



Report of the Directors

The directors of the Company (“Directors”) are pleased to present their annual report and the audited consolidated financial statements for the year ended 31 December 2006.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The activities of its subsidiaries are set out in note 31 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2006 are set out in the consolidated income statement on page 34 of the 2006 annual report of the Company (“2006 Annual Report”) of which this report forms part.

The Directors now recommend, subject to approval of the shareholders at the forthcoming annual general meeting (“2007 AGM”), the payment of a final dividend of HK2.86 cents per share to the shareholders whose names appear on the register of members of the Company on 21 May 2007. Such dividends amount to US\$4,612,903 in total.

Subject to the approval of the shareholders of the Company at the 2007 AGM, the final dividend is expected to be payable on or about 30 June 2007.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Wednesday, 16 May 2007 to Monday, 21 May 2007, both days inclusive, during which period no transfer of shares of the Company will be effected. In order to qualify for the proposed final dividend, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on Tuesday, 15 May 2007.

PROPERTY, PLANT AND EQUIPMENT

During the year, the Group incurred capital expenditures of approximately US\$18.7 million on new machinery and equipment. Details of these and other movements during the year in the property, plant and equipment of the Group are set out in note 14 to the financial statements.

SHARE CAPITAL

Details of movements during the year in the share capital of the Company are set out in note 22 to the financial statements.

DISTRIBUTABLE RESERVES OF THE COMPANY

The Company's reserves available for distribution to shareholders as at 31 December 2006 amount to approximately US\$38,871,000 which comprise retained profit and contributed surplus of approximately US\$6,760,000 and US\$32,111,000 respectively.



Report of the Directors

DIRECTORS

The Directors of the Company during the year and up to the date of this report were:

Executive Directors

Mr. Lin Cheng Hung (*Chairman*)

Mr. Hsu Chung

Mr. Huang Lien Tsung

Non-executive Directors

Mr. Chou Tsan Hsiung

Mr. Nguyen Duc Van

Mr. Yang Yi

(Appointed with effect from 1 February 2007)

Mr. Lee Cheng Few

(Resigned with effect from 1 February 2007)

Independent non-executive Directors

Mr. Wang Wei-Lin

Mr. Chow Chi Tong

(Appointed with effect from 23 May 2006)

Mr. Liao Kuang Sheng

(Appointed with effect from 1 September 2006)

Mr. Lee Ka Leung, Daniel

(Resigned with effect from 23 May 2006)

Mr. Tung Tat Chiu, Michael

(Resigned with effect from 1 September 2006)

In accordance with Articles 108(A), at each annual general meeting one third of the Directors for the time being shall retire from office by rotation. Mr. Lin Cheng Hung, Mr. Chou Tsan Hsiung and Mr. Wang Wei-Lin will retire from the office and offer themselves for re-election at the 2007 AGM.

In accordance with Article 112 of the Articles of Association, the office of the following Directors, namely, Mr. Liao Kuang Sheng and Mr. Yang Yi, will end at the 2007 AGM. Both of them, being eligible, will offer themselves for re-election at the 2007 AGM.

The term of office for each executive Director and independent non-executive Director is the period up to his retirement by rotation in accordance with the Company's articles of association.

Each of the non-executive Directors and independent non-executive Directors has entered into a service agreement with the Company for an initial period of one year and shall be renewable automatically for successive terms of one year each commencing from the next day after the expiry of their then current term of appointment unless terminated by either party by three months' prior written notice.

None of the Directors has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).



Report of the Directors

DIRECTORS' INTERESTS IN SHARES

At 31 December 2006, the interests of the Directors in shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (“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 Companies (“Model Code”) were as follows:

Name of Director	Name of Group member/ associated corporation	Capacity/ nature of interest	Total number of ordinary shares	Approximate percentage of interest
Mr. Lin Cheng Hung	The Company	Beneficial owner	9,431,452 shares (L)	0.755%
	Vertex Precision Electronics Inc. (“Vertex”)	Beneficial owner	1,684,385 shares of NT\$10 each (L)	0.534%
	Chia-Tung Investment Co., Ltd.	Beneficial owner	1,000 shares of NT\$10 each (L)	0.01%
	ITEQ Investment Co., Ltd.	Beneficial owner	1,000 shares of NT\$10 each (L)	0.004%
	ITEQ Investment Co., Ltd.	Interest of spouse (Note 2)	1,000 shares of NT\$10 each (L)	0.004%
Mr. Hsu Chung	The Company	Beneficial owner	6,702,743 shares (L)	0.536%
	Vertex	Beneficial owner	6,000 shares of NT\$10 each (L)	0.0019%
Mr. Huang Lien Tsung	The Company	Beneficial owner	1,296,292 shares (L)	0.103%
	Vertex	Beneficial owner	16,580 shares of NT\$10 each (L)	0.0053%
	Vertex	Interest of spouse (Note 3)	16,698 shares of NT\$10 each (L)	0.0053%
Mr. Lee Cheng Few	The Company	Beneficial owner	328,365 shares (L)	0.026%
	Vertex	Interest of spouse (Note 4)	433,018 shares NT\$10 each (L)	0.1372%



Report of the Directors

Name of Director	Name of Group member/ associated corporation	Capacity/ nature of interest	Total number of ordinary shares	Approximate percentage of interest
Mr. Chou Tsan Hsiung	Vertex	Beneficial owner	47,219 each of NT\$10 each (L)	0.0150%
	Vertex	Interest of spouse (Note 5)	6,785 shares NT\$10 each (L)	0.0021%
Mr. Nguyen Duc Van	The Company	Beneficial owner	573,638 shares (L)	0.046%
Mr. Liao Kuang Sheng	Vertex	Beneficial owner	36,732 each of NT\$10 each (L)	0.0117%

Notes:

1. The letter "L" denotes the Directors' long positions in the shares of the Company or the relevant associated corporation.
2. These shares are registered under the name of Ms. Lin Ying-Chi, who is the wife of Mr. Lin Cheng Hung. Under the SFO, Mr. Lin Cheng Hung is deemed to be interested in all the shares in which Ms. Lin Ying-Chi is interested.
3. These shares are registered under the name of Ms. Chung Man-Chu, who is the wife of Mr. Huang Lien Tsung. Under the SFO, Mr. Huang Lien Tsung is deemed to be interested in all the shares in which Ms. Chung Man-Chu is interested.
4. These shares are registered under the name of Ms. Lee SCH Winne Chwen, who is the wife of Mr. Lee Cheng Few. Under the SFO, Mr. Lee Cheng Few is deemed to be interested in all the shares in which Ms. Lee SCH Winnie Chwen is interested.
5. These shares are registered under the name of Ms. Chou, Lee Hsiung Chiao, who is the wife of Mr. Chou Tsan Hsiung. Under the SFO, Mr. Chou Tsan Hsiung is deemed to be interested in all the shares in which Ms. Chou, Lee Hsiung Chiao is interested.

All the interests disclosed above represent long positions in the shares and underlying shares of the Company or its associated corporations.

Other than as disclosed above, none of the Directors and their associates has any interests or short positions in any shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as at 31 December 2006 as required to be recorded in the register maintained by the Company under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.



Report of the Directors

SHARE OPTIONS

Particulars of the Company's share option scheme are set out in note 23 to the financial statements.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

At no time during the year was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries, a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contracts of significance to which the Company, its holding company, subsidiaries or fellow subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2006, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that other than the interests disclosed above in respect of certain Directors, the following shareholders had notified the Company of the relevant interests and short positions in the Company.

Name of Shareholder	Capacity	Number of ordinary shares	Percentage of the issued share capital of the Company
Century Champion Group Limited ("Century Champion") (note 2)	Beneficial owner	644,830,298 (L)	51.59%
Vertex Precision Electronics Inc. ("Vertex") (note 2)	Interest of controlled corporation	644,830,298 (L)	51.59%
DBS Nominees Pte. Ltd. ("DBS")	Beneficial owner	95,826,566 (L)	7.67%
DBS Bank Ltd	Interest of a controlled corporation	95,826,566 (L)	7.67%
DBS Group Holdings Ltd	Interest of controlled corporations	95,826,566 (L)	7.67%
Deutsche Bank Aktiengesellschaft	Security interest	87,632,500 (L)	7.01%
PMA Capital Management Ltd.	Investment manager	78,177,500 (L)	6.25%



Report of the Directors

Notes:

1. The letter “L” denotes the persons’ long positions in the shares of the Company and the letter “S” denotes the persons’ short positions in the shares of the Company.
2. These 644,830,298 Shares were registered in the name of and beneficially owned by the Century Champion, the entire issued share capital of which is beneficially owned as to 93.28% by Vertex and 6.72% by Chia-Tung Investment Co. Ltd. Under the SFO, Vertex is deemed to have a long position in respect of the 644,830,298 Shares.

