

MISSION STATEMENT OF CORPORATE GOVERNANCE

“We thrive to achieve a high level of corporate governance while supplying quality PCBs to the market and balancing the stakeholders’ interest as our top priorities.”

The Board of Directors and the Senior Management of the Company are of the opinion that during the year 2006, the Company has properly operated in accordance with the “Code on Corporate Governance Practices” (the “CG Code”) as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the “Listing Rules”) except for the deviation as stated in the section “Compliance with CG Code”.

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

1. Ensuring the decision-making process, risk management process, internal audit and controls, disclosure of information and the communication with stakeholders are carried out in accordance with good management practices and good 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 each of their role in such an environment; and
3. Adopting quality standards widely recognized internationally 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 accounting year ended 31 December 2006, the Company has complied with the CG Code save for the deviation mentioned below:

1. Mr. Cheok Ho Fung is the Chairman as well as the Chief Executive Officer of the Company. Under the Code Provisions A.2.1, 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 does not have a material adverse impact on the corporate governance of the Company.

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

2. Following the resignation of Mr. Look Guy and prior to the appointment of Mr. Ng Kee Sin, the Board had only two independent non-executive directors where the Company was temporarily non-compliant with with Rules 3.10 (1) and 3.21 of the Listing Rules which require (i) at least three independent non-executive directors in the board of directors of a listed issuer; (ii) at least one of the independent non-executive director must have appropriate professional qualifications or accounting or related financial management expertise; and (iii) the audit committee of the listed issuer must comprise a minimum of three members, at least one of whom is an independent non-executive director with appropriate professional qualifications or accounting of related financial management expertise during the period from 21 December 2006 to 19 March 2007.

Mr. Ng Kee Sin has been appointed as an independent non-executive director and a member of the audit committee of the Company for an initial term of three years with effect from 20 March 2007, subject to retirement by rotation and re-election pursuant to the Bye-laws of the Company. He is entitled to annual emoluments of HK\$120,000 which are determined by reference to his duties and responsibilities with the Company and the market benchmark.

Mr. Ng has no relationship with the Group or its connected persons or their respective associates, in particular, the Chairman and the Chief Executive Officer of the Company, before joining the Group. The Company considers Mr. Ng is independent for the purpose of Rule 3.13 of 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 set out in the Model Code.

The Company, having made specific enquiries, confirms that members of the Board have complied with the Model Code throughout the year ended 31 December 2006. Members of the senior management, who, due to their position in the Company, are likely to be in possession of unpublished price sensitive information, have also complied with the provisions of the Model Code and the Own Code.

THE BOARD OF DIRECTORS

As the day of publication of this annual report, the Board of Directors consists of eight Directors with a variety and a balance of skills and experience in accounting, manufacturing, marketing, finance, investment and legal professions. Their brief biographical particulars are set out on pages 32 to 33 of this annual report. Members of the Board of Directors and their respective attendance to Board meetings held during the year is as follows:

Name of Directors	Attendance
Executive Directors	
Mr. Cheok Ho Fung (<i>the Chairman and Chief Executive Officer</i>)	8/8
Mr. Ting Sui Ping	8/8
Mr. Ng Chi Shing (<i>resigned on 18 April 2006</i>)	0/1
Mr. Wong Shui Hing (<i>retired on 5 June 2006</i>)	1/1
Mr. Ho Siu Man (<i>resigned on 1 Mar 2007</i>)	8/8
Non-Executive Directors	
Mr. Tang Yok Lam, Andy	5/5
Mr. Ng Kwok Ying, Alvin	5/5
Mr. Mok Cham Hung, Chadwick (<i>appointed on 4 October 2006</i>)	1/1
Independent Non-Executive Directors	
Mr. Leung Shu Kin, Alfred	4/5
Mr. Wong Wing Kee	2/5
Mr. Ng Kee Sin (<i>appointed on 20 March 2007</i>)	—
Mr. Look Guy (<i>resigned on 21 December 2006</i>)	5/5

The number of board meetings held during the relevant year was eight.

All three independent non-executive directors of the Company are considered to be independent for the purpose of Rule 3.13 of the Listing Rules.

