS IN SHARES AND UNDERLYING SHARES *(continued)*

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

Name of shareholders	*Notes*	Nature of interest	Date of grant of warrants	Exercise period of warrants	Subscription price of warrants	Number of warrants outstanding	Number of total underlying shares	Approximate percentage of total shareholding
Inni International Inc.		Direct	5 June 2006	20 June 2006 to 31 October 2008	1.20	43,200,000	43,200,000	4.32%
Mr. Cheok Ho Fung		Direct	5 June 2006	20 June 2006 to 31 October 2008	1.20	4,800,000	4,800,000	0.48%
	(i)	Deemed	5 June 2006	20 June 2006 to 31 October 2008	1.20	43,200,000	43,200,000	4.32%
					Total	48,000,000	48,000,000	4.80%
Mrs. Cheok Chu Wai Min	*(ii)*	Deemed	5 June 2006	20 June 2006 to 31 October 2008	1.20	48,000,000	48,000,000	4.80%
Hallgain Management Limited	*(iii)*	Deemed	5 June 2006	20 June 2006 to 31 October 2008	1.20	12,746,000	12,746,000	1.27%
Kingboard Chemical Holdings Limited		Direct	5 June 2006	20 June 2006 to 31 October 2008	1.20	250,000	250,000	0.03%
	(iii)	Deemed	5 June 2006	20 June 2006 to 31 October 2008	1.20	12,496,000	12,496,000	1.24%
					Total	12,746,000	12,746,000	1.27%
Jamplan (BVI) Limited	*(iii)*	Deemed	5 June 2006	20 June 2006 to 31 October 2008	1.20	12,496,000	12,496,000	1.24%
Kingboard Investments Limited		Direct	5 June 2006	20 June 2006 to 31 October 2008	1.20	12,475,800	12,475,800	1.24%

Notes:

(i) The above interest in the name of Inni International Inc. was also disclosed as interest of Mr. Cheok Ho Fung in the above section headed "Directors' interests in underlying shares of equity derivatives of the Company".

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

(iv) Kingboard Investments Limited and Kingboard Laminates Limited, holder of 204,024,000 and 202,000 shares in the Company respectively, are wholly-owned subsidiaries of Jamplan (BVI) Limited which in turn is a wholly-owned subsidiary of Kingboard Chemical Holdings Limited. Hallgain Management Limited owns 31.01% equity shares in Kingboard Chemical Holdings Limited.

Saved as disclosed above, as at 30 June 2008, no person, other than the directors and chief executive of the Company, whose interests are set out in the section "Directors' Interest in Shares and Underlying Shares" above had registered an interests or short position in the shares or underlying shares of the Company that are required to be recorded pursuant to Section 336 of the SFO.

SHARE OPTION SCHEME

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

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

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

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

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

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

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

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

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

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

MATERIAL CHANGES

Except for disclosed in the post balance sheet events, there have been no material change in respect of such matters since the publication of the latest 2007 annual report of the Company.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

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

CONTINUING CONNECTED TRANSACTION

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

An announcement ("Announcement") was published on 18 August 2006 and a circular ("Circular") was issued on 11 September 2006 regarding the above continuing connected transaction of the Company disclosed in accordance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Ltd (the "Listing Rules"). As disclosed in the Announcement and the Circular, the Directors proposed that the annual caps for the three years from 1 July 2006 to 30 June 2009 shall be approximately as follow:

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

From 1 January 2008 to 30 June 2008, the Group did not purchase any raw materials from the Kingboard Group (year ended 31 December 2007: HK$68,574,000).

DISCLOSURES PURSUANT TO RULE 13.21 OF THE LISTING RULES

In accordance with the disclosure requirements of Rule 13.21 of the Listing Rules, the following disclosures are included in respect of (i) certain of the Company's loan agreements, which contain covenants requiring performance obligations of the controlling shareholder of the Company and (ii) the breach of certain covenants relating to the Banking Facilities.

Pursuant to the loan agreements between the Company and certain banks, relating to two three-year syndicated loan facilities of HK$176,250,000 (31 December 2007: HK$270,000,000), a termination event would arise if (i) Mr. Cheok Ho Fung, Peter, a director and controlling shareholder, and his family, collectively, cease to beneficially own directly or indirectly at least 50% of the issued share capital of the Company, or (ii) the Group fails to meet the financial covenants stipulated in the loan facilities.