Other than as disclosed above, the Company has not been notified of any other person (other than a director or a chief executive of the Company) who had an interest or a short position in the issued share capital and underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO as at 31 December 2006.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the largest and the five largest customers of the Group accounted for approximately 38.9% and 51.9% of the Group’s turnover respectively. Aggregate purchases attributable to the Group’s five largest suppliers were less than 30% of total purchases.

At no time during the year did a Director, an associate of a Director or any shareholder (which to the knowledge of the Directors owned more than 5% of the Company’s share capital) has an interest in any of the Group’s five largest customers or suppliers.

USE OF PROCEEDS RAISED BY ISSUE OF SHARES

The Company has issued an aggregate of 250,000,000 new shares by way of placing and public offer for subscription at a price of HK\$1.02 per share in October 2005 in connection with its listing on the Stock Exchange on 10 October 2005. The net proceeds from such new issue (“Net Proceeds”), after deducting related expenses, amounted to approximately US\$30.6 million (equivalent to approximately HK\$236.8 million).

It was stated in the section headed “Future plans and prospects and use of proceeds” set out in the prospectus dated 28 September 2005 (“Prospectus”) issued by the Company that about US\$10.0 million out of the Net Proceeds will be used for the purchase of machinery and equipment for the Group’s Suzhou plant in expanding the Group’s manufacturing facilities and about US\$20.2 million out of the Net Proceeds will be used for the establishment of a new manufacturing plant for the production of FPC, FPCA, PCB, and PCBA in Northern China.



Report of the Directors

With a view to expand the Group's manufacturing facilities, the Company made an announcement dated 23 December 2005 which stated that the Company decided to increase the amount of Net Proceeds to be used for the purchase of machinery and equipment for the Group's Suzhou plant from US\$10 million to US\$13.6 million while the amount of Net Proceeds to be applied in the development of the Northern China plant will be about US\$16.6 million. In addition, the Company made an announcement dated 15 September 2006 which stated that the Company decided that the amount of Net Proceeds to be applied in the development of the Northern China plant would be used to invest in the development of the Group's Suzhou plant. Part of the proceed amounting to US\$14.6 million will be used to develop the second phase of manufacturing plant for the production of HDI PCB and rigid-flex in Suzhou. The remaining part of the proceed amount to US\$2.0 million will be used to purchase machinery and equipment for increasing the assembly capacities for the assembly of electronic component modules or supporting finished products in Suzhou plant. The Directors take the view that such revision to the use of the Net Proceeds is in the interest of the Company and its shareholders as a whole.

	Use of proceeds (as set out in prospectus)	Changes	Use of proceeds (revised)	Use of proceeds up to 31 December 2006 (actual)	Balance
	US\$ (million)	US\$ (million)	US\$ (million)	US\$ (million)	US\$ (million)
Purchase of machinery and equipment for the Group's Suzhou Plant	10.0	3.6	13.6	(13.6)	—
Construction of a manufacturing plant for the production of FPC, FPCA, PCB and PCBA in Northern China	20.2	(20.2)	—	—	—
Purchase of machinery and equipment increasing the production capacity of HDI PCB, TFT LCD PCB and rigid-flex in Suzhou plants	—	14.6	14.6	—	14.6
Purchase of machinery and equipment for increasing assembly capacities for the assembly of electronic component modules and supporting finished products in Suzhou plants	—	2.0	2.0	(2.0)	—
Total	30.2	—	30.2	(15.6)	14.6



Report of the Directors

Up to 31 December 2006, the amount of the about US\$15.6 million has been used for the acquisition of machinery and equipment for the Group's Suzhou plant. Given that the actual Net Proceeds amounted to US\$30.6 million, the total remaining balance of the Net Proceeds of approximately US\$14.6 million had been placed as short term deposits with licensed banks in Hong Kong and the PRC and is expected to be applied for the purposes as disclosed in the Prospectus and the announcements mentioned above.

