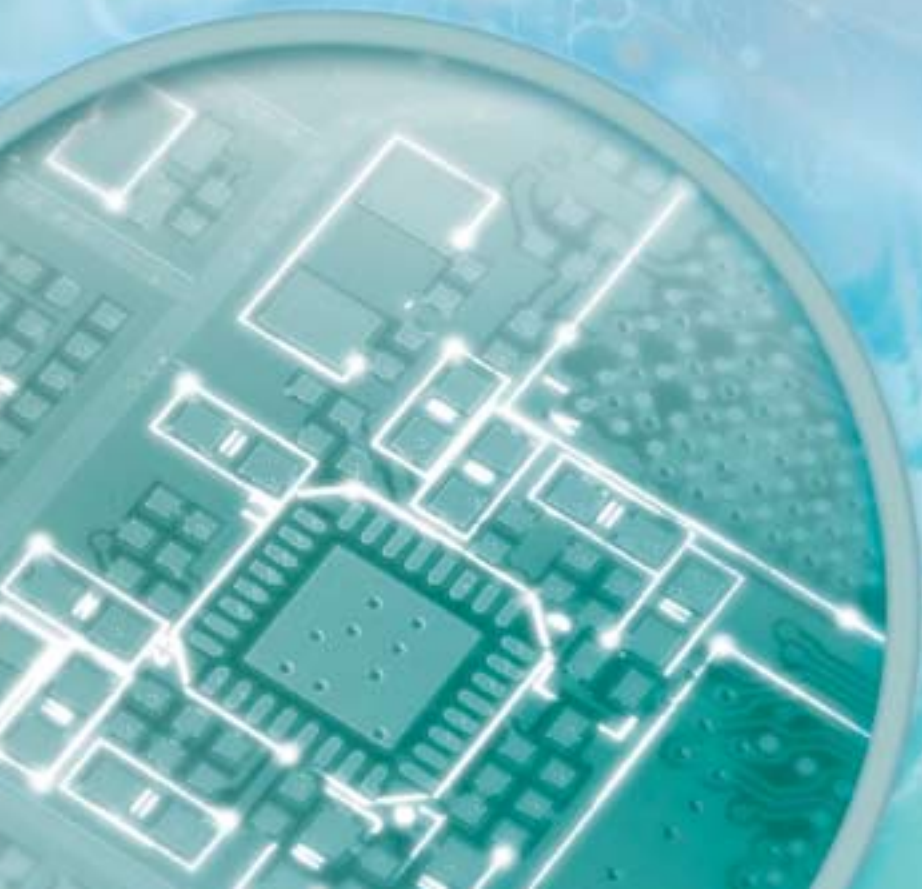




# Meadville Holdings Limited 美維控股有限公司

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

## 2006 Annual Report



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*English version of this annual report shall prevail over Chinese translation.*

# Corporate Information and Financial Calendar

## BOARD OF DIRECTORS

### Executive Directors

Mr Tang Hsiang Chien (*Honourary Founding Chairman*)

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

Mr Chung Tai Keung, Canice (*Chief Executive Officer*)

Ms Tang Ying Ming, Mai (*Chief Financial Officer*)

### Independent Non-Executive Directors

Mr Lee, Eugene

Mr Leung Kwan Yuen, Andrew

Dr Li Ka Cheung, Eric

## AUDIT COMMITTEE

Mr Lee, Eugene (*Chairman*)

Mr Leung Kwan Yuen, Andrew

Dr Li Ka Cheung, Eric

## REMUNERATION COMMITTEE

Dr Li Ka Cheung, Eric (*Chairman*)

Mr Lee, Eugene

Mr Leung Kwan Yuen, Andrew

Mr Chung Tai Keung, Canice

Ms Tang Ying Ming, Mai

## NOMINATION COMMITTEE

Mr Leung Kwan Yuen, Andrew (*Chairman*)

Dr Li Ka Cheung, Eric

Mr Lee, Eugene

Mr Chung Tai Keung, Canice

Ms Tang Ying Ming, Mai

## EXECUTIVE COMMITTEE

Mr Tang Chung Yen, Tom (*Chairman*)

Mr Tang Hsiang Chien

Mr Chung Tai Keung, Canice

Ms Tang Ying Ming, Mai

## COMPANY SECRETARY

Ms Cho Wing Han

## LEGAL ADVISER

Woo Kwan Lee & Lo

## COMPLIANCE ADVISER

The Hongkong and Shanghai Banking Corporation Limited

## AUDITORS

PricewaterhouseCoopers

Certified Public Accountants

22nd Floor, Prince's Building

Central, Hong Kong

## PRINCIPAL BANKERS

The Hongkong and Shanghai Banking Corporation Limited

China Construction Bank

## PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Appleby Corporate Services (Cayman) Limited

P.O. Box 1350 GT

Clifton House, 75 Fort Street

George Town, Grand Cayman

Cayman Islands

## BRANCH SHARE REGISTRAR AND TRANSFER OFFICE IN HONG KONG

Tricor Investor Services Limited

26/F Tesbury Centre

28 Queen's Road East

Wanchai, Hong Kong

## REGISTERED OFFICE

P.O. Box 1350 GT

Clifton House, 75 Fort Street

George Town, Grand Cayman

Cayman Islands

## HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

No. 4 Dai Shun Street

Tai Po Industrial Estate

Tai Po, New Territories

Hong Kong

## WEBSITE

[www.meadvillegroup.com](http://www.meadvillegroup.com)

## STOCK CODE

3313

## FINANCIAL CALENDAR

Full year results announced on 28 March 2007

Registers of members to be closed from 22 to 25 May 2007

Annual general meeting to be held on 25 May 2007

# Financial Summary

## RESULTS

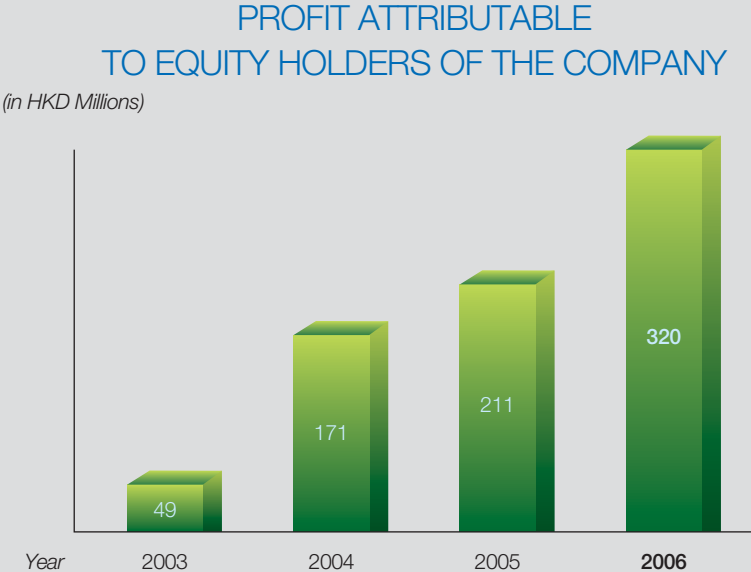
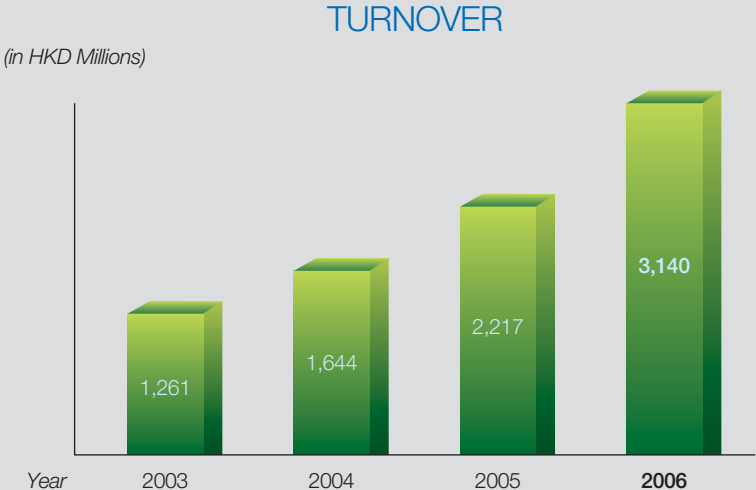
	For the years ended 31 December			
	2003 HK\$'000	2004 HK\$'000	2005 HK\$'000	2006 HK\$'000
Turnover	1,261,303	1,643,856	2,216,914	<b>3,140,398</b>
Operating profit	61,147	173,300	254,308	<b>470,167</b>
Loss on share reform of an associated company	–	–	–	<b>(52,237)</b>
Interest income	4,363	3,598	5,599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

## ASSETS AND LIABILITIES

	As at 31 December			
	2003 HK\$'000	2004 HK\$'000	2005 HK\$'000	2006 HK\$'000
Total assets	2,111,028	2,571,333	3,477,370	<b>4,437,847</b>
Total liabilities	(1,119,724)	(1,452,499)	(2,198,105)	<b>(3,500,120)</b>
	991,304	1,118,834	1,279,265	<b>937,727</b>
Capital and reserves attributable to equity holders of the Company	843,031	973,497	1,126,788	<b>733,811</b>
Minority interests	148,273	145,337	152,477	<b>203,916</b>
Total equity	991,304	1,118,834	1,279,265	<b>937,727</b>

# Financial Highlights

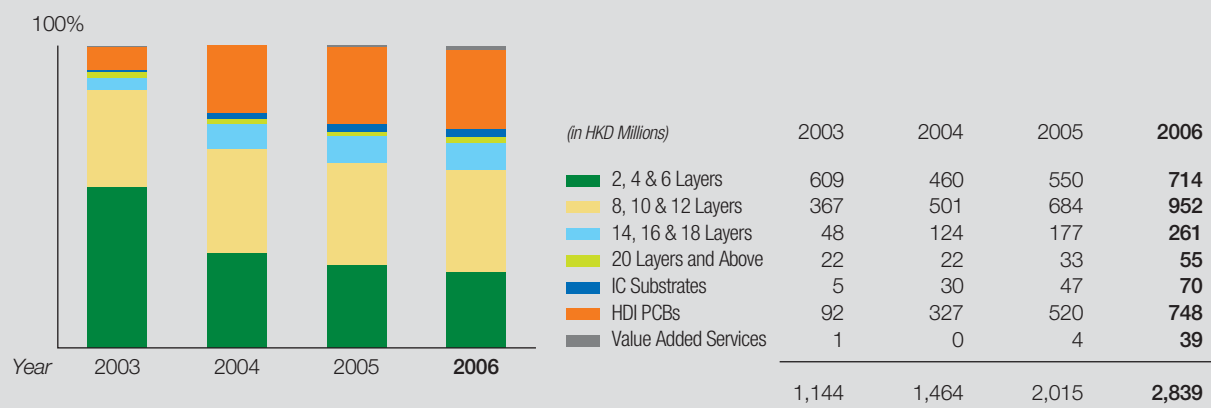
For the years ended 31 December 2003-2006



For the years ended 31 December 2003-2006

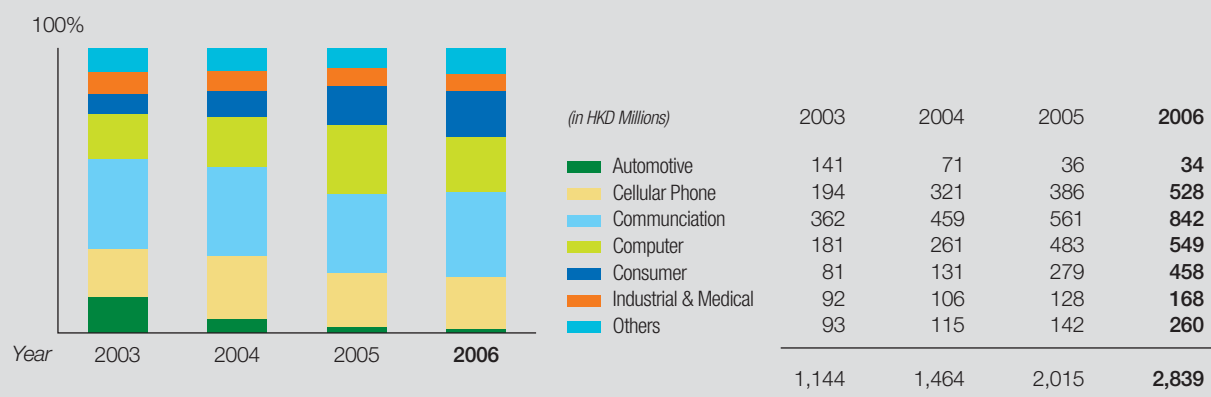
## TURNOVER BY LAYER COUNT

(PCB products only)



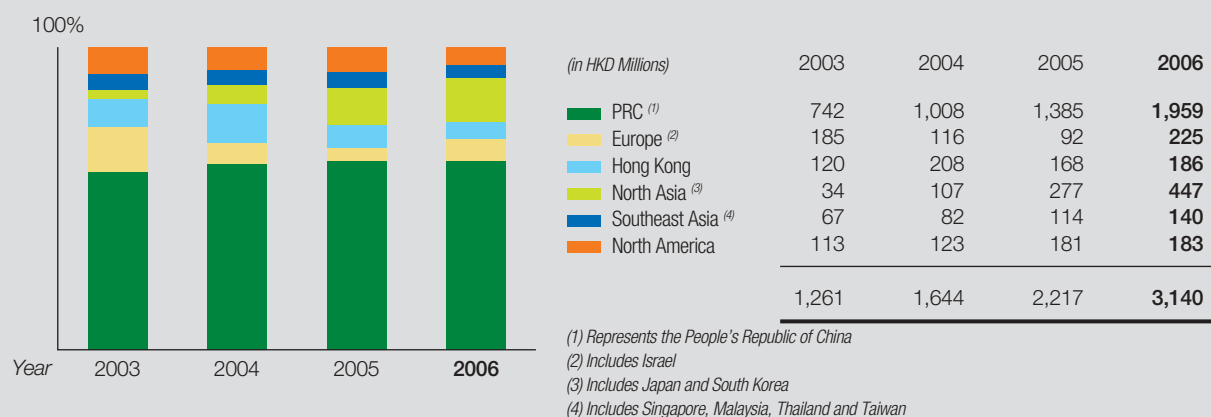
## TURNOVER BY APPLICATION

(PCB products only)



## TURNOVER BY GEOGRAPHICAL LOCATION

(the final destination to where the products are delivered)



# Chairman's Statement



**Tang Chung Yen, Tom**

*Executive Chairman and Group Managing Director*

It is my pleasure to present to you our first annual report since our company's listing on The Stock Exchange of Hong Kong Limited in February 2007. I am pleased to inform you that 2006 was a strong and promising year for our Group. As the world's demand for electronic products rose during the year, we were able to seize the opportunities that have arisen from the enormous growth in the industry. This was particularly the case in the China region, where we enjoyed a strong positioning – a position that will only be strengthened with our plans for further expansion.