As disclosed in the sub-section headed "INTEREST BEARING BORROWINGS" under the section headed "Management Discussion and Analysis" of this interim report, certain of the covenants in relation to the Banking Facilities were breached by the Group as at and subsequent to the balance sheet date. For further details of the aforesaid breaches, please refer to page 6 of this interim report.

CORPORATE GOVERNANCE REPORT

Code on Corporate Governance Practices

The Board and the senior management of the Company are of the opinion that during the first half year of 2008, the Company has complied with the Code on Corporate Governance Practices (the "CG Code") as set out in Appendix 14 of the Listing Rules except for the deviation as stated in the section headed "Compliance with CG Code" below.

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

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

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

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

Compliance with CG Code

The Directors confirm that, for the six months ended 30 June 2008, the Company has complied with the CG Code save for the deviation mentioned below.

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

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

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

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS (THE "MODEL CODE")

The Company has adopted a code of conduct (the "Own Code") regarding securities transactions by Directors on terms no less exacting than the required standard of the Model Code set out in Appendix 10 to the Listing Rules.

After having made specific enquiry with all Directors by the Company, all Directors have confirmed that they have complied with the Model Code and the Own Code throughout the six months ended 30 June 2008. Members of the senior management, who, due to their position in the Company, are likely to be in possession of unpublished price sensitive information, have also confirmed that they have complied with the provisions of the Model Code and the Own Code.

THE BOARD OF DIRECTORS

As at the date of this interim report, the Board consists of nine Directors (one Director has resigned during the period under review) with a variety and a balance of skills and experience in accounting, manufacturing, marketing, finance, investment and legal professions. Their brief biographical particulars are set out in the annual report of the Company for the year ended 31 December 2007. The detailed composition of the Board during the period under review and as at the date of this interim report is as follows:

Name of Directors	Position
Executive Directors	
Mr. Cheok Ho Fung	Chairman and Chief Executive Officer
Mr. Liu Wai On	Director and Executive Committee Member
Mr. Kwok Chi Kwong, Danny	Director and Executive Committee Member
Mr. Tong Nelson Chi Wing (Resigned on 30 April 2008)	Director and Executive Committee Member
Non-Executive Directors	
Mr. Tang Yok Lam, Andy	Member of remuneration committee and nomination committee
Mr. Ng Kwok Ying, Alvin	Member of audit committee
Independent Non-Executive Directors	
Mr. Leung Shu Kin, Alfred	Chairman of remuneration committee, member of audit committee and nomination committee
Mr. Wong Wing Kee	Chairman of nomination committee and Member of audit committee
Mr. Ng Kee Sin	Chairman of audit committee
Mr. Xiang Dong	Member of audit committee, nomination committee and remuneration committee

REVIEW OF INTERIM FINANCIAL STATEMENTS

The unaudited condensed consolidated interim financial statements for the six months ended 30 June 2008 has been reviewed by the Company's Audit Committee.

PUBLICATION OF INTERIM REPORT ON THE WEBSITE OF THE STOCK EXCHANGE

The 2008 Interim Report of the Company containing all the information required by the Listing Rules will be published on the websites of the Company (www.topsearch.com.hk) and the Stock Exchange (www.hkex.com.hk) in due course.

Unaudited Condensed Consolidated Income Statement

		Six months ended 30 June	
		2008	2007
		(Unaudited)	(Unaudited)
	Notes	***HK$'000***	*HK$'000*
REVENUE	*4*	**748,314**	760,743
Cost of sales		**(706,674)**	(697,626)
Gross profit		**41,640**	63,117
Other income and gains	*4*	**7,909**	69,871
Selling and distribution costs		**(55,405)**	(59,320)
Administrative expenses		**(38,131)**	(37,756)
Other expenses		**(297)**	(8,188)
Finance costs	*6*	**(10,996)**	(21,069)
PROFIT/(LOSS) BEFORE TAX	*5*	**(55,280)**	6,655
Tax	*7*	**2,400**	2,071
PROFIT/(LOSS) FOR THE PERIOD		**(52,880)**	8,726
Attributable to equity holders of the parent		**(52,880)**	8,726
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
— Basic	*8*	**(5.29) cents**	1.02 cents
— Diluted		**N/A**	N/A
DIVIDEND	*9*	**Nil**	Nil