The Company has appointed a sufficient number of independent non-executive directors in accordance with the requirements of the Listing Rules (except for the deviation from the CG Code mentioned above), one of whom has accounting and related financial management expertise. They have dedicated to provide the Company with professional advice with respect to the steady operation and development of the Company. They also exercise supervision and coordination to safeguard interests of the Company and its shareholders.

Each independent non-executive director has provided an annual confirmation of independence to the Company pursuant to Rule 3.13 of the Listing Rules. Based on such confirmation, the Group considers that all independent non-executive directors of the Company are independent for the purpose of Rule 3.13 of the Listing Rules.

There is no relationship (including financial, business, family or other material/relevant relationship(s)), among members of the Board of Directors except as disclosed below:

1. Mr. Cheok Ho Fung is the Chairman as well as the Chief Executive Officer of the Company;
2. Mr. Mok Cham Hung, Chadwick, is an Executive Director of Kingboard Chemical Holdings Limited (Stock Code: 148) which is the substantial shareholder of the Company; and
3. Mr. Leung Shu Kin, Alfred, the independent non-executive director of the Company, who is currently an Executive Director of Elegance Printing Group, the printer of the Company, who has business relationship with the Company.

All existing non-executive directors have signed letters of appointment with the Company and will be subject to retirement by rotation and re-election at the annual general meeting of the Company pursuant to the Bye-laws of the Company and the requirements of the Listing Rules. The remuneration of non-executive directors will be fixed from time to time in accordance with the Bye-laws by the Shareholders at the Company's general meetings.

THE OPERATION OF THE BOARD OF DIRECTORS

The Board's main task is to supervise and direct the management of the Company to operate under good corporate governance in order to maximize value of the shareholders while balancing the interest of the various stakeholders. The Board of Directors holds meetings at least quarterly to monitor the performance of the Company as against the budget and to be briefed with market developments, to discuss and decide on major corporate, strategic and operational issues, and to appraise any good investment opportunities available.

The major duties performed by the Board of Directors are as follows:

1. Setting the Company's values and standards;
2. Setting the objectives of the Company and responsibilities of the Board of Directors;
3. Establishing the strategic direction for the Company;
4. Setting targets for the management;

5. Monitoring the performance of the management;
6. Supervising the annual and interim results of the Company;
7. Ensuring that a framework of prudent and effective controls are in place and to assess and manage the risk of the Group;
8. Overseeing the management of the Company's relationships with shareholders, customers, the community, interest groups and others who have a legitimate interest in the responsible conduct of the Group's business;
9. Identifying and assessing any matters involving a conflict of interest for a substantial shareholder or a Director;
10. Determining material acquisitions and disposals of assets, investments, capital, projects, authority levels, major treasury policies, risk management policies and key human resources issues; and
11. Considering and determining issues which are the responsibilities of the Board of Directors pursuant to the Company's Memorandum of Association and Bye-laws and the relevant laws and regulations in force by which the Company is governed from time to time.

The Board of Directors delegates to the management major corporate matters as stated below:

1. Preparation of the annual and interim results to be approved by the Board of Directors;
2. Execution of the corporate strategies and directions adopted by the Board of Directors;
3. Implementation of sufficient systems of internal controls and risk management procedures; and
4. Carrying out daily operations, etc.

BOARD COMMITTEES

As an integral part of good corporate governance, the Board of Directors has established the Board Committees to oversee particular aspects of the Company's affairs. The Board Committees are governed by their respective Terms of Reference, which describe the authority and duties of the Board Committees and will be regularly reviewed and updated by the Board. The Board Committees include Audit Committee, Remuneration Committee, Nomination Committee and Executive Committee.

AUDIT COMMITTEE

The Company's Audit Committee is composed of three Independent Non-Executive Directors and one Non-Executive Director, with the Chairman having appropriate professional qualifications and experience in financial matters as required by the Listing Rules. The Audit Committee discharges its responsibilities as follows:

1. Reviewing the interim and annual results of the Company;
2. Reviewing and monitoring the reporting, accounting, financial, risk management and internal control aspects of the Company;
3. Approving the appointment of the Company's external auditor and reviewing and discussing their audit plan and scope, and also reports and issues raised by them;
4. Reporting directly to the Board of Directors; and
5. Ensuring full access by the Corporate Governance Manager to hear directly any concerns that the Corporate Governance Department may have during the course of the department's work.