## **BUSINESS REVIEW**

2006 saw a strong demand for electronic products around the world, triggered largely by a robust global economy. As a result of the growth in the electronic products industry, Printed Circuit Board ("PCB") analyst, NT Information Ltd, reported that global PCB production in 2006 increased by 14.5% over 2005, and reach a record US\$48.6 billion – a figure that surpasses the previous peak of US\$42.7 billion recorded before the internet bubble burst in 2000.

Fueled by the twin forces of China's booming economy and the ongoing outsourcing of electronic product manufacturing in China, PCB production in China in 2006 has grown by 20.3% over 2005. This would see China overtake Japan as the world's largest country for PCB production, with a PCB output value estimated

at US\$12.1 billion, representing 24.9% of the world's output.

The Group's strategies are continuing to focus on high technology, high value-added and high performance prepreg and laminate, High Density Interconnect ("HDI") PCB, high-layered PCB sectors and organic substrate PCB. These on-going strategies allowed the Group to capitalize on enormous business opportunities in the region, largely due to the outsourcing demand in recent years for primarily higher technology product sectors and greater value-added PCBs.

The Group was able to record a turnover of HK\$3.14 billion in 2006, representing an increase of 41.7% over our 2005 turnover of HK\$2.22 billion, and out-performing both global and China region PCB production growth rates.

The Group's prepreg and laminate sales stood at HK\$301.6 million, while PCB sales were HK\$2.84 billion in 2006, versus HK\$201.6 million and HK\$2.02 billion respectively for 2005. Blended average selling price and average layer count for PCBs were also recorded at US\$23 per square foot and 7.3 layers respectively in 2006, versus US\$20 per square foot and 6.9 layers in 2005.

The improvements in both the blended average selling price and average PCB layer count were primarily due to the sales growth experienced in the high technology and high-value added PCB sectors compared with 2005 as well as the general increase in selling prices for PCB in 2006. The various areas of growth in 2006 over 2005 include: organic substrate sales growth of 45.6%; HDI PCB sales growth of 43.9%; 67.1% growth in 20 layer and above PCBs sales, 48.0% growth in 14, 16 and 18 layer PCB sales; and 39.1% growth in 8, 10 & 12 layer PCB sales. Sales of 2, 4 & 6 layer PCBs, however, only grew by 30.0% in 2006 over 2005, which is lower than the Group's total PCB sales growth in 2006 over 2005.

The double-digit price increase of key raw materials for PCB manufacturing (such as raw copper, copper foil, fibreglass, prepreg and copper clad laminates) was primarily offset by the increase in PCB selling prices, value-added contributions as well as a better economy of scale.

The Group's operating profit increased from HK\$254.3 million in 2005 to HK\$470.2 million in 2006, representing a growth of 84.9%. Operating profit margin improved from 11.5% in 2005 to 15.0% in 2006.

As part of the Group's continuous strategies to focus on high technology and high-valued product application sectors, the Group has rallied our marketing efforts on communication sectors that conventionally have a higher average layer count than computer and consumer sectors. The Group's sales in communication, computer, consumer and other sectors stood at 48.3%, 19.3%, 16.1% and 16.3% of the Group's total sales respectively in 2006, versus 47.0%, 24.0%, 13.8% and 15.2% in 2005.

Growth in turnover during the year was facilitated by the Group's continuously expanding capacity for prepreg and laminate in Mica-Ava (Far East) Industrial Limited ("MAF"), as well as our ongoing expansion in both

HDI PCB and conventional PCB capacities. As MAF's new Hong Kong production facility went operational in early 2006, we were able to increase our prepreg and laminate production capacity from 3.9 million sq ft and 1.4 million sq ft in December 2005 to 11.1 million sq ft and 2.9 million sq ft respectively in December 2006.

The Group also invested to increase HDI PCB capacity in Shanghai Meadville Electronics Co., Ltd. ("SME"), from 310,000 sq ft per month in December 2005 to around 380,000 sq ft per month in December 2006, and improved capacity for all 2+ HDI PCB with copper filled vias requirements. High-layered PCB capacity was also expanded in Dongguan Meadville Circuits Limited ("DMC"), increasing from about 365,000 sq ft PCB with an average 7.5 layers inner capacity in December 2005 to about 710,000 sq ft with average 8 layers inner capacity by December 2006.

The strong growth in financial performance during the year was made possible by careful phase by phase planning, pilot testing and production acceleration in each of the aforementioned expansion programme. Of paramount importance has been coordinating precisely these initiatives to ensure their alignment with our 2006 marketing and business development plan to acquire new customers while retaining existing customers.

With more resources deployed in both the North American and European markets, 2006 also saw the





Group successfully gain qualifications from eight major multinational original equipment manufacturers (“OEMs”). Business with these eight customers began either during 2006 or in early 2007.

Share of profit from associated companies, Guangdong Shengyi Sci. Tech Co., Ltd. (“GSST”) and Suzhou Shengyi Sci. Tech Co., Ltd. (“SSST”), was HK\$97.8 million for the full year in 2006, versus HK\$55.2 million in 2005. This represents 77.2% growth over 2005, keeping in line with the Group’s operating profit growth of 84.9%.

During the year, the Group incurred a one-time loss of HK\$ 52.2 million, due to a reduction in the Group’s share of net asset value in an associated company, GSST. On 19 January 2006, GSST approved the conversion of all restricted shares to unrestricted shares at a conversion price of 3.3 shares to the shareholders for every 10 unrestricted shares. Accordingly, the number of shares and percentage of equity held by us decreased from 165,305,000 shares to 141,525,000 shares, from 25.91% to 22.18%, respectively. This conversion enables the Group’s shares in GSST to be gradually tradable on Shanghai Stock Exchange effective from 9 March 2007 onwards.

#### **FUTURE PROSPECTS**

PCB analyst, NT Information Ltd, predicted that PCB business remains bullish in 2007, and global PCB

production will increase by approximately 9.0% over 2006 in 2007, reaching an estimated US\$52,921 million in PCB output.

China’s production growth is predicted to dominate all other regions in the world, with an estimated growth rate of 17.3% over 2006, and an estimated PCB output value of US\$14,195 million in 2007. More importantly, the China region’s growth is also expected to play a dominant role in higher technology and higher layer count PCB production.

With the exception of losing around one week of the Group’s capacity during the Chinese New Year holiday, all available capacity of the Group has been fully utilized or booked until May 2007.

With China’s 3G system scheduled to launch before the 2008 Olympic Games, we expect businesses from China network and mobile players to enjoy double digit growth rate in 2007. We believe our strong positioning in the China market will allow the Group to capitalize on the high growth of this industry sector.

With eight new multinational OEMs recently qualifying our facilities, we endeavour to establish a strong balance of new business from both global players and China based enterprises.

While we already have a balanced customer portfolio to substantiate our growth in 2007, the Group is actively soliciting new customers as a base for further growth in 2008 and beyond.

Following the Group’s listing on The Stock Exchange of Hong Kong Limited on 2 February 2007, the Group’s financial position has been substantially improved. Sufficient funds are available to execute our facility expansion plans so that we are positioned to capture the growing business opportunities among existing

customers, new customers and potential customers after the listing.

After adding in the net listing proceeds of approximately HK\$1,046 million, the Group's net asset value will increase by about 111.5% from December 2006's HK\$937.7 million to HK\$1,983.7 million.

Discussion with Hitachi Chemical Co., Ltd. is underway for forming a new joint venture prepreg and copper clad laminate plant in China in addition to our existing joint venture plant in Hong Kong. Through its phase one investment, the Group is expected to increase its existing high technology and high performance prepreg and laminate capacity by about 110% from the current prepreg and laminate capacity of 11.1 million sq ft and 2.9 million sq ft per month respectively to 24.0 million sq ft and 6.1 million sq ft per month respectively when our new capacity will be fully operational in or about the third quarter of 2008.

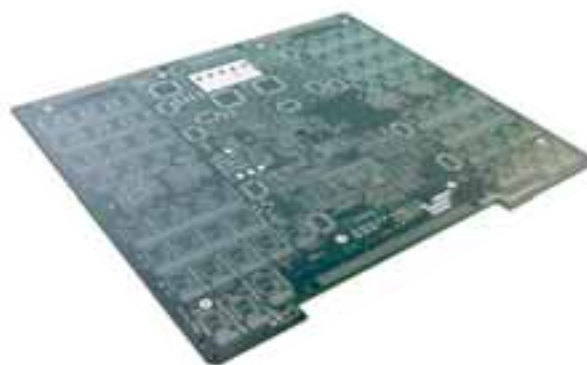
Further expansions are planned for the DMC plant, increasing DMC's capacity to 1,100,000 sq ft of 8.5 average inner layers by December 2008. The organic substrate plant in Shanghai will also be expanded to around 80,000 sq ft of substrate products, up from 30,000 sq ft in December 2006. Additionally, a new HDI plant in Guangzhou, Guangzhou Meadville Electronics Co., Ltd. ("GME") is currently under construction and we plan for pilot production to commence by the third quarter of 2007. GME's first phase investment will bring in new 2+ copper filled vias HDI PCB capacity by about 200,000 sq ft output per month when fully operational by around the third quarter of 2008.

The Group has also acquired another new site in Dongguan, spanning approximately 1,948,558 sq ft of land, with plans for further expansion of high layer conventional PCB business in 2008 and 2009. Construction of the plant premises is expected to start in the second half of 2007.

All the capacity expansions as mentioned above will primarily be financed by the listing proceeds, banking facilities as well as other operational cash flow generated in 2007. We anticipate that with these expansion plans in place, our capacities as at the year end 2007 will be about 2 million sq ft per month, representing an increase of approximately 17.5% over 2006.

As a token of appreciation to the loyal employees who made the past growth of the Group possible, our substantial shareholder has, out of its own shareholdings, granted free award shares to the Group's team of over 7,000 employees upon our successful listing in February 2007. According to this employee share award scheme, most of the entitled employees will gradually take up 100% of their shares in the coming 5 years' vesting period. With this employee share scheme in place, the Group has no plan to grant share options to its employees in the short term, which can save the dilution effect to the Group's earning should such share options be granted.

As a result of the grant of the award shares to the employees and in accordance with the latest accounting standard, the Group would incur non-cash employee expense of approximately HK\$254.5 million, HK\$17.2 million, HK\$17.2 million, HK\$9.9 million and HK\$4.4 million for each of the financial years ending 31 December 2007, 2008, 2009, 2010 and 2011, respectively.



## Chairman's Statement

This employee expense would have no impact on the Group's net asset value as the correspondence entry of this employee expense would be an equivalent amount credited or increased in the Group's reserve account.

The Group is monitoring closely the volatility in the world's equity market and the second home mortgage crisis in the US. Should any of these situations happen which may have adverse impact on the 2007 global economy and dampen the PCB demand and industry growth in 2007 as predicted, the Group will regulate its capacity expansion plans accordingly.

If we take away the exceptional, non-cash employee expense charge, and barring any unforeseen circumstances such as U.S. or global economy slowdown, the Group is confident that the results for 2007 will remain satisfactory.

Finally, on behalf of the Board, I would like to take this opportunity to express my thanks and appreciation to all employees who have contributed to our results in 2006, and I look forward to another successful year ahead.

**Tang Chung Yen, Tom**

*Executive Chairman and Group Managing Director*

Hong Kong, 28 March 2007

# Management Discussion and Analysis



## LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2006, the Group was at its final stage of reorganisation (the “Reorganisation”) in preparation for its listing on The Stock Exchange of Hong Kong Limited (the “Listing”) on 2 February 2007. The Group’s liquidity position has improved after taking in the net Listing proceeds, totalling approximately HK\$1,046 million in February 2007.

As at 31 December 2006, the Group’s net current liabilities and current ratio stood at HK\$908.3 million and 0.67 respectively (2005: HK\$207.2 million and 0.87 respectively). Net gearing ratio (total net borrowings as a percentage of total equity) was 1.67 in 2006 (2005: 0.96). The increase in net current liabilities position was primarily due to the HK\$700 million payable to Photomask (HK) Limited (“PHKL”), the former holding company of the Group, being part of the consideration in acquiring the Group’s printed circuit board (“PCB”) and laminate businesses from PHKL on Reorganisation. Settlement of the HK\$700 million had been financed mainly by drawing down short term loan of HK\$140 million and long term loan of HK\$550 million in January 2007 prior to Listing.

For indicative purposes, the Group had computed certain key ratios as if the Group had taken in the net Listing proceeds of HK\$1,046 million and paid out

the Reorganisation cost of HK\$700 million at the year end. If the Group had taken in the net Listing proceeds of HK\$1,046 million and paid out the Reorganisation cost of HK\$700 million at the year end, the current ratio would have improved to 1.32, the gearing ratio would be 0.61 and the total equity would be improved from HK\$937.7 million to HK\$1,983.7 million.

Increased current assets had been primarily financed by higher creditors and accruals as well as borrowings as at 31 December 2006 which

increased by 33% and 19% over 2005 respectively to HK\$800 million and HK\$1,026.2 million respectively (2005: HK\$600.4 million and HK\$863.3 million respectively).

Increase of the Group’s total borrowings, including bank overdrafts and loans as at 31 December 2006 by 27.2% over 2005 to HK\$1,775.3 million, was mainly due to the expansion of the Group’s production facilities during the year under review.

Our banking facilities, comprising primarily bank loans and overdrafts, amounted to HK\$3,399.1 million as at 31 December 2006, out of which approximately HK\$1,531.1 million was unutilized.

As at 31 December 2006, the Group’s cash and bank balances increased to HK\$211.2 million from HK\$174.3 million in 2005.

## CHARGES ON GROUP ASSETS

The Group’s assets were free from charge as of 31 December 2006. However the Group had floating debentures over the undertakings, properties and assets of certain subsidiaries amounting to HK\$504.7 million, as securities for banking facilities as at 31 December 2005.

### **CAPITAL STRUCTURE**

For the year ended 31 December 2006, the Group financed its liquidity requirements through a combination of cash flow as generated from operations, bank overdrafts and bank loans. After Listing, the Group expects the liquidity requirements will be satisfied by a combination of proceeds from the Listing, debt financing and cash generated by operations.

### **CAPITAL COMMITMENT AND CONTINGENT LIABILITIES**

As of 31 December 2006, the Group had capital commitment in respect of purchases of property, plant and equipment of HK\$278.3 million, and in respect of additional capital in certain subsidiaries of approximately HK\$433.7 million.

During the years ended 31 December 2005 and 2006, the Group spent HK\$528.3 million and HK\$685.2 million, respectively, for on-going expansion and upgrading of our production facilities.



The Group had no material contingent liabilities at 31 December 2006 and 31 December 2005.