Unaudited Condensed Consolidated Balance Sheet

	Notes	**30 June 2008 (Unaudited) *HK$'000***	31 December 2007 (Audited) *HK$'000*
NON-CURRENT ASSETS			
Property, plant and equipment		**1,500,042**	1,472,657
Prepaid land lease payments		**39,606**	37,443
Interest in an associate		**636**	641
Rental and utility deposits		**669**	1,966
Prepaid rental, long term portion		**1,038**	1,069
Available-for-sale financial assets		**2,482**	2,051
Deposits paid for items of property, plant and equipment		**41,078**	35,926
Deposit paid for land lease		**59,971**	56,060
Total non-current assets		**1,645,522**	1,607,813
CURRENT ASSETS			
Inventories		**272,442**	276,044
Trade receivables	*10*	**317,596**	423,608
Prepayments, deposits and other receivables		**41,214**	58,133
Pledged deposits	*11*	**1,188**	943
Cash and cash equivalents	*11*	**39,855**	86,988
Total current assets		**672,295**	845,716
CURRENT LIABILITIES			
Trade payables	*12*	**395,745**	426,491
Other payables and accruals		**100,031**	87,906
Interest-bearing bank loans	*13*	**317,130**	322,342
Finance lease payables	*14*	**66,115**	68,967
Tax payable		**8,154**	8,763
Total current liabilities		**887,175**	914,469

Unaudited Condensed Consolidated Balance Sheet

	Notes	30 June 2008 (Unaudited) HK$'000	31 December 2007 (Audited) HK$'000
NET CURRENT LIABILITIES		**(214,880)**	(68,753)
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,430,642**	1,539,060
NON-CURRENT LIABILITIES			
Other payable		**29,070**	27,175
Interest-bearing bank loans	13	**—**	141,139
Shareholder's loan	15	**43,000**	—
Finance lease payables	14	**44,656**	77,449
Deferred tax liabilities		**22,280**	24,680
Total non-current liabilities		**139,006**	270,443
Net assets		**1,291,636**	1,268,617
EQUITY			
Equity attributable to equity holders of the parent			
Issued capital	16	**100,000**	100,000
Reserves		**1,191,636**	1,168,617
Total equity		**1,291,636**	1,268,617

Unaudited Condensed Consolidated Statement of Changes in Equity

	Attributable to equity holders of the parent							
	Issued capital (Unaudited) *HK$'000*	**Share premium account (Unaudited) *HK$'000***	**Contributed surplus (Unaudited) *HK$'000***	**Property revaluation reserve (Unaudited) *HK$'000***	**Exchange fluctuation reserve (Unaudited) *HK$'000***	**Statutory reserve fund (Unaudited) *HK$'000***	**Retained profits (Unaudited) *HK$'000***	**Total (Unaudited) *HK$'000***
At 1 January 2008	**100,000**	**360,056**	**19,000**	**28,351**	**108,428**	**26,048**	**626,734**	**1,268,617**
Loss for the period	**—**	**—**	**—**	**—**	**—**	**—**	**(52,880)**	**(52,880)**
Exchange adjustments	**—**	**—**	**—**	**—**	**75,899**	**—**	**—**	**75,899**
At 30 June 2008	**100,000**	**360,056***	**19,000***	**28,351***	**184,327***	**26,048***	**573,854***	**1,291,636**

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

* These reserve accounts comprise the reserves of HK$1,191,636,000 (2007: HK$1,036,562,000) in the balance sheet.