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

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

CONTROLLING SHAREHOLDER'S AND DIRECTORS' INTEREST IN COMPETING BUSINESS

Vertex Precision Electronics Inc. ("Vertex", together with its subsidiaries, the "Vertex Group") is the holding company of Century Champion Group Limited, the current controlling shareholder of the Company. The Vertex Group (other than the Group) is principally engaged in the manufacture and sale of PCB, being one of the major products of the Group. In order to delineate the business of the Vertex Group and those of the Group and to regulate the business activities with their respective customers and amongst themselves, Vertex and the Company have given to each other certain non-compete undertakings under a territorial agreement dated 5 July 2005 made between the Company and Vertex ("Territorial Agreement"). A summary of the principal terms of the Territorial Agreement is set out in the Prospectus. To demonstrate its adherence to the non-compete undertakings contained in the Territorial Agreement, Vertex has confirmed to the Company as to its compliance with such undertakings during the year under review.

As referred to in the section headed "Directors' interests in shares" above, each of Mr. Lin Cheng Hung, Mr. Hsu Chung, Mr. Huang Lien Tsung, Mr. Lee Cheng Few and Mr. Chou Tsan Hsiung, each being a Director, was a shareholder of Vertex as at 31 December 2006. Such Directors are indirectly interested in the business carried on by the Vertex Group.

Save as disclosed, during the year, none of the Directors had any interests in competing business of the Company which was required to be disclosed pursuant to Rule 8.10 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding the Directors' securities transactions on terms not less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issues ("Model Code") as set out in Appendix 10 to the Listing Rules on 5 July 2005. The Company has made specific enquiry of all Directors regarding any non-compliance with the Model Code and the code of conduct throughout the year ended 31 December 2006 and all the Directors confirmed that they have fully complied with the required standard set out in the Model Code and the code of conduct.



Report of the Directors

CORPORATE GOVERNANCE

During the year ended 31 December 2006, the Company has fully complied with the requirements under the Code Provisions in the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules.

INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received, from each of the independent non-executive Directors, namely Messrs. Wang Wei-Lin, Chow Chi Tong, Liao Kuang Sheng, Lee Ka Leung, Daniel (resigned) and Tung Tat Chiu, Michael (resigned), an annual confirmation of their independence pursuant to Rule 3.13 of the Listing Rules. Based on such confirmations, the Board considers all of the independent non-executive Directors are independent.

AUDIT COMMITTEE

An Audit Committee was established by the Company on 5 July 2005 with written terms of reference to review and supervise the Company's financial reporting process and internal controls. The Audit Committee currently comprises Mr. Chow Chi Tong and Mr. Liao Kuang Sheng, being independent non-executive Directors and Mr. Chou Tsan Hsiung, a non-executive Director. Currently, Mr. Chow Chi Tong is the Chairman of the Audit Committee.

REMUNERATION COMMITTEE

A Remuneration Committee was established by the Company on 5 July 2005 and re-constituted pursuant to a written resolution passed by the Board on 23 September 2005 to formulate and make recommendation to the Board on the Group's policy and structure for all remuneration of the Directors and senior management of the Group.

The Remuneration Committee, currently comprises the three independent non-executive Directors, namely Mr. Wang Wei-Lin, Mr. Chow Chi Tong and Mr. Liao Kuang Sheng and one non-executive Director, Mr. Chou Tsan Hsiung. Mr. Wang Wei-Lin is the Chairman of the Remuneration Committee.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Articles of Association, or the laws of Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

TAX RELIEF AND EXEMPTION

The Company is not aware that holders of securities of the Company are entitled to any tax relief or exemption by reason of their holding of such securities.



Report of the Directors

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Director as at the date of this report, the Directors considered that the Company had maintained a sufficient public float at any time during the financial year ended 31 December 2006.

AUDITORS

Messrs. Deloitte Touche Tohmatsu have acted as auditors of the Company since its incorporation.

Messrs. Deloitte Touche Tohmatsu will retire and, being eligible, offer themselves for re-appointment at the 2007 AGM. A resolution will be proposed at the 2007 AGM to re-appoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company.

On behalf of the Board

Lin Cheng Hung

Chairman

Hong Kong, 19 April 2007