### **USE OF PROCEEDS**

The Group has planned its overall capital expenditure of approximately HK\$1.2 billion in 2007, majority of which will be financed from the net Listing proceeds of about HK\$1.0 billion. As described in the prospectus of the Company dated 22 January 2007, the Group intends to apply (i) approximately HK\$294 million to construct the first phase of the Group's new Guangzhou Meadville Electronics Co., Ltd. ("GME") plant for the production of advanced High Density Interconnect ("HDI") PCB products; (ii) approximately HK\$229 million to construct the building for the Group's new plant in Dongguan for the production of conventional PCB products, intended for the PRC market and for the installation of certain equipment and facilities for part of this plant;

(iii) approximately HK\$227 million to expand capacity at the Group's Dongguan Meadville Circuits Limited ("DMC") plant, intended for the overseas market; (iv) approximately HK\$157 million to construct the first phase of the Group's new Mica-AVA (Guangzhou) Material Company Ltd. ("MAGL") plant for laminate and prepreg production; and (v) approximately HK\$103 million for capacity expansion and/or upgrade and replacement at the Group's existing production plants.

### **STAFF AND REMUNERATION POLICY**

As at 31 December 2006, the Group had a total of 7,977 employees (2005: 6,396). Staff costs for the year ended 31 December 2006 was HK\$419.1 million, representing an increase of 16.2% as compared to 2005 of HK\$360.7 million. The Group remunerates its employees based on their performance and work experience and the prevailing market rates. Salaries of employees are maintained at competitive levels while bonuses are granted by reference to the performance of the Group and individual employees.

The Group has approved and adopted a share option scheme on 12 January 2007. No share option was granted under the scheme up to the announcement date.

### **FOREIGN EXCHANGE FLUCTUATION EXPOSURES AND HEDGES**

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

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

#### **MATERIAL ACQUISITION AND DISPOSAL OF SUBSIDIARY AND ASSOCIATED COMPANY**

The Group had no material acquisition and disposal of subsidiary during the year. However we incurred a one-time loss of HK\$52.2 million in the year ended 31 December 2006, due to a reduction in our share of net asset value in Guangdong Shengyi Sci. Tech Co., Ltd. (“GSST”). As of 31 December 2005, the historical cost of our GSST shares totalled HK\$70.1 million. These shares were restricted and could not be freely traded on the public market. However, on 19 January 2006, GSST approved the conversion of all restricted shares to unrestricted shares at a conversion price of 3.3 shares to the shareholders for every 10 unrestricted shares. Accordingly, the number of shares and percentage of equity held by us decreased from 165,305,000 shares to 141,525,000 shares, and from 25.91% to 22.18%, respectively and such shares have become gradually tradable effective from 9 March 2007. Pursuant to this share reform, the Group’s share of net asset value in GSST has decreased by an amount of HK\$52.2 million and was charged to the profit and loss account.

#### **SEGMENTAL INFORMATION**

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

#### **REVIEW OF OPERATING RESULTS – YEAR ENDED 31 DECEMBER 2006 COMPARED TO YEAR ENDED 31 DECEMBER 2005**

##### **Turnover**

Group’s turnover increased by 41.7% to HK\$3,140.4 million with details as highlighted in Chairman’s Statement.

##### **Cost of Sales**

As the Group benefited from sales of higher value-added and higher margin products, better economy of scale and able to pass on increase in raw material costs to customers through increase in selling prices, cost of sales increased from HK\$1,792.6 million in 2005 to HK\$2,486.6 million in 2006, an increase of only 38.7% which fell behind the turnover growth of 41.7%.

##### **Gross Profit**

As a result of better performed cost of sales in 2006 over 2005, gross profit increased by 54.1% to HK\$653.8 million in 2006 from HK\$424.3 million in 2005. Gross margin on turnover also widened to 20.8% in 2006 from 19.1% in 2005.

##### **Other Income**

Other income increased by 88.2% to HK\$97.1 million in 2006 from HK\$51.6 million in 2005. This increase was primarily due to higher scrap sales and tooling



charges of HK\$64.8 million and HK\$10.1 million in 2006 respectively from HK\$27.8 million and HK\$6.3 million in 2005 respectively.

Higher PCB production volume as well as increase in raw copper prices explained for the higher scrap sales income in 2006 over 2005. Increase in tooling charges was due to more new projects as well as tooling charges on new Quick-Turn-Around business in 2006 over 2005.

#### **Selling and distribution expenses**

Selling and distribution expenses increased by 32.6% to HK\$126.5 million in 2006 from HK\$95.4 million in 2005. This increase was primarily due to higher employee expenses as a result of direct sales and marketing headcounts increase in front end region, such as North America, Europe and South East Asia for future business development as well as sales support headcounts increase in Group head office to support the ramping up of sales and customer service activities in 2006.

#### **General and administrative expenses**

To support the Group's rapid growth in businesses and turnover, Group's corporate head-office had also increased headcounts in its finance, legal and secretarial, IT, human resource and administration functions. General and administrative expenses, primarily due to increase in employee expenses, increased by 12.5% to HK\$154.3 million in 2006 from HK\$137.2 million in 2005.

#### **Operating profit**

As a result of better gross margin, better other income and better economy of scale in running our fixed expenses, such as selling and distribution expenses and general and administrative expenses in 2006, the Group's operating profit increased by 84.9% to HK\$470.2 million in 2006 from HK\$254.3 million in 2005. Group's operating margin also widened from 11.1% in 2005 to 15.0% in 2006.

#### **Finance costs**

Finance costs increased by 55.0% to HK\$88.2 million in 2006 from HK\$56.9 million in 2005. This increase

was due to an increase in borrowings to fund our capital expenditure in capacities expansion of our DMC and Shanghai Meadville Electronics Co., Ltd. ("SME") production facilities. Total borrowings amounted to HK\$1,775.3 million as at 31 December 2006 over HK\$1,396.1 million as at 31 December 2005. A rise in interest rates also contributed to this increase in interest expenses.

#### **Share of net profit of associated companies**

Share of net profit of associated companies increased by 77.2% to HK\$97.8 million in 2006 from HK\$55.2 million in 2005, primarily due to increase in net profit of GSST and Suzhou Shengyi Sci. Tech Co., Ltd ("SSST").

#### **Income tax expenses**

Income tax expenses increased by 166.1% to HK\$48.7 million in 2006 from HK\$18.3 million in 2005. This increase was primarily due to an increase in tax expense in China, to HK\$44.9 million in 2006 from HK\$13.7 million in 2005.

This increase was primarily due to increased tax on profits from our two PRC operations, Dongguan Shengyi Electronics Ltd. ("SYE") and SME as a result of expiration of certain of their tax incentives. SYE income tax rate had been increased from 10% in 2005 to 18% in 2006, and SME from 0% in 2005 to 12% in 2006.

This decrease in tax efficiency was partly offset by profit generated by DMC which enjoyed the first year of full income tax exemption in 2006.

As a result, the Group's overall effective tax rate (income tax expenses as a percentage of profit before income tax) increased to 11.2% for the year ended 31 December 2006 from 7.1% for the year ended 31 December 2005.

#### **Profit for the year**

As a result of the foregoing, profit for the year increased by 60.4% to HK\$384.9 million in 2006 from HK\$239.9 million in 2005.

# Directors and Senior Management

## EXECUTIVE DIRECTORS



**Mr Tang Hsiang Chien**  
GBS, OBE, JP

Aged 83, founded the Group in 1985 and is the Honorary Founding Chairman and executive Director of the Company. He is responsible for overseeing the direction of the Group and providing strategic advice. Mr Tang has more than 20 years of experience in the printed circuit board ("PCB") industry and over 50 years of experience in the cotton spinning and wool knitting business. Mr Tang has been a Hong Kong Affairs Advisor to the Government of the People's Republic of China ("PRC"). He also served as a member of the Standing Committee of the Chinese People's Political Consultative Conference, the Chairman of the Federation of Hong Kong Industries and of the Hong Kong Cotton Spinners Association and held a number of executive and advisory posts in other trade associations and public bodies over the last 50 years. Mr Tang was a board member of the Council of the Chinese University of Hong Kong and the Chairman of the New Asia College of the Chinese University of Hong Kong. Mr Tang obtained a Master of Science from the University of Illinois in the United States and an Honorary Doctorate in Social Science from the Chinese University of Hong Kong. Mr Tang is the father of Mr Tang Chung Yen, Tom and Ms Tang Ying Ming, Mai. Mr Tang is also a director of Su Sih (BVI) Limited ("SuSih"), a substantial shareholder of the Company, and Total Glory Holdings Limited ("Total Glory"), a wholly-owned subsidiary of SuSih.



**Mr Tang Chung Yen, Tom JP**

Aged 45, joined the Group in 1991 and is the Executive Chairman and Group Managing Director of the Company. He is responsible for the leadership and effective running of the Board. Mr. Tang has more than 15 years of management experience in the PCB industry. He has served as the Honorary Chairman of the Hong Kong Printed Circuit Association Limited since 2005. Mr Tang has also been appointed the honourable title of Justice of the Peace by the Government of the Hong Kong Special Administrative Region since 1 July 2005. He is also the Chairman of the Hong Kong Exporters' Association, Chairman of the Electronics and Telecommunications Training Board of the Vocational Training Council and Vice-Chairman of The Hong Kong Standards & Testing Centre. He is a member of the Electronics & Electrical Appliance Advisory Committee of the Hong Kong Trade Development Council, a board member of Hong Kong Safety Institute, a non-official board member of the Hong Kong Applied Science & Technology Research Institute Company Ltd., and a board member of Hong Kong Science & Technology Parks Corporation. Mr Tang holds a Master of Business Administration from New York University. Mr Tang is a son of Mr Tang Hsiang Chien and a brother of Ms Tang Ying Ming, Mai. Mr Tang is also a director of SuSih and Total Glory.



**Mr Chung Tai Keung, Canice**

Aged 51, joined the Group in 2005 and is an executive Director and the Chief Executive Officer of the Company. He is responsible for running the Group's business and implementation of the approved strategies of the Group. Mr Chung has more than 15 years of management experience in the PCB industry and was an executive director of two public-listed PCB companies prior to joining the Group. Mr Chung graduated from The Hong Kong Polytechnic in 1979 in Accountancy. He is currently the Vice-Chairman of the Hong Kong Printed Circuit Association Limited. Mr Chung is also a director of Total Glory.



**Ms Tang Ying Ming, Mai**

Aged 47, joined the Group in 2000 and is an executive Director and the Chief Financial Officer of the Company. She is responsible for the Group's finance, human resources, legal and secretarial, information technologies and administration functions. Ms Tang has over 7 years of management experience in the PCB industry and over 12 years of senior financial management experience. She obtained a Bachelor of Science from the University of California, a Master of Science from Stanford University and a Master of Business Administration from New York University. Ms Tang is the daughter of Mr Tang Hsiang Chien and the sister of Mr Tang Chung Yen, Tom. Ms Tang is also a director of SuSih and Total Glory.

## **INDEPENDENT NON-EXECUTIVE DIRECTORS**

### **Mr Lee, Eugene**

Aged 58, has been an independent non-executive Director since 12 January 2007 and is also the Chairman of the Audit Committee and a member of the Nomination Committee and the Remuneration Committee of the Company. He has extensive experience in corporate finance and management, and currently acts as a financial and management advisor. He was also a director for Elec & Eltek International Holdings Limited, formerly a public company listed on the Stock Exchange from May 1997 to March 2005 and a director of Elec & Eltek International Company Limited, a company listed on the Singapore Exchange Securities Trading Limited from March 2003 to February 2005, both of which were engaged in PCB manufacturing. He previously was Executive Director of Esprit Asia Holdings Limited and President, Chief Operating Officer and Director of its controlling shareholder, Esprit de Corps (Far East) Limited. He was an Associate Director in corporate finance at Wardley Limited (now part of The Hongkong and Shanghai Banking Corporation Limited) and a Vice President at The Chase Manhattan Bank, N.A. (now known as JP Morgan Chase). Mr Lee holds a Bachelor of Science from the Massachusetts Institute of Technology, a Master of Science from Stanford University, and a Master of Business Administration from Harvard Business School.

**Mr Leung Kwan Yuen, Andrew**  
SBS, JP

Aged 56, has been an independent non-executive director since 12 January 2007 and is the Chairman of the Nomination Committee and a member of the Audit Committee and the Remuneration Committee of the Company. He is currently a Legislative Councillor (Industrial First), Chairman of the Hong Kong Productivity Council and Chairman of the Vocational Training Council. He is also the Honourary President of Federation of Hong Kong Industries and Honourary Chairman of Textile Council of Hong Kong. Mr Leung is a member of the Hong Kong Trade Development Council and serves on a number of public advisory bodies including the Textiles Advisory Board, the Greater Pearl River Delta Business Council, Commission on Strategic Development – Commission on Economic Development and Economic Cooperation with the Mainland. Mr Leung has served as an independent non-executive director of Dah Sing Banking Group Limited since June 2004 and served as an independent non-executive director of Dah Sing Financial Holdings Limited, a public company listed on the Stock Exchange from March 2003 to June 2004. Mr Leung obtained a BSc(Hon) from University of Leeds and is a Fellow of The Textiles Institute and Clothing and Footwear Institute in the United Kingdom.

**Dr Li Ka Cheung, Eric**  
GBS, OBE, JP, LLD,  
DSocSc, B.A.,  
FCPA (Practising), FCA,  
FCPA (Aust.), FCIS

Aged 53, has been an independent non-executive Director since 12 January 2007 and is the Chairman of the Remuneration Committee and a member of the Audit Committee and the Nomination Committee of the Company. He is also an independent non-executive director of Transport International Holdings Limited since December 1998, SmarTone Telecommunications Holdings Limited since October 1996, Wong's International (Holdings) Limited since April 1999, CATIC International Holdings Limited since May 1999, Hang Seng Bank Limited since February 2000, China Resources Enterprise Limited since March 2003, Sinofert Holdings Limited since September 2004, Roadshow Holdings Limited since September 2004 and the Bank of Communications Co Ltd since 9 January 2007. The aforesaid companies are public companies listed on the Stock Exchange. He has been an executive director of Strategic Global Investments plc since July 2004. Dr Li served as a director of China Vanke Co, Ltd, a listed company in the PRC, from June 2002 to April 2005, SIIC Medical Science & Technology (Group) Limited from September 1999 to October 2003 and hkcyber.com (Holdings) Limited from July 2000 to July 2001. He is also a non-executive director of Sun Hung Kai Properties Limited, a public company listed on the Stock Exchange, since May 2005. Dr Li is a member of the 10<sup>th</sup> National Committee of the Chinese People's Political Consultative Conference and is a senior partner of Li, Tang, Chen & Co, Certified Public Accountants (Practising). Dr Li was a former member of the Legislative Council of Hong Kong and was the Chairman of its Public Accounts Committee. He was also a past president of the Hong Kong Institute of Certified Public Accountants.

## SENIOR MANAGEMENT

**Mr Yip Wei Yeung**, 47, is the Chief Operating Officer of the Group's PCB business and General Manager of Shanghai Meadville Electronics Co., Ltd. ("SME"). Mr Yip joined the Group in 2003. Prior to which he held various senior management positions, including the Chief Executive Officer, in a PCB manufacturing group in Hong Kong. He obtained a Bachelor of Science from the University of Hong Kong in 1983 and a Master of Business Administration from the Chinese University of Hong Kong in 2001.