Unaudited Condensed Consolidated Cash Flow Statement

		Six months ended 30 June	
		2008	2007
		(Unaudited)	(Unaudited)
	Note	***HK$'000***	*HK$'000*
NET CASH INFLOW FROM OPERATING ACTIVITIES		**162,928**	108,265
NET CASH OUTFLOW FROM INVESTING ACTIVITIES		**(57,624)**	(32,164)
NET CASH OUTFLOW FROM FINANCING ACTIVITIES		**(152,192)**	(107,558)
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(46,888)**	(31,457)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD		**87,931**	112,135
CASH AND CASH EQUIVALENTS AT END OF PERIOD		**41,043**	80,678
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	*11*	**35,571**	72,325
Time deposits with original maturity of less than three months when acquired, pledged as security for declaration charges	*11*	**1,188**	—
Non-pledged time deposits with original maturity of less than three months when acquired	*11*	**4,284**	8,353
		41,043	80,678

1. CORPORATE INFORMATION

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

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

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

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

2.1 BASIS OF PRESENTATION

Despite the fact that the Group had net assets of HK$1,291,636,000 as at 30 June 2008, the Group has consolidated net current liabilities of approximately HK$214,880,000 at that date and a loss before tax of HK$55,280,000 for the period then ended compared with a profit before tax of approximately HK$6,655,000 in the prior period.

To improve the Group's financial position, immediate liquidity and cash flow, the directors of the Company have taken the following measures:

a. subsequent to the balance sheet date on 28 July 2008 and 25 August 2008, the Group has been granted banking facilities ("the Facility") of RMB270 million (approximately HK$307 million) from two banks in the PRC. The banking facilities are secured by certain land and buildings of the Group. The Group intends to use the Facility for refinancing the outstanding balances of two syndicated loan facilities totalling HK$176 million and for other general working capital requirements;

b. subsequent to the balance sheet date on 11 September 2008, the Group received from two principal banks a draft term sheet for a HK$200 million factoring facility ("the Factoring Facility"). The Factoring Facility will require a security of a floating charge over the Group's trade receivables. The Group intends to use the Factoring Facility to refinance the remaining outstanding loans and finance lease obligations due to these two banks;

c. a controlling shareholder of the Company advanced HK$43 million to the Company for general working capital requirements during the period and a further Renminbi 4 million (approximately HK$4.6 million) was advanced to the Company subsequent to the balance sheet date;

d. the directors of the Company have been taking various cost control measures to tighten the costs of operations and various general and administrative expenses; and

2.1 BASIS OF PRESENTATION *(continued)*

e. the Group has been implementing various strategies to enhance the Group's revenue.

The directors of the Company consider that the Group will have sufficient working capital to finance its operations and financial obligations as and when they fall due, and accordingly, are satisfied that it is appropriate to prepare the financial statements on a going concern basis.

2.2 ACCOUNTING POLICIES AND BASIS OF PREPARATION

The unaudited condensed consolidated interim financial statements for the six months ended 30 June 2008 are prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting". The accounting policies and the basis of preparation adopted in the preparation of the interim financial statements are the same as those used in the preparation of the Group's annual financial statements for the year ended 31 December 2007, except for the adoption of the following new and revised Hong Kong Financial Reporting Standards ("HKFRSs"), which are adopted the first time for the current period's financial statements:

HK(IFRIC)-Int 11	HKFRS 2 — Group and Treasury Share Transactions
HK(IFRIC)-Int 12	Service Concession Arrangements
HK(IFRIC)-Int 14	HKAS 19 — The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

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

The Group has not applied the following new and revised HKFRSs, which have been issued but are not yet effective, in these condensed consolidated interim financial statements:

HKFRS 2 Amendment	Share-based Payment — Vesting Conditions and Cancellations
HKFRS 3 (Revised)	Business Combinations
HKFRS 8	Operating Segments
HKAS 1 (Revised)	Presentation of Financial Statements
HKAS 23 (Revised)	Borrowing Costs
HKAS 27 (Revised)	Consolidated and Separate Financial Statements
HKAS 32 & HKAS 1 Amendments	Amendments to HKAS 32 Financial Instruments: Presentation and HKAS 1 Presentation of Financial Statements — Puttable Financial Instruments and Obligations Arising on Liquidation
HK(IFRIC)-Int 13	Customer Loyalty Programmes

3. SEGMENT INFORMATION

Segment information of the Group is presented by business segment and geographical segment. The business segment reporting basis is chosen as the primary segment reporting format as this is more relevant to the Group's internal financial reporting.

(a) Business segments

No further business segment information is presented as the manufacture and sale of printed circuit boards is the only major business segment of the Group.

(b) Geographical segments

In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets.