During the year ended 31 December 2006, three Audit Committee meetings were held to review the financial results and reports for the year ended 31 December 2005 and for the six months ended 30 June 2006, risk management and internal control processes, related party transactions, roles and responsibilities as well as works performed by the Corporate Governance Department, and the re-election of the external auditors. The attendance record of each member of the Audit Committee at the Audit Committee meetings is set out below:

Members of Audit Committee	Attendance
Mr. Look Guy (<i>Chairman</i>) (<i>resigned on 21 December 2006</i>) (<i>Independent Non-Executive Director</i>)	3/3
Mr. Ng Kwok Ying, Alvin (<i>Member</i>) (<i>Non-Executive Director</i>)	3/3
Mr. Leung Shu Kin, Alfred (<i>Member</i>) (<i>Independent Non-Executive Director</i>)	2/3
Mr. Wong Wing Kee (<i>Member</i>) (<i>Independent Non-Executive Director</i>)	2/3
Mr. Ng Kee Sin (<i>Member</i>) (<i>appointed on 20 March 2007</i>) (<i>Independent Non-Executive Director</i>)	—

Mr. Ng Kee Sin has been elected to be the Chairman of the Audit Committee to fill in the vacancy of Mr. Look Guy during the Audit Committee meeting held on 20 April 2007.

AUDITORS' REMUNERATION

The Audit Committee of the Company is responsible for considering the appointment of the external auditor and reviewing any non-audit functions performed by the external auditor, including whether such non-audit functions could lead to any potential material adverse effect to the Company. During the year under review, the Group is required to pay to the Company's Auditors, Messrs Ernst & Young, the following fees:

Type of services provided

by the external auditors	Fee paid/payable (HK\$)
<i>Audit services:</i>	
Audit of the annual financial statements for the year ended 31 December 2006	1,750,000
<i>Non-audit services:</i>	
1. Tax compliance	36,000
2. Tax advisory service	250,000
	2,036,000

REMUNERATION COMMITTEE

The Remuneration Committee carries out the following duties:

1. Ensuring formal and transparent procedures for overseeing and developing policies on the remuneration packages of Directors and senior managers;
2. Assessing the achievement and performance of Executive Directors and Senior Management;
3. Approving the terms of Executive Directors service contracts; and
4. Providing effective supervision and administration of the Company's share option schemes and other share incentive schemes.

It comprises three members, the majority of whom are Independent Non-Executive Directors.

During the year ended 31 December 2006, two Remuneration Committee meetings were held to discuss and approve the directors' performance bonus for the year 2005, and the remuneration of Mr. Mok Cham Hung, Chadwick as an Non-Executive Director of the Company. The attendance record of each member of the Remuneration Committee at the Remuneration Committee meetings is set out below:

Members of Remuneration Committee	Attendance
Mr. Leung Shu Kin, Alfred (<i>Chairman</i>) (<i>Independent Non-Executive Director</i>)	2/2
Mr. Tang Yok Lam, Andy (<i>Member</i>) (<i>Non-Executive Director</i>)	2/2
Mr. Look Guy (<i>Member</i>) (<i>resigned on 21 December 2006</i>) (<i>Independent Non-Executive Director</i>)	2/2

NOMINATION COMMITTEE

The Nomination Committee carries out the following tasks in accordance with its nomination procedures and criteria as follows:

1. Recommending and nominating candidate to fill vacancies or as addition to the Board of Directors by considering the candidates' past performance and experience, academic and working qualifications, general market conditions in accordance with the requirements set out in the Listing Rules and the Company's Bye-laws so as to make the composition of the Board of Directors filled with a variety and a balance of skills and experience; and
2. Reviewing regularly the roles of Directors by considering the issues of conflict of interest, their performance and conduct.