**Mr Chau King Kwong, Kingsley**, 46, is the Vice President – Group Sales and Marketing. Prior to joining the Group in 2005, Mr Chau has over 20 years of sales, marketing and operations experience in the PCB and semiconductor industries. He obtained a Bachelor of Science and a Diploma in Marketing and International Business from the Chinese University of Hong Kong in 1984 and 1989 respectively. He also obtained a Master of Business Administration (Executive) from the City University of Hong Kong in 2003.

**Mr Wong Kwok Ho**, 48, is the Vice President of the Materials Division of the Group and General Manager of Mica-Ava (Far-East) Industrial Limited and Mica-AVA (Guangzhou) Material Company Ltd. Mr Wong joined the Group in 1985 and held various engineering and operational management positions. He obtained a Bachelor of Science in Engineering from the University of Hong Kong in 1981 and a Master of Engineering Management from the City University of Hong Kong in 1996.

**Mr Li Xue Ming**, 41, is the Deputy General Manager of Dongguan Shengyi Electronics Ltd. ("SYE"). Mr Li joined the Group in 2001 and has over 16 years of factory management experience in the PCB industry in the PRC. He obtained a Bachelor of Science in Chemical Engineering in 1987 and a Master of Science in 1989 from the Zhejiang University, PRC.

**Ms Shum Yuk Yin, Jane**, 41, is the Acting General Manager of Dongguan Meadville Circuits Limited. Ms Shum joined the Group in 1993 and held various engineering and production management positions in the manufacturing plants of the Group in Hong Kong, including as the Deputy General Manager of Oriental Printed Circuits Limited from 2001 to 2004. Ms Shum obtained a Diploma in Chemical Technology in 1984 and a Higher Certificate in Metal Surface Finishing in 1988 from The Hong Kong Polytechnic.

**Mr Fung Ying Wah, Joey**, 49, is the General Manager of the Guangzhou Meadville Electronics Co., Ltd.. Mr Fung joined the Group in 2006, prior to which he worked for a public-listed PCB manufacturing company for over 20 years and held various senior management positions. He obtained a Diploma in Mechanical Engineering from The Hong Kong Polytechnic in 1980 and a Master of Science in Engineering Business Management from the University of Warwick in 1997.

**Mr Wang Shi Ming, Simon**, 40, is the Deputy General Manager of SME. He joined the Group in 2004 as the Plant Manager of SME. Mr Wang has more than 16 years of experience in senior management and quality engineering experience in the PCB industry. He obtained a Bachelor of Applied Chemistry from the National University of Defense Technology in 1988.

**Mr Leung Kai Ming**, 45, is the Deputy General Manager of Shanghai Meadville Science & Technology Co., Ltd. ("SMST"). Mr Leung joined the Group in 2004 as the Operations Manager of SMST, prior to which he held various management positions in a PCB manufacturing group in Hong Kong. He obtained a Diploma in Chemical Engineering from The Hong Kong Polytechnic in 1984.

**Mr Chau Man Kin, Kennie**, 41, is the Deputy General Manager of OPC Manufacturing Limited. Mr Chau joined the Group in 2004. He worked for a public-listed PCB manufacturing company for 11 years and held various management positions. He obtained a Bachelor of Applied Science in Chemical Engineering from the University of British Columbia in Canada in 1991 and a Master of Science in Engineering from the University of Hong Kong in 1999.

**Mr Qu Shi Jie**, 48, is the General Manager of Shanghai Kaiser Electronics Co., Ltd.. Since joining the Group in 1993, Mr Qu has held various management positions, including the Facility Manager of SYE and production and plant management positions in SME. Prior to joining the Group, Mr Qu had 10 years of research experience in the mechanical and electronics industry. He obtained a Bachelor of Science in Mechanical Engineering from Dalian University of Technology in PRC in 1982.

**Ms Choi Lee Lee, Lily**, 44, is the joint Group Financial Controller and is responsible for the Group's accounts receivable, credit control and insurance, and overseeing the finance function of various Group companies. She joined the Group in 1988 and has held various finance and accounting positions in the Group. Ms Choi obtained a Professional Diploma in Management Accountancy in 1985 and a Professional Diploma in Information Technology in 1989 from The Hong Kong Polytechnic. She also obtained a Master of Corporate Finance in 2006 and a Master of Business Administration in 1999 from The Hong Kong Polytechnic University. She is an associate of the Chartered Institute of Management Accountants (UK) and a fellow of the Hong Kong Institute of Certified Public Accountants. Ms Choi is one of the qualified accountants of the Company.

**Ms Chu Suet Wa**, 44, is the joint Group Financial Controller and is responsible for the Group's corporate treasury and tax, and overseeing the finance function of various Group companies. She joined the Group in 1988 and has held various finance and electronic data processing positions in the Group. Ms Chu obtained a Professional Diploma in Management Accountancy from The Hong Kong Polytechnic in 1985. She also obtained a Master of Business Administration in 1998 from The Hong Kong Polytechnic University, and a Master of Science in Information Systems Management from the Hong Kong University of Science and Technology in 2002. She is an associate of the Chartered Institute of Management Accountants (UK), the Institute of Chartered Secretaries and Administrators (UK) and the Hong Kong Institute of Chartered Secretaries. She is also a fellow of Hong Kong Institute of Certified Public Accountants. Ms Chu is one of the qualified accountants of the Company.

**Ms Lam Lai Shuen**, 41, is the joint Group Financial Controller and is responsible for the Group's accounts consolidation and budget planning, and overseeing the finance function of various Group companies. She joined the Group in 2006, prior to which she held various finance and accounting management positions in a public-listed PCB manufacturing company between 1990 and 2006. Ms Lam obtained a Professional Diploma in Management Accountancy from The Hong Kong Polytechnic in 1988 and a Master of Science in Accountancy in 2003 from The Hong Kong Polytechnic University. She is an associate of the Chartered Institute of Management Accountants (UK) and the Hong Kong Institute of Certified Public Accountants. She is also a fellow of the Association of Chartered Certified Accountants (UK). Ms Lam is one of the qualified accountants of the Company.

**Ms Cho Wing Han**, 39, is the Company Secretary of the Company. She joined the Group in 2006 as Senior Manager – Legal & Secretarial Services. Prior to joining the Group, Ms Cho had 9 years of legal and secretarial experience with a public-listed PCB manufacturing company. She obtained a Graduate Diploma in Law from Nottingham Trent University in 2006. She is an associate member of Institute of Chartered Secretaries and Administrators and Hong Kong Institute of Chartered Secretaries and a member of the Hong Kong Securities Institute.

# Report of Directors

The board of directors (the “Board”) of Meadville Holdings Limited (the “Company”, together with its subsidiaries, the “Group”) is pleased to present the first annual report and the audited consolidated financial statements of the Group for the year ended 31 December 2006.

## **CORPORATE REORGANISATION AND PUBLIC LISTING**

The Company was incorporated with limited liability in the Cayman Islands on 28 August 2006. Pursuant to a group reorganisation to rationalise the structure of the Group in the preparation for the public listing of the Company’s shares on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”), the Company became the holding company of the companies now comprising the Group on 30 December 2006.

Details of the reorganisation of the Group are set out in Note 1 to the financial statements.

## **PRINCIPAL ACTIVITIES**

The Company is an investment holding company. The activities of its principal subsidiaries are set out in Note 16 to the financial statements.

## **RESULTS**

The results of the Group for the year are set out in the Consolidated Profit and Loss Account on page 33.

## **DIVIDENDS**

The directors do not recommend payment of any final dividend for the year ended 31 December 2006.

## **FINANCIAL SUMMARY**

Financial summary for the years of 2003 to 2006 are set out on page 3 of this report.

## **SHARE CAPITAL**

Details of the movements during the year in the share capital of the Company are set out in Note 24 to the financial statements.

## **RESERVES**

Details of the movements during the year in the reserves of the Group and the Company are set out in Note 25 to the financial statements.

In addition to the retained profits of the Company, the share premium account of the Company is also available for distribution to shareholders provided that the Company will be able to pay its debts as they fall due in the ordinary course of business immediately following the date on which any such distribution is proposed to be paid in accordance with the Companies Law (2004 Revision) of the Cayman Islands.

As at 31 December 2006, the share premium of the Company was approximately HK\$762,000,000 and the accumulated loss of the Company was approximately HK\$597,000.

## **CHARITABLE CONTRIBUTIONS**

During the year, the Group made charitable contributions totalling HK\$44,301.

## **DIRECTORS**

The Board during the year ended 31 December 2006 and up to the date of this report comprised:

### **Executive Directors**

Mr Tang Hsiang Chien – *Honourary Founding Chairman* (appointed on 27 September 2006)

Mr Tang Chung Yen, Tom – *Executive Chairman and Group Managing Director* (appointed on 27 September 2006)

Mr Chung Tai Keung, Canice – *Chief Executive Officer* (appointed on 27 September 2006)

Ms Tang Ying Ming, Mai – *Chief Financial Officer* (appointed on 28 August 2006)

### **Independent Non-executive Directors**

Mr Lee, Eugene (appointed on 12 January 2007)

Mr Leung Kwan Yuen, Andrew (appointed on 12 January 2007)

Dr Li Ka Cheung, Eric (appointed on 12 January 2007)

In accordance with article 106 and article 110 of the Company's articles of association, all the directors will retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

Each of the independent non-executive directors has been appointed for a term of two years commencing on 12 January 2007, subject to the provisions of the Company's articles of association.

The Company has received from each of the independent non-executive directors an annual confirmation of his independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"). The Company considers all of the independent non-executive directors are independent.

Biographical details of the directors as at the date of this report are set out on pages 15 to 17.

### **DIRECTORS' SERVICE CONTRACTS**

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

Save as disclosed above, none of the directors have entered or have proposed to enter into any service agreement with the Company or any member of the Group which is not determinable by the Company within one year without payment of compensation other than statutory compensation.

## DIRECTORS' INTERESTS IN SHARES OF THE COMPANY

As at 31 December 2006, the Company had not received any notice of interests to be recorded under Section 352 of the Securities and Futures Ordinance ("SFO") as the Company had not been listed on the Stock Exchange as at that date.

Immediately following completion of the public listing of the shares of the Company on 2 February 2007 ("New Listing"), the interests of the directors and their associates in the shares, underlying shares and debentures of the Company and its associated corporations within the meaning of Part XV of the SFO, as recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies were as follows:

### Long position

#### Beneficial interests in the Shares of the Company ("Shares")

Name of Director	Personal Interest	Family Interest	Corporate Interest	Other Interest	Total number of Shares	Approximate percentage of shareholding
Tang Hsiang Chien ("HC Tang")	Nil	Nil	1,159,247,000 <i>(Note 1)</i>	235,305,000 <i>(Note 2)</i>	1,394,552,000	69.73% <i>(Note 3)</i>
Chung Tai Keung, Canice	48,064,000	Nil	Nil	Nil	48,064,000	2.40%

#### Notes:

- (1) These 1,159,247,000 Shares comprise: (i) 1,129,895,000 Shares owned by Su Sih (BVI) Limited ("SuSih"); (ii) 29,352,000 Shares held by Total Glory Holdings Limited ("Total Glory"), a wholly-owned subsidiary of SuSih, in trust for certain employees of the Group. HC Tang is deemed to be interested in the aforesaid Shares under the SFO because he is the sole shareholder of SuSih, which wholly owns Total Glory.
- (2) HC Tang holds the 235,305,000 Shares in his capacity as the trustee of a discretionary trust, namely Mein et Moi Trust ("MEM Trust").
- (3) This percentage comprises the 1,129,895,000 Shares owned by SuSih, the 29,352,000 Shares held by Total Glory as trustee for certain employees of the Group and the 235,305,000 Shares held by HC Tang as the trustee of MEM Trust, which respectively represent approximately 56.49%, 1.47% and 11.77% of the issued share capital of the Company immediately following the completion of the New Listing.

Save as disclosed above, none of the directors nor their associates had any interests or short positions in any Shares of the Company as at 31 December 2006.

## SUBSTANTIAL SHAREHOLDER

As at 31 December 2006, the Company had not received any notice of interests to be recorded under Section 336 of the SFO as the Company had not been listed on the Stock Exchange as at that date.

Immediately following completion of the New Listing, 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 shareholder had notified the Company of relevant interests in the issued share capital of the Company:

### Long position

Name of Substantial Shareholder	Nature of interest	Number of Shares	Approximate shareholding percentage
SuSih	Beneficial owner and interest in controlled company	1,159,247,000 (Note 1)	57.96% (Note 2)

Notes:

- (1) These 1,159,247,000 Shares comprise: (i) 1,129,895,000 Shares owned by SuSih; and (ii) 29,352,000 Shares held by Total Glory in trust for certain employees of the Group. HC Tang is deemed to be interested in the aforesaid Shares under the SFO because he is the sole shareholder of SuSih, which wholly owns Total Glory.
- (2) This percentage comprises the 1,129,895,000 Shares owned by SuSih and the 29,352,000 Shares held by Total Glory as trustee for certain employees of the Group which respectively represent approximately 56.49% and 1.47% of the issued share capital of the Company immediately following the completion of the New Listing.

Save as disclosed and in the section entitled "Directors' Interests in Shares of the Company" above, the Company has not been notified of any other relevant interests or short positions in any shares of the Company as at 31 December 2006.

## DIRECTORS' INTEREST IN CONTRACTS OF SIGNIFICANCE

No contract of significance to which the Company or any of its 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.

## SHARE OPTIONS

During the year ended 31 December 2006, the Company had not adopted any share option scheme and no options had been granted and remained outstanding at 31 December 2006. A share option scheme (the "Share Option Scheme") was adopted by the shareholders' written resolution of the Company dated 12 January 2007. Summary of principal terms of the Share Option Scheme is set out below. No option had been granted under the Share Option Scheme since its adoption on 12 January 2007.

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

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

- (i) any executive or non-executive directors including independent non-executive directors or any employees (whether full-time or part-time) of each member of the Group;
- (ii) any discretionary objects of a discretionary trust established by any employees, executive or non-executive directors of each member of the Group;
- (iii) any consultants, professional and other advisors to each member of the Group (or persons, firms or companies proposed to be appointed for providing such services);
- (iv) any chief executives or substantial shareholders of the Company;
- (v) any associates of director, chief executive or substantial shareholder of the Company; and
- (vi) any employees (whether full-time or part-time) of substantial shareholder of the Company, provided that the Board may have absolute discretion to determine whether or not one falls within the above categories.

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

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

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

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

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

#### **DIRECTORS' RIGHTS TO ACQUIRE SHARES**

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

#### **CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS**

During the year, the Company was not listed and did not have any connected transactions which were subject to the requirements of the Listing Rules.

#### **MANAGEMENT CONTRACTS**

Pursuant to a management agreement (the "Management Agreement") entered into between Photomask (HK) Limited (formerly known as Meadville Technologies Group Limited) ("PHKL"), the former holding company of the Group, and Su Sih Enterprises Limited ("SSEL") the former controlling shareholder of PHKL, a sum of management fee expenses of HK\$5,000,000 were paid to SSEL by PHKL for provision of management services during the year. The Management Agreement was terminated on 1 November 2006.