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

	For the six months ended	
	30 June 2008	30 June 2007
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Asia, excluding the People's Republic of China (the "PRC"), Hong Kong and Taiwan	**379,910**	316,905
PRC, including Hong Kong	**145,523**	198,648
Taiwan	**89,452**	55,976
North America	**67,149**	77,285
Europe	**66,280**	111,929
	748,314	760,743

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

4. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after allowances for returns, rebates and trade discounts.

An analysis of revenue, other income and gains is as follows:

	For the six months ended	
	30 June 2008	30 June 2007
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Revenue		
Sale of goods	**748,314**	760,743
Other income		
Insurance compensation for business interruption	**—**	66,273
Tooling income	**2,162**	2,147
Bank interest income	**354**	1,432
Others	**1,109**	19
	3,625	69,871
Gains		
Foreign exchanges differences, net	**4,284**	—
	7,909	69,871

5. PROFIT/(LOSS) BEFORE TAX

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

	For the six months ended	
	30 June 2008	30 June 2007
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Cost of inventories sold	**706,674**	697,626
Depreciation	**83,110**	82,475
Recognition of prepaid land lease payments	**433**	350
Foreign exchange differences, net	**(4,284)**	1,758
Bank interest income	**(354)**	(1,432)

6. FINANCE COSTS

	For the six months ended	
	30 June 2008	30 June 2007
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Interest expenses on:		
Bank loans and overdrafts wholly repayable within five years	**7,453**	15,805
Shareholder's loan	**—**	55
Finance leases	**3,543**	5,209
Total interest expense on financial liabilities not at fair value through profit or loss	**10,996**	21,069

7. TAX

	For the six months ended	
	30 June 2008	30 June 2007
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Current — the PRC, other than Hong Kong	**—**	929
Deferred tax	**(2,400)**	(3,000)
Total tax credit for the period	**(2,400)**	(2,071)

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

8. EARNINGS/(LOSS) PER SHARE

The calculation of basic earnings/(loss) per share is based on the Group's loss attributable to the ordinary equity holders of the parent of HK$52,880,000 for the period (2007: profit of HK$8,726,000) and the weighted average of 1,000,000,000 (2007: 857,600,000) ordinary shares in issue during the period.

9. DIVIDEND

The directors do not recommend the payment of any interim dividend for the six months ended 30 June 2008 (2007: Nil).

10. TRADE RECEIVABLES

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

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

	30 June 2008 (Unaudited) *HK$'000*	31 December 2007 (Audited) *HK$'000*
Current — 30 days	**292,450**	388,533
31 — 60 days	**19,498**	24,218
61 — 90 days	**4,248**	4,446
Over 90 days	**1,400**	6,411
	317,596	423,608

The aged analysis of the trade receivables that are not considered to be impaired is as follows:

	30 June 2008 (Unaudited) *HK$'000*	31 December 2007 (Audited) *HK$'000*
Neither past due nor impaired	**235,029**	306,272
Less than 1 month past due	**57,421**	82,261
1 to 3 months past due	**23,746**	28,664
Over 3 months	**1,400**	6,411
	317,596	423,608

11. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	30 June 2008 (Unaudited) *HK$'000*	31 December 2007 (Audited) *HK$'000*
Cash and bank balances	**35,571**	86,988
Time deposits	**5,472**	943
	41,043	87,931
Less: Time deposits pledged for declaration charges	**(1,188)**	(943)
Cash and cash equivalents	**39,855**	86,988

12. TRADE PAYABLES

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

	30 June 2008 (Unaudited) *HK$'000*	31 December 2007 (Audited) *HK$'000*
Current — 30 days	**231,488**	252,610
31 — 60 days	**44,093**	79,119
61 — 90 days	**44,983**	58,617
Over 90 days	**75,181**	36,145
	395,745	426,491

Included in the trade payables are trade payable of HK$383,000 (31 December 2007: HK$383,000) due to related companies which are repayable within 60 days, which represents similar credit terms to those offered by the related companies to their major customers.

The trade payables are non-interest bearing and are normally settled on terms of 30 days to 120 days.