During the year ended 31 December 2006, the Nomination Committee had met twice and discussed the nominations of directors of the Company. The attendance record of each member of the Nomination Committee at the Nomination Committee meetings is set out below:

Members of Nomination Committee	Attendance
Mr. Wong Wing Kee (<i>Chairman</i>) (<i>Independent Non-Executive Director</i>)	0/2
Mr. Leung Shu Kin, Alfred (<i>Member</i>) (<i>Independent Non-Executive Director</i>)	2/2
Mr. Tang Yok Lam, Andy (<i>Member</i>) (<i>Non-Executive Director</i>)	2/2

Under the CG Code provision A.4.2, every Director should be subject to retirement by rotation at least once every three years. The Bye-laws of the Company has provided that at each annual general meeting one-third of the Directors for the time being shall retire from office by rotation such that every Director shall be subject to retirement by rotation at least once every three years.

EXECUTIVE COMMITTEE

The Executive Committee of the Board meets regularly and operates with overall delegated authority from the Board of Directors. The Executive Committee reports through the Chairman to the Board of Directors. The Executive Committee carries out the following tasks:

1. Determining group strategy;
2. Setting targets for the management;
3. Reviewing business performance;
4. Ensuring adequate funding; and
5. Examining major investments.

Members of the Executive Committee

Attendance

Mr. Cheok Ho Fung (<i>the Chairman and Chief Executive Officer</i>)	13/13
Mr. Ting Sui Ping	13/13
Mr. Ng Chi Shing (<i>resigned on 18 April 2006</i>)	1/1
Mr. Wong Shui Hing (<i>retired on 5 June 2006</i>)	0/0
Mr. Ho Siu Man (<i>resigned on 1 Mar 2007</i>)	13/13

CORPORATE MANAGEMENT AND INTERNAL CONTROL

Corporate Governance Department:

The Corporate Governance Department plays a major role in monitoring the internal corporate governance of the Group. The Department has unrestricted access to information to allow it to review all aspects of the Group's risk management and governance processes in connection with nature of compliance and legal requirements.

Internal Audit Division:

There is an internal audit division in the Corporate Governance Department. Under an audit plan, it conducts audits of the practices, procedures and internal controls of all business and support units. As requested by the relevant Board Committees, it also conducts ad-hoc reviews or investigations. The Corporate Governance Manager reports directly to the Chief Executive Officer and has direct access to the Audit Committee. It also has the right to consult the Audit Committee without reference to the management.

The management systems for occupational health, safe environment and quality standards have been set up. The perfection of the internal control system is properly established and the Board and senior management have paid significant attention to it. The internal audit division is responsible for overall system establishment and comprehensive perfection in corporate internal control. Key tasks of the internal audit function include:

1. Unlimited authority of access to review different aspects of the Group's business activities and internal control procedures;
2. Regular performance of the comprehensive audit of the working procedures, practices, expenses, investment, asset management of the special business unit and subsidiaries of the Group;
3. Special reviews and investigations for ad-hoc projects; and
4. Liaison with senior management and the Board of Directors on the effectiveness and efficiency of management and the assurance against material financial misstatements.

The Corporate Governance Manager meets with senior management frequently to monitor corporate governance as well as develop new processes and systems to ensure compliance and the Group's adherence to industry best practices.

Internal Control:

The Board of Directors holds full responsibility for the system of internal control of the Group and continuously reviews its effectiveness. The internal audit division performs investigation of the effectiveness of material processes and controls on a risk-based approach in accordance with the provisions on internal controls as set forth in the CG Code. The findings are reported to the Audit Committee. The Board of Directors, through the Audit Committee, has reviewed the effectiveness of the system of internal control for the year ended 31 December 2006.

OPERATION RISK

The Group has implemented appropriate policies and procedures for all major operations. In particular, management closely monitors the procurement process and performs background check on the vendors. The In Process Quality Assurance Department and Reliability Department ensure the stability of the manufacturing process and control products quality. The Group also strives to promote human resources reforms and comprehensively enhances cost management. By establishing clear policies and requiring well-documented business process, the exposure to operation risks is considered minimal.

ENVIRONMENTAL AND SOCIAL RESPONSIBILITY

The Company is committed to our society on the impact of our business to the environment and wishes to create value to the community in which we operate. We have done the following in this area:

Environmental Policy

Traditionally, the manufacture of PCBs is classified as a pollution industry. Because of this, the Company pledges to uphold quality management and implement policies for conserving resources and managing waste. The Company has established the following policies in compliance with environmental regulations.