Save as disclosed above, no contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

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

The directors' fees and remuneration and the emoluments of the five highest paid individuals are disclosed in Note 7 to the financial statements. The emoluments of the directors are determined with regard to their duties and responsibilities, the Company's performance, prevailing market conditions and after considering the market emoluments for directors of other listed companies.

The contributions to pension scheme of directors for the year are disclosed in Note 7 to the financial statements.

#### **PENSION SCHEMES**

Details of the pension schemes are set out in Note 7 to the financial statements.

#### **SUFFICIENCY OF PUBLIC FLOAT**

As at the latest practicable date prior to the issue of this annual report, to the best knowledge of the directors and based on the information publicly available to the Company, there is a sufficient public float as required by the Listing Rules.

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

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed Shares during the year ended 31 December 2006 as the Company had not been listed on the Stock Exchange as at that date.

### **PRE-EMPTIVE RIGHTS**

There is no provision for pre-emptive rights under the Company's articles of association although there are no restrictions against such rights under the company laws in the Cayman Islands.

### **MAJOR CUSTOMERS AND SUPPLIERS**

The aggregate sales and purchases attributable to the Group's five largest customers and suppliers were approximately 33% and 46% of the Group's sales and purchases respectively for the year ended 31 December 2006. Our Group's largest customer accounted for approximately 9% of turnover whereas our largest supplier accounted for approximately 21% of total purchases.

None of the directors of the Company or any of their associates or any shareholders ( which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital ) had any beneficial interest in the Group's top five largest customers or suppliers.

### **PROPERTY, PLANT AND EQUIPMENT**

Details of movements in property, plant and equipment during the year are set out in Note 13 to the financial statements.

### **POST BALANCE SHEET EVENT**

Details of the significant events occurring after the balance sheet date are set out in Note 35 to the financial statements.

### **AUDITORS**

The financial statements have been audited by PricewaterhouseCoopers, who will retire and, being eligible, will offer themselves for reappointment.

A resolution to re-appoint Messrs PricewaterhouseCoopers as auditors of the Company will be submitted at the annual general meeting of the Company.

On behalf of the Board

**Tang Chung Yen, Tom**

*Executive Chairman and Group Managing Director*

Hong Kong, 28 March 2007

# Corporate Governance Report

## CORPORATE GOVERNANCE PRACTICES

The board of directors (the “Board”) of Meadville Holdings Limited (the “Company”, together with its subsidiaries, the “Group”) recognizes the importance of corporate governance practice to a listed company. The Company is committed to ensure high standards of corporate governance in the interest of the shareholders.

The Company has adopted the code provisions set out in the Code on Corporate Governance Practices (the “Code”) contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”). In addition to the mandatory Code, the Board will also continuously enhance the corporate governance standard of the Company by reference to certain recommended best practices contained in Appendix 14 to the Listing Rules whenever suitable and appropriate.

As the Company was listed on 2 February 2007 (the “Listing Date”), the Company was not required to comply with the requirements under the Code or the continuing obligations requirements of a listed company pursuant to the Listing Rules for the year ended 31 December 2006. The Company has applied the principles and complied with all the applicable code provisions set out in the Code since the Listing Date.

The Board will continuously review and improve the corporate governance practices and standards of the Company to ensure that business and decision making processes are regulated in a proper and prudent manner.

## DIRECTORS’ SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the “Model Code”) as its own code of conduct regarding securities transactions by the Directors. Having made specific enquiry of all directors, all directors confirmed that they have complied with the required standard set out in the Model Code and the code of conduct regarding directors’ securities transactions adopted by the Company since the Listing Date.

## BOARD OF DIRECTORS

As at the date of this report, the Board comprises four executive directors and three independent non-executive directors.

The composition of the Board’s members is as follows:

### Executive Directors

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

### **Independent Non-executive Directors**

Mr Lee, Eugene

Mr Leung Kwan Yuen, Andrew

Dr Li Ka Cheung, Eric

The Board sets directions and formulates overall strategies of the Group, monitors its overall performance and maintains effective supervision over the management running the Group through relevant committees of the Board in a sound and efficient manner.

The independent non-executive directors have been appointed for a specific term of service. They are also subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the provisions of the Articles of Association of the Company.

The Board will have four scheduled meetings a year and meet at other times as and when required to review business strategies and financial and operating performance.

Mr Tang Hsiang Chien is the father of Mr Tang Chung Yen, Tom and Ms Tang Ying Ming, Mai. Save as disclosed above, during the year, none of the other Directors has or maintained any financial, business, family or other material, relevant relationship with any of the other Directors.

### **THE ROLES OF THE CHAIRMAN AND CHIEF EXECUTIVE OFFICER**

The Executive Chairman is responsible for the leadership and effective running of the Board and ensuring that all material issues are discussed by the Board in a timely and constructive manner while the Chief Executive Officer is responsible for running the Group's business and the implementation of the approved strategies of the Group.

### **DELEGATION BY THE BOARD**

The Board has set up three Board committees, namely Audit Committee, Nomination Committee and Remuneration Committee on 12 January 2007, each chaired by different independent non-executive director, as well as an Executive Committee on 28 March 2007 chaired by the Executive Chairman of the Company.

### **Audit Committee**

The Audit Committee has been established with written terms of reference setting out duties, responsibilities and authorities delegated to them by the Board of directors. The Audit Committee comprises three independent non-executive directors, namely Mr Lee, Eugene, Mr Leung Kwan Yuen, Andrew and Dr Li Ka Cheung, Eric. Mr Lee, Eugene is the chairman of the Audit Committee and possesses financial management expertise. The Audit Committee meeting will be held at least twice a year.

The major duties and responsibilities of the Audit Committee include review of the effectiveness of the Group's financial reporting processes and internal control system. The duties of the Audit Committee also include review of the scope and nature of the audit carried out by the Company's auditors. The Group's annual results for the year ended 31 December 2006 have been reviewed by the Audit Committee at the Audit Committee meetings held on 23 and 28 March 2007 with all committee members present at the meetings.

The Audit Committee shall meet with external auditors at least annually in the absence of the management of the Company to discuss any issues from the audit and any other matters the external auditors may wish to raise.

The Directors acknowledge their responsibilities for the preparation of financial statements for each financial period, which give a true and fair view of the state of affairs of the Group and of the results and cash flow for that period. The statement issued by the auditors of the Company regarding its reporting responsibilities was set out in detail in the Report of Auditors on pages 31 and 32.

#### **Nomination Committee**

The Nomination Committee has been established with written terms of reference setting out duties, responsibilities and authorities delegated to them by the Board. The Nomination Committee comprises Mr Leung Kwan Yuen, Andrew as chairman, Dr Li Ka Cheung, Eric, Mr Lee, Eugene, Mr Chung Tai Keung, Canice, and Ms Tang Ying Ming, Mai. The Nomination Committee meeting will be held at least once a year.

The primary duties of the Nomination Committee include making recommendations to the Board on appointment of directors and review of the structure, size and composition of the Board on a regular basis. A meeting of the Nomination Committee was held on 28 March 2007 with four committee members present at the meeting.

#### **Remuneration Committee**

The Remuneration Committee has been established with written terms of reference setting out duties, responsibilities and authorities delegated to them by the Board of directors. The Remuneration Committee comprises Dr Li Ka Cheung, Eric as chairman, Mr Leung Kwan Yuen, Andrew, Mr Lee, Eugene, Mr Chung Tai Keung, Canice, and Ms Tang Ying Ming, Mai. The Remuneration Committee meeting will be held at least once a year.

The primary duties of the Remuneration Committee include review of and recommendations to the Board on the remuneration structure for all directors and senior management of the Group. A meeting of the Nomination Committee was held on 28 March 2007 with all committee members present at the meeting.

#### **Executive Committee**

The Executive Committee has been established with written terms of reference setting out duties, responsibilities and authorities delegated to them by the Board of directors. The Executive Committee comprises all the Executive Directors, namely, Mr Tang Chung Yen, Tom as chairman, Mr Tang Hsiang Chien, Mr Chung Tai Keung, Canice, and Ms Tang Ying Ming, Mai.

The primary duties of the Executive Committee include supervision of day-to-day management of the Group. The Executive Committee may meet together for the dispatch of business from time to time as they think fit.

### **Management Function**

The Company's articles of association set out matters which are specifically reserved to the Board for its decision. The management team meet together regularly to review and discuss with executive directors on day-to-day operational issues, financial and operating performance as well as to monitor and ensure the management in carrying out the directions and strategies set by the Board correctly and appropriately.

### **AUDITORS' REMUNERATION**

During the year ended 31 December 2006, the fees paid and payable to the auditors in respect of audit and non-audit services provided by the auditors of the Company, PricewaterhouseCoopers, were as follows:

<b>Nature of services</b>	<b>Amount (HK\$'000)</b>
Audit services	2,100
Non-audit services	508
Reporting accountants in relation to the listing	7,000



羅兵咸永道會計師事務所

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

## **INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF MEADVILLE HOLDINGS LIMITED**

*(incorporated in the Cayman Islands with limited liability)*

We have audited the consolidated financial statements of Meadville Holdings Limited (the "Company") and its subsidiaries (together the "Group") set out on pages 33 to 92, which comprise the consolidated and company balance sheets as at 31 December 2006, and the consolidated profit and loss account, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

### **DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS**

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

### **AUDITOR'S RESPONSIBILITY**

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

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

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

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

**OPINION**

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2006 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**PricewaterhouseCoopers**

*Certified Public Accountants*

Hong Kong, 28 March 2007

# Consolidated Profit and Loss Account

For the year ended 31 December 2006

	Note	2006 HK\$'000	2005 HK\$'000
<b>Turnover</b>	5	<b>3,140,398</b>	2,216,914
Cost of sales	8	<b>(2,486,560)</b>	(1,792,641)
Gross profit		<b>653,838</b>	424,273
Other income	6	<b>97,145</b>	51,564
Other gain	8	–	11,042
Selling and distribution expenses	8	<b>(126,467)</b>	(95,358)
General and administrative expenses	8	<b>(154,349)</b>	(137,213)
<b>Operating profit</b>		<b>470,167</b>	254,308
Loss on share reform of an associated company	15	<b>(52,237)</b>	–
Interest income		<b>6,034</b>	5,599
Finance costs	9	<b>(88,171)</b>	(56,914)
Share of net profit of associated companies	15	<b>97,849</b>	55,226
Profit before income tax		<b>433,642</b>	258,219
Income tax expense	10	<b>(48,718)</b>	(18,344)
<b>Profit for the year</b>	5	<b>384,924</b>	239,875
Attributable to:			
Equity holders of the Company		<b>320,017</b>	210,822
Minority interests		<b>64,907</b>	29,053
		<b>384,924</b>	239,875
Earnings per share for profit attributable to equity holders of the Company during the year (expressed in HK dollar per share)			
– basic	11	<b>0.21</b>	0.14
– diluted	11	<b>0.21</b>	0.14
Dividends	12	–	80,000

# Balance Sheets

At 31 December 2006

	Note	Group		Company
		2006 HK\$'000	2005 HK\$'000	2006 HK\$'000
<b>Non-current assets</b>				
Property, plant and equipment	13	<b>2,030,800</b>	1,535,966	–
Leasehold land and land use rights	14	<b>114,549</b>	83,654	–
Investments in associated companies	15	<b>441,409</b>	389,947	–
Investments in subsidiaries	16	–	–	<b>777,000</b>
Goodwill	17	<b>14,477</b>	14,055	–
Intangible assets	18	<b>8,084</b>	9,254	–
		<b>2,609,319</b>	2,032,876	<b>777,000</b>
<b>Current assets</b>				
Stocks and work in progress	19	<b>373,459</b>	259,188	–
Debtors and prepayments	20	<b>1,241,699</b>	974,884	<b>7,532</b>
Amount due from a director	21	–	25,039	–
Amounts due from related parties	22	–	8,955	–
Taxation recoverable		<b>2,220</b>	2,162	–
Cash and bank balances	23	<b>211,150</b>	174,266	–
		<b>1,828,528</b>	1,444,494	<b>7,532</b>
Total assets		<b>4,437,847</b>	3,477,370	<b>784,532</b>
<b>Equity</b>				
Capital and reserves attributable to the equity holders of the Company				
Share capital	24	<b>777,000</b>	777,000	<b>777,000</b>
Reserves	25	<b>(43,189)</b>	349,788	<b>(597)</b>
		<b>733,811</b>	1,126,788	<b>776,403</b>
Minority interests		<b>203,916</b>	152,477	–
Total equity		<b>937,727</b>	1,279,265	<b>776,403</b>

At 31 December 2006

	Note	Group		Company
		2006 HK\$'000	2005 HK\$'000	2006 HK\$'000
<b>Liabilities</b>				
<b>Non-current liabilities</b>				
Borrowings	26	749,060	532,757	–
Deferred tax liabilities	27	14,219	13,642	–
		<b>763,279</b>	546,399	–
<b>Current liabilities</b>				
Creditors and accruals	28	800,030	600,400	1,004
Amount due to a minority shareholder	29	63,359	23,794	–
Amounts due to associated companies	29	120,742	143,952	–
Amounts due to subsidiaries	30	–	–	7,125
Amounts due to related parties	22	709,598	13,157	–
Borrowings	26	1,026,247	863,339	–
Taxation payable		16,865	7,064	–
		<b>2,736,841</b>	1,651,706	<b>8,129</b>
Total liabilities		<b>3,500,120</b>	2,198,105	<b>8,129</b>
Total equity and liabilities		<b>4,437,847</b>	3,477,370	<b>784,532</b>
Net current liabilities		<b>(908,313)</b>	(207,212)	<b>(597)</b>
Total assets less current liabilities		<b>1,701,006</b>	1,825,664	<b>776,403</b>

**Tang Chung Yen, Tom***Executive Chairman and Group Managing Director***Chung Tai Keung, Canice***Chief Executive Officer*

# Consolidated Cash Flow Statement

For the year ended 31 December 2006

	Note	2006 HK\$'000	2005 HK\$'000
<b>Cash flows from operating activities</b>			
Profit before income tax		<b>433,642</b>	258,219
Adjustments for:			
Share of net profit of associated companies		<b>(97,849)</b>	(55,226)
Loss on share reform of an associated company	15	<b>52,237</b>	–
Interest expenses		<b>88,171</b>	56,914
Interest income		<b>(6,034)</b>	(5,599)
Impairment of goodwill		<b>55</b>	–
Amortisation of intangible assets		<b>1,170</b>	1,170
Amortisation of leasehold land and land use rights		<b>2,472</b>	1,809
Depreciation of property, plant and equipment		<b>208,770</b>	159,525
Income on acquisition of additional equity interest of a subsidiary	33(a)	<b>(1,108)</b>	–
(Gain)/loss on disposal of property, plant and equipment		<b>(684)</b>	4,436
Operating profit before working capital changes		<b>680,842</b>	421,248
Changes in:			
Stocks and work in progress		<b>(114,271)</b>	(39,838)
Debtors and prepayments		<b>(272,588)</b>	(358,677)
Restricted bank balances		<b>12,075</b>	(12,525)
Creditors and accruals		<b>204,356</b>	131,930
Amount due from a director		<b>20,809</b>	(31,247)
Amounts due to associated companies		<b>(23,210)</b>	101,575
Amounts due from/(to) related parties		<b>(39,669)</b>	34,213
Amount due to a minority shareholder		<b>39,565</b>	23,794
Cash generated from operating activities		<b>507,909</b>	270,473
Interest received		<b>6,034</b>	5,599
Interest paid		<b>(88,171)</b>	(56,914)
Hong Kong profits tax paid		<b>(2,900)</b>	(2,188)
Overseas tax paid		<b>(36,396)</b>	(19,495)
Net cash generated from operating activities		<b>386,476</b>	197,475