13. INTEREST-BEARING BANK LOANS

	30 June 2008 (Unaudited) *HK$'000*	31 December 2007 (Audited) *HK$'000*
Trust receipt loans, secured	**39,987**	43,045
Bank loans, secured	**277,143**	420,436
	317,130	463,481
Analysed into:		
Trust receipt loans and short term bank loans repayable within one year or on demand	**62,987**	76,045
Bank loans, secured and repayable:		
Within one year	**254,143**	246,297
In the second year	**—**	109,539
In the third to fifth years, inclusive	**—**	31,600
	254,143	387,436
	317,130	463,481
Portion classified as current liabilities	**(317,130)**	(322,342)
Long term portion	**—**	141,139

The trust receipt and bank loans have effective interest rates of HIBOR plus 1.125% to 2% per annum, with maturity expires in 2008 to 2009 and bear interest at floating rates.

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

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

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

Certain banking facilities ("Banking Facilities") granted to the Group have stipulated various covenants including current ratio of not less than 0.9, interest cover ratio of not less than 4 and negative pledge undertaking of the Group not to create or permit to subsist any security over its assets.

As at the balance sheet date, the said covenants concerning the financial ratios were breached by the Group. Subsequent to the balance sheet date, the said covenants of the negative pledge were also breached by the Group by the mortgage of certain land and buildings of the Group as security of the Facility. As a result of the aforesaid breaches, the long term outstanding loans of HK$83 million under these Banking Facilities have been reclassified as current liabilities.

With a view to use the Facility for the refinancing of outstanding balances of two syndicated loan facilities totalling HK$176 million and for other general working capital requirements, the Group has mortgaged certain of its land and buildings as security of the Facility and as a result of such arrangement, the Group has breached the aforesaid negative pledge undertakings. The Group has closely discussed with the relevant lenders to obtain a waiver of the aforesaid breaches.

14. FINANCE LEASE PAYABLES

	30 June 2008 (Unaudited) ***HK$'000***	31 December 2007 (Audited) *HK$'000*
Amounts payable:		
Within one year	**69,015**	75,519
In the second year	**38,090**	58,395
In the third to fifth years, inclusive	**7,505**	22,431
Total minimum finance lease payments	**114,610**	156,345
Future finance charges	**(3,839)**	(9,929)
Total net finance lease payables	**110,771**	146,416
Portion classified as current liabilities	**(66,115)**	(68,967)
Long term portion	**44,656**	77,449

The finance lease payables have effective interest rates of HIBOR plus 1.25% to 2.25% per annum, with maturity in 2008 to 2011 and bear interest at floating rates.

The net carrying amount of the Group's property, plant and machinery held under finance leases at 30 June 2008 amounted to HK$225,721,000 (31 December 2007: HK$263,658,000). These items of plant and machinery were pledged to the respective banks as security for the finance leases facilities granted to the Group.

15. SHAREHOLDER'S LOAN

The shareholder's loan was advanced by Mr. Cheok Ho Fung, Peter, a director and controlling shareholder of the Company, pursuant to the loan agreement dated 1 June 2008. The loan is unsecured, repayable on 2 January 2010 and bears interest at HIBOR.

16. SHARE CAPITAL

	30 June 2008 (Unaudited) ***HK$'000***	31 December 2007 (Audited) *HK$'000*
Authorised:		
2,000,000,000 ordinary shares of HK$0.1 each	**200,000**	200,000
Issued and fully paid:		
1,000,000,000 ordinary shares of HK$0.1 each	**100,000**	100,000

17. WARRANTS

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

None of the warrants were exercised during the period.

18. CONTINGENT LIABILITIES

As disclosed in our 2007 annual report, on 1 March 2006, a former customer has filed a claim against one of the subsidiaries of the Company seeking incidental and consequential damages associated with the alleged failures of the products sold by the subsidiary and claimed the subsidiary for damages amounting to about US$8 million. Subsequent to the balance sheet date, the subsidiary settled the claim with the former customer and the case was dismissed by the order of the court on 25 August 2008. No material under or overprovision was noted as at the balance sheet date.

19. OPERATING LEASE ARRANGEMENTS

The Group leases certain of its office properties and staff quarters under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to three years.