1. During the stage of design, research and development, environmental impact assessment for each material or machinery is conducted prior to any purchase decision. Accordingly, such impact assessment data is considered as one of the key criteria for procurement decisions.
2. During production, consumption, delivery and waste disposal, the Company undertakes environmental protection measures through technological enhancement, usage of recycling materials and conservation of resources. Besides, minimum environmental impact approach and systematic recycling methods are employed to best protect the environment as well as the ecosystem.
3. The Company commits to fulfill and comply with national and regional environmental protection regulations and establishes self-regulating frameworks and standards accordingly.
4. Awareness for environmental protection of all staff is enhanced through environmental protection activities, training program and promotion. The concept of "Reduce", "Reuse", "Recycle" are heavily promoted. By promoting them, the Company is striving to protect the environment as well as contributing back to the society.
5. Top management is acting as a core for establishing a well-defined structure and system for environmental management by outlining corresponding responsibility, scope and policy. Besides, this environmental protection policy is always given first priority, overriding production needs wherever necessary.
6. The Company always keeps track of the development of international environmental protection legislation and ensures its environmental policy is implemented not only to comply with international standards, but also to ensure it is at the same pace as worldwide counterparts.

ENVIRONMENTAL RESEARCH PROJECTS

Since 2001, the Company started sponsoring Tsinghua University (one of the top research and education institutions in China) for the establishment of the “Tsinghua Topsearch R&D Centre of Green Manufacturing” to achieve the following:

1. Conduct Green Manufacturing Research; and
2. Organize and promote Green Education.

Major subjects for research include:

1. Green Assessment System;
2. Green Design Theory and Methods;
3. Recycle and Reuse Technology of PCB;
4. Energy Consumption Management;
5. Green Education for Manufacturing and Industrial Ecology; and
6. Green Manufacturing Web Site.

The Company is playing a significant role in taking the Green Technologies on to the next level. It is looking forward to sharing these future technologies and is confident that a better and healthier environment can be built.

ROHS STANDARD AND LEAD - FREE PRODUCTION

As one of the leading companies in the PCB industry, environmental protection is always one of the focused areas of the Company. The Company has been complying with the RoHS Standard “Restriction of the use of certain Hazardous Substances” (“RoHS Standard”). The RoHS Standard requires electronic manufacturing companies to use the minimum hazardous substances, such as lead, mercury, cadmium, hexavalent chromium, polybrominated biphenyls or polybrominated diphenyl ethers, which are dangerous to our environment. The RoHS Standard enables that our products produced are environmental friendly. Besides meeting the RoHS Standard, the Company is also using halogen-free materials since halogen compound is dangerous to the ozone.

The Company has already been using lead-free surface finishing production such as Organic Solderability Preservative (OSP) and Electroless Nickel Immersion Gold (ENIG), which enable our product surfaces to be lead-free. As one of the Company’s long term strategies, we will continue to invest on new lead-free technology. Recently, we have invested on Immersion Silver and Immersion Tin machines, which provide better lead-free finishing production along the manufacturing lines.

In future, the Company will keep sourcing new RoHS compliance materials and lead-free surface finishing alternatives to achieve better environmental protection and provide more choices for customers.

EDUCATION

Besides the work on environmental issues, since 1999 the Company has already financed over 120 staff in university studies. It believes that staff is the most valuable asset of the Company. It also invests heavily in training because it believes that training and further education will not only benefit the individual staff but also provide them more opportunities to make greater contributions to the Company.

Financing for education is not limited to staff. The Company extends it to talented young students. Since 1995, the Company has sponsored over 50 students in their Doctor's and Master's studies in South China Agricultural University and Tsinghua University. The Company may not directly benefit from it, but believes that these students can contribute more to the society if they have opportunities to further their education.

The Company is willing to take more responsibilities for society but with a view to balancing the shareholders' interests and society's benefits.

INVESTOR RELATIONS AND COMMUNICATION

The Company continues to commit to a proactive policy of promoting investor relations and communication with shareholders and analysts. In order to further promote effective communication, the Company maintains a website (www.topsearch.com.hk) to disclose the Company's information to shareholders on a timely basis.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, less than 25% of the Company's total issued share capital was held by the public as at the date of this report.