Consolidated Cash Flow Statement

For the year ended 31 December 2006

	Note	2006 HK\$'000	2005 HK\$'000
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment		(654,442)	(502,240)
Purchase of leasehold land and land use rights		(30,805)	(25,886)
Proceeds from sale of property, plant and equipment		7,482	1,545
Purchase of intangible assets		–	(202)
Purchase of additional equity interest in a subsidiary	33(a)	(6,354)	–
Distribution to equity holders		(6,698)	–
Investments in associated companies		(33,305)	(14,420)
Dividends received from associated companies		41,112	30,193
Net cash used in investing activities		(683,010)	(511,010)
<b>Cash flows from financing activities</b>			
New borrowings	33(b)	1,967,787	1,799,753
Repayment of borrowings	33(b)	(1,629,011)	(1,312,240)
Dividends paid to shareholders		–	(80,000)
Distribution to equity holders	25(a)	–	(374)
Dividends paid to minority shareholders		(30,174)	(36,399)
Capital contribution by minority shareholders		18,068	9,166
Net cash generated from financing activities		326,670	379,906
Exchange differences on cash and cash equivalents		(21,612)	(8,971)
Net increase in cash and cash equivalents		8,524	57,400
Cash and cash equivalents at beginning of the year	33(c)	158,692	101,292
Cash and cash equivalents at end of the year	33(c)	167,216	158,692

# Consolidated Statement of Changes in Equity

For the year ended 31 December 2006

	Attributable to equity holders of the Company		Minority interests	Total
	Share capital	Reserves		
	(Note 24) HK\$'000	(Note 25) HK\$'000		
At 1 January 2005	777,000	196,497	145,337	1,118,834
Profit for the year	–	210,822	29,053	239,875
Dividends	–	(80,000)	(36,399)	(116,399)
Distribution to equity holders	–	(374)	–	(374)
Capital contribution by minority shareholders	–	–	9,166	9,166
Exchange differences	–	22,843	2,697	25,540
Gain on deemed disposal by minority shareholders	–	–	2,623	2,623
At 1 January 2006	777,000	349,788	152,477	1,279,265
Profit for the year	–	320,017	64,907	384,924
Dividends	–	–	(30,174)	(30,174)
Capital contribution by minority shareholders	–	–	18,068	18,068
Partial consideration pursuant to the Reorganisation (Note 1)	–	(700,000)	–	(700,000)
Distribution to equity holders	–	(57,793)	–	(57,793)
Disposal of equity interest by a minority shareholder	–	–	(7,462)	(7,462)
Exchange differences	–	44,799	6,100	50,899
At 31 December 2006	777,000	(43,189)	203,916	937,727

# Notes to the Financial Statements

## 1 GENERAL INFORMATION AND GROUP REORGANISATION

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

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

Before completion of the Reorganisation (as defined below), the PCB and Laminate Business was carried out by Photomask (HK) Limited (formerly known as Meadville Technologies Group Limited) (“PHKL”), the former holding company, and all its subsidiaries except for Qingyi Precision Maskmaking (Shenzhen) Ltd. (“SQM”). SQM was engaged in the research, design and manufacturing of photomasks (the “Photomask Business”).

For the preparation of the listing of shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”), the following reorganisation (the “Reorganisation”) was carried out to transfer the PCB and Laminate Business and its related assets to the Company by way of the following steps:

- MTG Investment (BVI) Limited (“MTG (INV)”) was incorporated in the British Virgin Islands on 23 August 2006 by Tang Hsiang Chien, a shareholder of MTG (INV). Pursuant to an agreement dated 30 December 2006 entered into between MTG (INV) and PHKL, MTG (INV) acquired the equity interests in the subsidiaries of PHKL engaged in the PCB and Laminate Business (including their holding companies) and certain assets and liabilities in relation to the PCB and Laminate Business of PHKL for a total consideration of approximately HK\$1,219 million, which was satisfied partly by payment of cash of HK\$700 million and partly by issue of 99,999 shares in MTG (INV). As a result of the transfer, PHKL ceased its operation in the PCB and Laminate Business and only conducted the Photomask Business thereafter.
- Pursuant to an agreement dated 30 December 2006, the Company acquired the entire issued capital of MTG (INV) through a share swap, and the Company became the holding company of the companies now comprising the Group. Details of the Company’s interests in its subsidiaries and associated companies are set out in Note 16 and Note 15 respectively.

As a result of the above Reorganisation, all the PCB and Laminate Business was transferred to the Company and its subsidiaries now comprising the Group effective 30 December 2006. After the above Reorganisation, the PCB and Laminate Business was carried out by the Group.

## **1 GENERAL INFORMATION AND GROUP REORGANISATION (CONTINUED)**

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

No balance sheet of the Company as at 31 December 2005 is presented in these financial statements as the Company was not yet incorporated on that date.

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

These consolidated financial statements have been approved for issue by the Board of Directors on 28 March 2007.

## **2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

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

The Reorganisation involved companies under common control, and the Group resulting from the Reorganisation is regarded as a continuing group. Accordingly, the Reorganisation has been accounted for on the basis of merger accounting, under which the consolidated financial statements have been prepared as if the Company had been the holding company of the subsidiaries comprising the Group throughout the year ended 31 December 2006, rather than from the date on which the Reorganisation was completed. The comparative figures as at 31 December 2005 and for the year ended 31 December 2005 have been presented on the same basis.

The consolidated financial statements of the Company have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"). The consolidated financial statements have been prepared under the historical cost convention.

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

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

The following new standards, amendments to standards and interpretations have been issued but are not effective for 2006 and have not been early adopted:

HK(IFRIC)-Interpretation 7, "Applying the Restatement Approach under HKAS 29", effective for annual periods beginning on or after 1 March 2006. Management does not expect the interpretation to be relevant for the Group;

HK(IFRIC)-Interpretation 8, "Scope of HKFRS 2", effective for annual periods beginning on or after 1 May 2006. Management is currently assessing the impact of HK(IFRIC)-Interpretation 8 on the Group's operations;

HK(IFRIC)-Interpretation 9, "Reassessment of Embedded Derivatives", effective for annual periods beginning on or after 1 June 2006. Management believes that this interpretation should not have a significant impact on the reassessment of embedded derivatives as the Group already assessed if embedded derivative should be separated using principles consistent with HK(IFRIC)-Interpretation 9;

HK(IFRIC)-Interpretation 10, "Interim Financial Reporting and Impairment", effective for annual periods beginning on or after 1 November 2006. Management is currently assessing the impact of HK(IFRIC)-Interpretation 10 on the Group's operations;

HK(IFRIC)-Interpretation 11, "HKFRS 2 – Group and Treasury Shares Transactions", effective for annual periods beginning on or after 1 March 2007. Management is currently assessing the impact of HK(IFRIC)-Interpretation 11 on the Group's operations;

HK(IFRIC)-Interpretation 12, "Service Concessions Arrangements", effective for annual periods beginning on or after 1 January 2008. Management is currently assessing the impact of HK(IFRIC)-Interpretation 12 on the Group's operations;

HKFRS 7, "Financial Instruments: Disclosures", effective for annual periods beginning on or after 1 January 2007, HKAS 1, "Amendments to Capital Disclosure", effective for annual period beginning on or after 1 January 2007. The Group assessed the impact of HKFRS 7 and the amendment to HKAS 1 and concluded that the main additional disclosures will be the sensitivity analysis to market risk and capital disclosures required by the amendment of HKAS 1. The Group will apply HKFRS 7 and the amendment to HKAS 1 from annual periods beginning 1 January 2007; and

HKFRS 8, "Operating Segments", effective for annual periods beginning on or after 1 January 2009. Management is currently assessing the impact of HKFRS 8 on the Group's operations.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

The following standards, amendments and interpretations are mandatory for accounting periods beginning on or after 1 January 2006 but are not relevant to the Group's operations:

HKAS 21 Amendment	New Investment in a Foreign Operation;
HKAS 39 Amendment	Cash Flow Hedge Accounting of Forecast Intragroup Transactions;
HKAS 39 Amendment	The Fair Value Option;
HKFRS 6	Exploration for and Evaluation of Mineral Resources;
HKFRS 1 Amendment	First-time Adoption of International Financial Reporting Standards and HKFRS 6 (Amendment) Exploration for and Evaluation of Mineral Resources;
HK(IFRIC)-Int 4	Determining whether an Arrangement contains a Lease;
HK(IFRIC)-Int 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds; and
HK(IFRIC)-Int 6	Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment.

In preparing the consolidated financial statements of the Company, the directors have taken into account all information that could reasonably be expected to be available, including the estimated net proceeds from the listing of the Company on 2 February 2007 (Note 35(a)), and have ascertained that the Group has obtained adequate financial resources to support the Group to continue in operational existence for the foreseeable future. Under these circumstances, the directors consider that it is proper to prepare the financial statements on a going concern basis notwithstanding that at 31 December 2006, the Group's current liabilities exceeded its current assets by approximately HK\$908,313,000.

### (b) Subsidiaries

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

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

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (b) Subsidiaries (Continued)

Apart from the acquisition of entities under common control which are accounted for by regarding the Company as being the holding company of the subsidiaries from the beginning of the earliest period presented, or since the date when the combining companies first came under control of the controlling party, where there is shorter period, the purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the profit and loss account.

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

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

### (c) Transactions with minority interests

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

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (d) Associated companies

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

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

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

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

### (e) Segment reporting

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

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (f) Goodwill

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

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

### (g) Property, plant and equipment

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

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

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

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

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

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (g) Property, plant and equipment (Continued)

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

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

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

### (h) Intangible assets

#### *Technologies fee*

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

### (i) Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the profit and loss account.

### (j) Impairment of investments in subsidiaries, associates and non-financial assets

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

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

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (k) Stocks and work in progress

Stocks and work in progress are stated at the lower of cost and net realisable value. Cost, calculated on the weighted average basis, comprises materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. A write-down to net realisable value is a provision that can be subsequently reversed if the underlying facts and circumstances change.

### (l) Operating leases

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

### (m) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability, including fees and commissions paid to agents, advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the profit and loss account over the period of the borrowings using the effective interest method.

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

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

### (n) Deferred income tax

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

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

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (n) Deferred income tax (Continued)

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

### (o) Cash and cash equivalents

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

### (p) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

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

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

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

### (q) Employee benefits

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

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

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (q) Employee benefits (Continued)

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

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

### (r) Government grants

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

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

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

### (s) Revenue recognition

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

### (t) Other income

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

### (u) Foreign currency translation

#### (i) Functional and presentation currency

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

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (u) Foreign currency translation (Continued)

#### (ii) *Transactions and balances*

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

#### (iii) *Group companies*

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

- (i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- (ii) income and expenses for each profit and loss account are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- (iii) all resulting exchange differences are recognised as a separate component of equity.

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

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

### (v) Dividend distribution

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

### 3 FINANCIAL RISK MANAGEMENT

#### (a) Financial risk factors

The Group's activities expose it to a variety of financial risks: foreign exchange risk, credit risk, liquidity risk and cash flow interest-rate risk.

##### (i) Foreign exchange risk

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

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

##### (ii) Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. In order to minimise the credit risk, the management of the Group has delegated a credit control team be responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The credit risk for bank deposits and bank balances exposed is considered minimal as such amounts are placed with banks with good credit ratings.

##### (iii) Concentration risk

During the year ended 31 December 2006, the Group's sales to top 5 customers accounted for approximately 33.2% (2005: 42.2%) of the total revenue. The Group aims to maintain long-term relationship with reputable customers in the expansion of its business.

##### (iv) Liquidity risk

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

### 3 FINANCIAL RISK MANAGEMENT (CONTINUED)

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

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

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

#### (b) Fair value estimation

The nominal value less estimated credit adjustments of receivables and payables, except for long-term bank loans, are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

### 4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

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

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

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

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

#### 4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

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

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

#### 5 SEGMENT INFORMATION

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

Sales for the years ended 31 December 2005 and 2006 represent principally sales of Printed Circuits Board ("PCB") and Copper Clad Laminates ("Laminates").

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

The Group is organised into two main business segments: (i) Manufacturing and distribution of Printed Circuits Board ("PCB") including provision of circuit design, QTA services and drilling and routing services; (ii) Manufacturing and distribution of Copper Clad Laminates and Prepreg ("Laminates").

Segment assets consist primarily of property, plant and equipment, leasehold land and land use rights, intangible assets, inventories, receivables and operating cash. They exclude items such as deferred income taxation, taxation recoverable and amounts due from related parties.

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

Capital expenditure comprises mainly additions to property, plant and equipment, leasehold land and land use rights and intangible assets as set out in Notes 13, 14 and 18, respectively.