At 30 June 2008, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	30 June 2008 (Unaudited) ***HK$'000***	31 December 2007 (Audited) *HK$'000*
Within one year	**4,413**	3,474
In the second to fifth years, inclusive	**4,348**	297
	8,761	3,771

20. COMMITMENTS

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

(a) Capital commitments

	30 June 2008 (Unaudited) *HK$'000*	31 December 2007 (Audited) *HK$'000*
Authorised and contracted for:		
The acquisition of a land	**20,830**	19,472
The construction of factory buildings	**10,481**	8,559
The acquisition of plant and machinery	**14,261**	20,093
	45,572	48,124

(b) Other commitments

At 30 June 2008, the Group's capital contribution committed to two wholly-owned subsidiaries established in the PRC amounted to HK$227,728,000 (31 December 2007: HK$285,787,000), of which HK$106,859,000 (31 December 2007: HK$153,660,000) represents an investment in a subsidiary in Tongliao, Inner Mongolia of the PRC and HK$120,869,000 (31 December 2007: HK$132,127,000) represents an investment in a subsidiary in Shaoguan, Guangdong, the PRC, to be paid up by June 2009 and November 2011, respectively.

21. RELATED PARTY TRANSACTIONS

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

		For the six months ended	
		30 June	30 June
		2008	2007
		(Unaudited)	(Unaudited)
	Notes	***HK$'000***	*HK$'000*
Rental expenses paid to Keentop Investment Limited ("Keentop")	*(i)*	**763**	720
Purchase of raw materials from a group which held 25% equity interest in the Company	*(ii)*	**—**	58,135
Interest on a shareholder's loan	*(iii)*	**—**	55
Marketing service fee paid to an associate	*(iv)*	**793**	573

Notes:

(i) The rental expenses paid to Keentop, which is beneficially owned by Mr. Cheok Ho Fung, Peter, a director of the Company, and his spouse, related to a property leased as their residence. The monthly rental of HK$120,000 for the period from 22 May 2005 to 21 May 2008 was based on the tenancy agreement entered into between both parties. Pursuant to a further tenancy agreement entered into on 10 June 2008, the monthly rental rate was HK$163,000 for the period from 22 May 2008 to 21 May 2010 (with an option to renew for a further term of three years), which was based on a market rental valuation report provided by an independent professionally qualified valuer in June 2008.

(ii) The directors consider that the purchases of raw materials were made according to the published prices and conditions similar to those offered to the major customers of the supplier. The balance owing to the supplier as at 30 June 2008 was HK$383,000 (31 December 2007: HK$383,000).

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

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

(b) Outstanding balances with related parties:

(i) The amount due from the Group's associate of HK$536,000 (31 December 2007: HK$541,000) is unsecured, interest-free and has no fixed terms of repayment.

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

21. RELATED PARTY TRANSACTIONS *(continued)*

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

	For the six months ended	
	30 June 2008 (Unaudited) ***HK$'000***	30 June 2007 (Unaudited) *HK$'000*
Short-term employee benefits	**3,522**	3,102
Post-employment benefits	**224**	205
Total compensation paid to key management personnel	**3,746**	3,307

22. POST BALANCE SHEET EVENT

(a) Subsequent to the balance sheet date on 28 July 2008 and 25 August 2008, the Group has been granted banking facilities ("the Facility") of RMB270 million (approximately HK$307 million) from two banks in the PRC. The banking facilities are secured by certain land and buildings of the Group. The Group intends to use the Facility for refinancing the outstanding balances of two syndicated loan facilities totalling HK$176 million and for other general working capital requirements.

(b) On 11 September 2008, the Group received from two principal banks a draft term sheet for a HK$200 million factoring facility ("the Factoring Facility"). The Factoring Facility will require a security of a floating charge over the Group's trade receivables. The Group intends to use the Factoring Facility to refinance the remaining outstanding loans and finance lease obligations due to these two banks.

(c) Subsequent to the balance sheet date, a controlling shareholder of the Company advanced RMB4 million (approximately HK$4.6 million) to the Company for general working capital requirements.

(d) With a view to use the Facility for the refinancing of outstanding balances of two syndicated loan facilities totalling HK$176 million and for other general working capital requirements, the Group has mortgaged certain of its land and buildings as security of the Facility and as a result of such arrangement, the Group has breached the aforesaid negative pledge undertakings. The Group has closely discussed with the relevant lenders to obtain a waiver of the aforesaid breaches.