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

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

**5 SEGMENT INFORMATION (CONTINUED)**

The segment results for the years are as follows:

	2006 HK\$'000	2005 HK\$'000
<b>Turnover</b>		
PCB	2,838,773	2,015,333
Inter-segment turnover	–	–
Subtotal for PCB	2,838,773	2,015,333
Laminates	512,466	424,060
Inter-segment turnover	(210,841)	(222,479)
Subtotal for Laminates	301,625	201,581
Total turnover	3,140,398	2,216,914
<b>Segment results</b>		
PCB	412,303	218,646
Laminates	57,864	35,662
Loss on share reform of an associated company	(52,237)	–
Interest income	6,034	5,599
Share of net profit of associated companies	97,849	55,226
Finance costs	(88,171)	(56,914)
Income tax expense	(48,718)	(18,344)
Profit for the year	384,924	239,875
<b>Segment assets</b>		
PCB	3,553,250	2,752,597
Laminates	440,968	298,670
Associated companies	441,409	389,947
Unallocated assets	2,220	36,156
Total assets	4,437,847	3,477,370
<b>Segment liabilities</b>		
PCB	2,285,096	1,735,292
Laminates	353,600	284,998
Associated companies	120,742	143,952
Unallocated liabilities	740,682	33,863
Total liabilities	3,500,120	2,198,105
<b>Capital expenditure</b>		
PCB	665,753	379,839
Laminates	19,494	148,489
Total capital expenditure	685,247	528,328

**5 SEGMENT INFORMATION (CONTINUED)**

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

	<b>2006</b>	2005
	<b>HK\$'000</b>	HK\$'000
<b>Depreciation</b>		
PCB	<b>200,264</b>	158,165
Laminates	<b>8,506</b>	1,360
Total depreciation	<b>208,770</b>	159,525
<b>Amortisation of leasehold land and land use rights</b>		
PCB	<b>1,876</b>	1,388
Laminates	<b>596</b>	421
Total amortisation	<b>2,472</b>	1,809
<b>Provision for bad and doubtful debts</b>		
PCB	<b>15,818</b>	14,370
Laminates	<b>192</b>	–
Total provision for bad and doubtful debts	<b>16,010</b>	14,370
<b>Provision for stocks and work in progress</b>		
PCB	<b>12,264</b>	9,096
Laminates	<b>(81)</b>	(800)
Total provision for stocks and work in progress	<b>12,183</b>	8,296
<b>Amortisation of intangible assets</b>		
PCB	<b>1,170</b>	1,170
Laminates	<b>–</b>	–
Total amortisation of intangible assets	<b>1,170</b>	1,170

**5 SEGMENT INFORMATION (CONTINUED)****(c) Secondary reporting format – geographical segments**

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

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

	<b>2006</b>	2005
	<b>HK\$'000</b>	HK\$'000
PRC	<b>1,959,283</b>	1,384,950
Hong Kong	<b>186,272</b>	167,867
North Asia	<b>447,602</b>	276,647
North America	<b>182,759</b>	180,695
Europe	<b>224,517</b>	92,452
Southeast Asia	<b>139,965</b>	114,303
Total turnover	<b>3,140,398</b>	2,216,914

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

	<b>2006</b>	2005
	<b>HK\$'000</b>	HK\$'000
Hong Kong	<b>1,036,940</b>	762,499
PRC	<b>2,957,278</b>	2,288,768
Associated companies	<b>441,409</b>	389,947
Unallocated assets	<b>2,220</b>	36,156
Total assets	<b>4,437,847</b>	3,477,370

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

	<b>2006</b>	2005
	<b>HK\$'000</b>	HK\$'000
Hong Kong	<b>54,387</b>	168,009
PRC	<b>630,860</b>	360,319
Total capital expenditure	<b>685,247</b>	528,328

**6 OTHER INCOME**

	<b>2006</b>	2005
	<b>HK\$'000</b>	HK\$'000
Sales of scrap	<b>64,805</b>	27,780
Investment tax credits	<b>16,317</b>	15,056
Tooling charges	<b>10,146</b>	6,297
Sundries	<b>4,441</b>	2,072
Sales of raw materials	<b>328</b>	359
Income on acquisition of additional equity interest of a subsidiary (Note 33(a))	<b>1,108</b>	–
	<b>97,145</b>	51,564

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

**7 EMPLOYEE BENEFIT EXPENSES (INCLUDING DIRECTORS' EMOLUMENTS)**

	<b>2006</b>	2005
	<b>HK\$'000</b>	HK\$'000
Wages and salaries	<b>400,923</b>	343,882
Retirement benefit costs	<b>18,146</b>	16,805
	<b>419,069</b>	360,687

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

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

**7 EMPLOYEE BENEFIT EXPENSES (INCLUDING DIRECTORS' EMOLUMENTS) (CONTINUED)****(a) Directors' emoluments**

	<b>2006</b>	2005
	<b>HK\$'000</b>	HK\$'000
Fees	<b>145</b>	300
Other emoluments	<b>13,412</b>	12,008
	<b>13,557</b>	12,308

The remuneration of every director of the Company for the year ended 31 December 2005 is set out below:

Name of director	Fees HK\$'000	Salary HK\$'000	Discretionary bonuses HK\$'000	Other benefits HK\$'000	Employer's	Total HK\$'000
					contribution to pension scheme HK\$'000	
Tang Hsiang Chien	100	–	8,827	–	–	8,927
Tang Chung Yen, Tom	100	1,390	–	975	60	2,525
Tang Ying Ming, Mai	100	720	–	–	36	856
Chung Tai Keung, Canice	–	–	–	–	–	–
Leung Kwan Yuen, Andrew	–	–	–	–	–	–
Lee, Eugene	–	–	–	–	–	–
Li Ka Cheung, Eric	–	–	–	–	–	–
	300	2,110	8,827	975	96	12,308

## 7 EMPLOYEE BENEFIT EXPENSES (INCLUDING DIRECTORS' EMOLUMENTS) (CONTINUED)

### (a) Directors' emoluments

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

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

No directors waived or agreed to waive any emoluments during the years ended 31 December 2005 and 2006. No incentive payment for joining the Group or compensation for loss of office was paid or payable to any directors during the years ended 31 December 2005 and 2006.

### (b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group include three (2005: two) directors for the year ended 31 December 2006, whose emoluments are reflected in the analysis presented above. The emoluments paid or payable to the remaining two (2005: three) individuals for the year ended 31 December 2006 are as follows:

	2006 HK\$'000	2005 HK\$'000
Basic salaries, housing allowances, share options, other allowances and benefits in kind	4,432	5,059
Retirement benefit-defined contribution scheme	65	128
	4,497	5,187

**7 EMPLOYEE BENEFIT EXPENSES (INCLUDING DIRECTORS' EMOLUMENTS) (CONTINUED)****(b) Five highest paid individuals (Continued)**

The emoluments paid or payable to the remaining two (2005: three) individuals for the year ended 31 December 2006 fell within the following bands:

	No. of individuals	
	2006	2005
Emolument bands		
Under HK\$1,000,000	–	–
HK\$1,000,001-HK\$1,500,000	–	–
HK\$1,500,001-HK\$2,000,000	1	3
HK\$2,000,001-HK\$2,500,000	–	–
HK\$2,500,001-HK\$3,000,000	–	–
HK\$3,000,001-HK\$3,500,000	1	–
	<b>2</b>	<b>3</b>

**8 OPERATING PROFIT**

	2006	2005
	HK\$'000	HK\$'000
Gain on deemed disposal of interest in a subsidiary (Note)	–	(11,042)
Loss on deemed disposal of interest in a subsidiary	–	717
Raw material and consumables used	<b>1,568,490</b>	1,049,687
Employee benefit expenses	<b>419,069</b>	360,687
Amortisation of intangible assets	<b>1,170</b>	1,170
Amortisation of leasehold land and land use rights	<b>2,472</b>	1,809
Depreciation of property, plant and equipment	<b>208,770</b>	159,525
(Gain)/loss on disposal of property, plant and equipment	<b>(684)</b>	4,436
Provision for bad and doubtful debts	<b>16,010</b>	14,370
Provision for stocks and work in progress	<b>12,183</b>	8,296
Sales commission	<b>12,367</b>	10,866
Management fee expense to a related company	<b>5,000</b>	5,100
Auditors' remuneration	<b>2,887</b>	2,001
Operating lease rental expense		
– Land and buildings	<b>3,365</b>	2,480
Others	<b>516,277</b>	404,068
Total cost of sales, other gain, selling and distribution and general and administrative expenses	<b>2,767,376</b>	2,014,170

Note: The gain on deemed disposal arises from the deemed disposal of 6.29% equity interest in a subsidiary, Mica-Ava (Far East) Industrial Limited to Hitachi Chemical Co., Ltd. in January 2005.

**9 FINANCE COSTS**

	<b>2006</b>	2005
	<b>HK\$'000</b>	HK\$'000
Interest expenses on bank loans, overdrafts and other short-term loans wholly repayable within five years	<b>88,171</b>	57,139
Less: amount capitalised in construction in progress	–	(225)
	<b>88,171</b>	56,914

**10 INCOME TAX EXPENSE**

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

	<b>2006</b>	2005
	<b>HK\$'000</b>	HK\$'000
Company and subsidiaries		
Current income tax		
– Hong Kong profits tax	<b>3,151</b>	(47)
– Overseas taxation	<b>44,875</b>	13,676
Deferred income tax (Note 27)	<b>692</b>	4,715
	<b>48,718</b>	18,344

Taxation has been provided at the appropriate tax rates prevailing in the countries in which the Group operates. Hong Kong profits tax has been provided at the rate of 17.5% (2005: 17.5%) on the estimated assessable profit for the year ended 31 December 2006. The rates applicable for income tax in the PRC is 33% (2005: 33%) for the year ended 31 December 2006.

A subsidiary, Dongguan Shengyi Electronics Ltd., is entitled to a relief of income tax in the PRC for a period of three years from 2003 to 2005. On 1 June 2005, it was approved as a High and New Technology Enterprise by Science and Technology Department of Guangdong Province and accordingly, it is entitled to a relief of income tax in the PRC for an extended period of two years from 2006 to 2007. Income tax has been provided at the effective rate of 18% for the year ended 31 December 2006 and 10% for the year ended 31 December 2005.

**10 INCOME TAX EXPENSE (CONTINUED)**

In accordance with the relevant applicable tax regulations, Shanghai Meadville Electronics Co., Ltd. and Shanghai Kaiser Electronics Co., Ltd. established in the PRC as wholly-owned foreign enterprises were entitled to full exemption from national enterprise income tax for the first two years and 50% reduction in national enterprise income tax for the next three years, commencing from first profitable years, which are 2004 and 2005 respectively, after offsetting all unexpired tax losses carried forward from previous years.

Taxation on overseas (mainly United States and Singapore) profits has been calculated on the estimated assessable profit for the year at the applicable rates of taxation prevailing in the countries in which the Group operates.

There is a new PRC corporate income tax law released on 16 March 2007. Under the new regime, there will be a uniform Enterprise Income Tax of 25% to all domestic and foreign enterprises in the PRC effective 1 January 2008. Entities currently enjoying preferential tax rates will be transitioned to the new regime over a period of five years. Management will assess the impact of the new regime when further interpretations of the new regime are available.

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

	<b>2006</b>	2005
	<b>HK\$'000</b>	HK\$'000
Profit before income tax and share of net profit of associated companies	<b>335,793</b>	202,993
Tax calculated at applicable tax rate	<b>116,031</b>	58,664
Effect of relief on income tax	<b>(87,477)</b>	(53,244)
Expenses not deductible for taxation purpose	<b>42,400</b>	6,573
Income not subject to taxation	<b>(27,863)</b>	(12,636)
Tax losses for which no deferred income tax recognised	<b>5,627</b>	18,987
Income tax expense	<b>48,718</b>	18,344

The weighted average domestic applicable tax rates were:

	<b>2006</b>	2005
Weighted average domestic applicable tax rates	<b>34.6%</b>	28.9%

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

## 11 EARNINGS PER SHARE

### (a) Basic

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year. In determining the weighted average number of ordinary shares in issue, a total of 1,500,000,000 ordinary shares were deemed to be in issue since 1 January 2005 as detailed in Note 2(a).

	2006	2005
Profit attributable to equity holders of the Company (HK\$'000)	320,017	210,822
Weighted average number of ordinary shares in issue (shares in thousands)	1,500,000	1,500,000
Basic earnings per share (HK\$ per share)	0.21	0.14

### (b) Diluted

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

During the years ended 31 December 2005 and 2006, there were no potential dilutive ordinary shares outstanding.

## 12 DIVIDENDS

No dividend had been paid or declared by the Company since its incorporation. The dividend declared represented dividends declared by the companies comprising the Group to the then shareholders prior to the Reorganisation. The rates of dividend and the number of shares ranking for dividends are not presented as such information is not meaningful having regard to the purpose of this report.

**13 PROPERTY, PLANT AND EQUIPMENT – GROUP**

	Buildings	Leasehold improve- ments	Furniture and equipment	Plant, machinery and equipment	Motor vehicles	Construction in progress	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Year ended 31 December 2005							
Opening net book amount	331,613	18,180	20,205	672,653	6,289	126,147	1,175,087
Exchange differences	7,143	–	339	13,639	101	2,923	24,145
Additions	22,321	770	24,905	157,953	1,632	294,659	502,240
Disposals	(25)	(2,330)	(10)	(3,610)	(6)	–	(5,981)
Depreciation	(21,616)	(1,933)	(8,481)	(125,253)	(2,242)	–	(159,525)
Reclassification	65,394	(4,144)	4,444	163,501	–	(229,195)	–
Closing net book amount	404,830	10,543	41,402	878,883	5,774	194,534	1,535,966
At 31 December 2005							
Cost	496,435	18,780	82,511	1,558,211	17,549	194,534	2,368,020
Accumulated depreciation	(91,605)	(8,237)	(41,109)	(679,328)	(11,775)	–	(832,054)
Net book amount	404,830	10,543	41,402	878,883	5,774	194,534	1,535,966
Year ended 31 December 2006							
Opening net book amount	404,830	10,543	41,402	878,883	5,774	194,534	1,535,966
Exchange differences	13,056	–	1,064	38,849	179	3,269	56,417
Additions	9,447	560	16,378	221,779	4,549	401,729	654,442
Disposals	(823)	(1,913)	(226)	(3,809)	(25)	(2)	(6,798)
Distribution to equity holders	(391)	–	–	–	(66)	–	(457)
Depreciation	(26,842)	(1,490)	(12,176)	(165,820)	(2,442)	–	(208,770)
Reclassification	46,985	42	8,131	431,402	–	(486,560)	–
Closing net book amount	446,262	7,742	54,573	1,401,284	7,969	112,970	2,030,800
At 31 December 2006							
Cost	566,448	13,857	103,917	2,203,193	20,416	112,970	3,020,801
Accumulated depreciation	(120,186)	(6,115)	(49,344)	(801,909)	(12,447)	–	(990,001)
Net book amount	446,262	7,742	54,573	1,401,284	7,969	112,970	2,030,800

Depreciation expense of HK\$192,229,000 (2005: HK\$150,819,000) has been charged in cost of sales, HK\$3,490,000 (2005: HK\$392,000) in selling and distribution expenses and HK\$13,051,000 (2005: HK\$8,314,000) in general and administrative expenses.

For the purpose of the listing of the Company's shares on the Stock Exchange, the properties of the Group were revalued as at 30 November 2006 by B.I. Appraisals Limited, an independent firm of valuers. The valuation gave rise to a revaluation surplus of approximately HK\$14,747,000 from the carrying amount of the property interests at that date. However the revaluation surplus was not incorporated in the consolidated financial statements for the year ended 31 December 2006 as the Group accounts for its property interests at cost. Had such revaluation surplus been recognised in the consolidated financial statements for the year ended 31 December 2006, additional depreciation and amortisation charges of approximately HK\$4,071,000 per annum and HK\$5,000 respectively would be incurred.

**14 LEASEHOLD LAND AND LAND USE RIGHTS – GROUP**

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

	<b>2006</b>	2005
	<b>HK\$'000</b>	HK\$'000
Opening net book amount	<b>83,654</b>	58,352
Additions	<b>30,805</b>	25,886
Amortisation	<b>(2,472)</b>	(1,809)
Exchange differences	<b>2,562</b>	1,225
Closing net book amount	<b>114,549</b>	83,654
	<b>2006</b>	2005
	<b>HK\$'000</b>	HK\$'000
In Hong Kong held on:		
Leases of leasehold land between 10 to 50 years	<b>29,388</b>	30,107
In the PRC held on:		
Leases of land use rights between 10 to 50 years	<b>85,161</b>	53,547
	<b>114,549</b>	83,654

In regards with the leasehold land and land use rights owned and occupied by the Group, the Group holds all of the relevant certificates of state-owned land use right except for a piece of land in the PRC for which the net book value as at 31 December 2006 amounted to approximately HK\$9,177,000 (2005: HK\$6,552,000).

**15 INVESTMENTS IN ASSOCIATED COMPANIES – GROUP**

	<b>2006</b>	2005
	<b>HK\$'000</b>	HK\$'000
Share of net assets	<b>440,782</b>	389,342
Goodwill	<b>627</b>	605
	<b>441,409</b>	389,947

**15 INVESTMENTS IN ASSOCIATED COMPANIES – GROUP (CONTINUED)**

The movement of share of net assets and goodwill of associated companies is as follows:

	<b>2006</b>	2005
	<b>HK\$'000</b>	HK\$'000
Beginning of the year	<b>389,947</b>	341,604
Exchange differences	<b>13,657</b>	8,890
Additional investments in associated companies	<b>33,305</b>	14,420
Loss on share reform of an associated company (Note)	<b>(52,237)</b>	–
Share of associated companies' results		
– net profit after taxation	<b>97,849</b>	55,226
– dividend received	<b>(41,112)</b>	(30,193)
End of the year	<b>441,409</b>	389,947

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

	<b>2006</b>	2005
	<b>HK\$'000</b>	HK\$'000
Assets		
Non-current assets	<b>365,549</b>	372,994
Current assets	<b>537,867</b>	475,903
	<b>903,416</b>	848,897
Liabilities		
Non-current liabilities	<b>84,094</b>	45,454
Current liabilities	<b>378,540</b>	414,101
	<b>462,634</b>	459,555
Net assets	<b>440,782</b>	389,342
Share of net assets of:		
A listed associated company	<b>355,901</b>	340,901
An unlisted associated company	<b>84,881</b>	48,441
	<b>440,782</b>	389,342
Income	<b>917,130</b>	708,007
Expenses	<b>(819,281)</b>	(652,781)
Profit after income tax	<b>97,849</b>	55,226

**15 INVESTMENTS IN ASSOCIATED COMPANIES – GROUP (CONTINUED)**

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

<b>Name</b>	<b>Country of incorporation</b>	<b>Principal activities</b>	<b>Percentage of equity held</b>
Guangdong Shengyi Sci. Tech Co., Ltd. ("GSST")	PRC	Manufacturing of copper clad laminates	22.18
Suzhou Shengyi Sci. Tech Co., Ltd. ("SSST") <sup>1</sup>	PRC	Manufacturing of copper clad laminates	41.64

<sup>1</sup> Indirect associated company

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

Based on the market price of the unrestricted shares of GSST, the market value of the Group's shares as of 31 December 2006 was approximately as follows:

	<b>2006</b>	2005
	<b>HK\$'000</b>	HK\$'000
Market value of the listed equity securities	<b>1,736,981</b>	1,131,423

**16 INVESTMENTS IN SUBSIDIARIES – COMPANY**

	<b>2006 HK\$'000</b>
Unlisted investment, at cost	<b>777,000</b>

The following is a list of all the subsidiaries as at 31 December 2006:

<b>Name</b>	<b>Place of incorporation/ establishment</b>	<b>Principal activities and place of operation</b>	<b>Issued and fully paid up share capital/ registered capital</b>	<b>Percentage of beneficial interest attributable to the Group</b>
AVA International Limited	Hong Kong	Investment holding/ Hong Kong	HK\$2,000,000	100.00
Circuit Net Technology Limited	BVI	Investment holding/ Hong Kong	US\$1,285	100.00
Dongguan Meadville Circuits Limited <sup>2</sup>	PRC	Manufacturing of printed circuit boards/PRC	US\$41,600,000	80.00
Dongguan Shengyi Electronics Ltd. <sup>2</sup>	PRC	Manufacturing of printed circuit boards/PRC	US\$26,080,000	70.20
Guangzhou Meadville Electronics Co., Ltd. <sup>3</sup>	PRC	Manufacturing of printed circuit boards/PRC	US\$30,000,000	100.00
OPC Manufacturing Limited (formerly known as Mass Lam International Limited)	Hong Kong	Manufacturing of printed circuit boards/ Hong Kong	HK\$8,000,000	100.00
Meadville Innovations (Shanghai) Co., Ltd. <sup>3</sup>	PRC	Provision of printed circuit board design services/PRC	US\$1,000,000	100.00
Meadville International Trading (Shanghai) Co., Ltd. <sup>3</sup>	PRC	Trading of printed circuit boards and liaison office/PRC	US\$500,000	100.00
Meadville Enterprises (HK) Limited	Hong Kong	Administration and treasury/Hong Kong	HK\$1	100.00

**16 INVESTMENTS IN SUBSIDIARIES – COMPANY (CONTINUED)**

<b>Name</b>	<b>Place of incorporation/ establishment</b>	<b>Principal activities and place of operation</b>	<b>Issued and fully paid up share capital/ registered capital</b>	<b>Percentage of beneficial interest attributable to the Group</b>
Mica-Ava (No.3) Limited	BVI	Investment holding/ Hong Kong	US\$1	100.00
Mica-Ava China Limited	Hong Kong	Investment holding/ Hong Kong	HK\$78,000	100.00
Mica-AVA (Guangzhou) Material Company Ltd. <sup>3</sup>	PRC	Manufacturing of copper clad laminates/PRC	US\$30,000,000	100.00
Mica-Ava (Far East) Industrial Limited	Hong Kong	Manufacturing of copper clad laminates/ Hong Kong	HK\$13,088	93.71
MTG Investment (BVI) Limited <sup>1</sup>	BVI	Investment holding/ Hong Kong	US\$1	100.00
MTG Laminate (BVI) Limited	BVI	Investment holding/ Hong Kong	US\$1	100.00
MTG Management (BVI) Limited	BVI	Investment holding/ Hong Kong	US\$1	100.00
MTG PCB (BVI) Limited	BVI	Investment holding/ Hong Kong	US\$1	100.00
Oriental Printed Circuits, Inc.	United States of America	Dormant/United States of America	US\$300,000	100.00
Oriental Printed Circuits (USA), Inc.	United States of America	Sales liaison office/ United States of America	US\$100,000	100.00
Oriental Printed Circuits Limited	Hong Kong	Sales and distribution of printed circuit boards/ Hong Kong	HK\$50,000,000	100.00

**16 INVESTMENTS IN SUBSIDIARIES – COMPANY (CONTINUED)**

<b>Name</b>	<b>Place of incorporation/ establishment</b>	<b>Principal activities and place of operation</b>	<b>Issued and fully paid up share capital/ registered capital</b>	<b>Percentage of beneficial interest attributable to the Group</b>
Shanghai Kaiser Electronics Co., Ltd. <sup>3</sup>	PRC	Provision of printed circuit boards drilling service/PRC	US\$11,000,000	100.00
Shanghai Meadville Electronics Co., Ltd. <sup>3</sup>	PRC	Manufacturing of printed circuit boards/PRC	US\$44,500,000	100.00
Shanghai Meadville Science & Technology Co., Ltd. <sup>3</sup>	PRC	Research and development of high-end multi-layer printed circuit boards/PRC	US\$18,000,000	100.00
State Link Trading Limited	BVI	Importer of printed circuit boards/United States of America	US\$1	100.00

<sup>1</sup> Direct subsidiary

<sup>2</sup> Equity joint venture enterprise

<sup>3</sup> Wholly-owned foreign enterprise

No change in the percentage of beneficial interest of the above principal subsidiaries attributable to the Group during the year ended 31 December 2006, except for the following subsidiaries:

	<b>2006</b>	2005
	<b>%</b>	%
Oriental Printed Circuits (Singapore) Pte Limited	<b>Liquidated</b>	100.00
Shanghai Kaiser Electronics Co., Ltd.	<b>100.00</b>	90.00
Dongguan Shengyi Electronics Ltd.	<b>70.20</b>	70.00

**17 GOODWILL – GROUP**

Goodwill arising from PCB segment:

	<b>2006</b>	2005
	<b>HK\$'000</b>	HK\$'000
Opening net book amount	<b>14,055</b>	11,181
Exchange differences	<b>477</b>	251
Acquisition of additional interest in a subsidiary	<b>–</b>	2,623
Impairment of goodwill	<b>(55)</b>	–
Closing net book amount	<b>14,477</b>	14,055
End of the year		
Cost	<b>34,201</b>	33,779
Accumulated amortisation	<b>(19,724)</b>	(19,724)
	<b>14,477</b>	14,055

**Impairment test for goodwill**

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

	<b>2006</b>	2005
	<b>HK\$'000</b>	HK\$'000
Hong Kong	<b>–</b>	55
PRC	<b>14,477</b>	14,000
	<b>14,477</b>	14,055

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

Key assumptions used for value-in-use calculations for goodwill for each of the years ended 31 December 2007, 2008, 2009, 2010 and 2011 are gross margin, growth rate and discount rate of 21%, 16.75% and 10% respectively.

**17 GOODWILL – GROUP (CONTINUED)**

These assumptions have been used for the analysis of each cash-generating unit within the business segment. The directors prepared the financial budgets reflecting actual and prior year performance and market development expectations. The growth rates used are consistent with the industry growth estimates. The directors estimate discount rate using pre-tax rates that reflect market assessments of the time value of money of the Group for the year ended 31 December 2006. Judgement is required to determine key assumptions adopted in the cash flow projections and changes to key assumptions can significantly affect these cash flow projections.

**18 INTANGIBLE ASSETS – GROUP**

	<b>Technologies fee</b>	<b>Others</b>	<b>Total</b>
	HK\$'000	HK\$'000	HK\$'000
Year ended 31 December 2005			
Opening net book amount	9,945	277	10,222
Additions	–	202	202
Amortisation	(1,170)	–	(1,170)
Closing net book amount	8,775	479	9,254
At 31 December 2005			
Cost	11,700	800	12,500
Accumulated amortisation	(2,925)	(321)	(3,246)
Net book amount	8,775	479	9,254
Year ended 31 December 2006			
Opening net book amount	8,775	479	9,254
Amortisation	(1,170)	–	(1,170)
Closing net book amount	7,605	479	8,084
At 31 December 2006			
Cost	11,700	800	12,500
Accumulated amortisation	(4,095)	(321)	(4,416)
Net book amount	7,605	479	8,084

**19 STOCKS AND WORK IN PROGRESS – GROUP**

	<b>2006</b>	2005
	<b>HK\$'000</b>	HK\$'000
Raw materials	<b>136,733</b>	83,155
Work in progress	<b>93,488</b>	68,045
Finished goods	<b>139,644</b>	105,275
Consumable stocks	<b>3,594</b>	2,713
	<b>373,459</b>	259,188

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

	<b>2006</b>	2005
	<b>HK\$'000</b>	HK\$'000
Cost of inventories	<b>2,486,560</b>	1,792,641

**20 DEBTORS AND PREPAYMENTS – GROUP**

	<b>Group</b>		<b>Company</b>
	<b>2006</b>	2005	<b>2006</b>
	<b>HK\$'000</b>	HK\$'000	<b>HK\$'000</b>
Debtors	<b>1,124,995</b>	910,034	–
Prepayments and other receivables	<b>116,704</b>	64,850	<b>7,532</b>
	<b>1,241,699</b>	974,884	<b>7,532</b>

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

**20 DEBTORS AND PREPAYMENTS – GROUP (CONTINUED)**

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

	<b>Group</b>	
	<b>2006</b>	2005
	<b>HK\$'000</b>	HK\$'000
Within credit period	<b>827,403</b>	614,164
0-30 days	<b>171,962</b>	152,198
31-60 days	<b>61,396</b>	69,345
61-90 days	<b>26,449</b>	34,766
Over 90 days	<b>37,785</b>	39,561
	<b>1,124,995</b>	910,034

**21 AMOUNT DUE FROM A DIRECTOR**

The amount due from a director was non-trade in nature, unsecured, interest-free and repayable on demand except for an amount of HK\$31,989,000 for the year ended 31 December 2005 which was interest bearing at 5.3% compounded annually. The carrying amount of the amount due from a director, Tang Hsiang Chien, approximates its fair value. The maximum receivable amount during the year is as follows:

	<b>2006</b>	2005
	<b>HK\$'000</b>	HK\$'000
Maximum receivable amount during the year	<b>40,479</b>	31,569

**22 AMOUNTS DUE FROM/(TO) RELATED PARTIES**

The amounts due from/(to) related parties are non-trade in nature, unsecured, interest-free and repayable on demand except for amounts due from related parties of HK\$8,955,000 for the year ended 31 December 2005 which were interest bearing at prime rate. The amounts due to related parties include HK\$700 million partial consideration pursuant to the Reorganisation as detailed in Note 1, such balance has been subsequently settled in January 2007. The settlement was mainly financed by a new five-year term loan of HK\$550 million and drawn down of an aggregate of HK\$140 million from existing short term facilities in January 2007. The carrying amounts of the amounts due from/(to) related parties approximate their fair values.

**23 CASH AND BANK BALANCES – GROUP**

Cash and bank balances were denominated in the following currencies:

	2006 HK\$'000	2005 HK\$'000
Hong Kong dollars	5,801	7,860
Renminbi (“RMB”)	73,309	101,418
U.S. dollars	118,831	64,814
Others	13,209	174
	<b>211,150</b>	<b>174,266</b>

Cash and bank balances include the following:

	2006 HK\$'000	2005 HK\$'000
Bank balances restricted for tax and customs duty purpose	1,424	13,499

Some of the Group’s bank balances denominated in RMB are deposited with banks in the PRC. The remittance of funds out of these bank accounts is subject to the rules and regulations promulgated by the tax and customs departments of the PRC Government.

**24 SHARE CAPITAL**

	Note	Number of ordinary shares	Nominal value of ordinary shares HK\$'000	Share premium HK\$'000	Total HK\$'000
<b>Authorised</b>					
Ordinary shares of HK\$0.10 each upon incorporation	(a)	3,800,000	380	–	380
Sub-division of issued shares	(b)(i)	34,200,000	–	–	–
		38,000,000	380	–	380
Increase in authorised share capital of HK\$0.01 each	(b)(ii)	19,962,000,000	199,620	–	199,620
		20,000,000,000	200,000	–	200,000

**24 SHARE CAPITAL (CONTINUED)**

	Note	Number of ordinary shares	Nominal value of ordinary shares HK\$'000	Share premium HK\$'000	Total HK\$'000
Issued and fully paid					
Ordinary shares of HK\$0.10					
each issued	(a)	1	–	–	–
Sub-division of issued shares	(b)(i)	9	–	–	–
		10	–	–	–
Shares issued to					
Tang Hsiang Chien credited					
as fully paid of HK\$0.01 each	(b)(iii)	235,305,000	2,353	119,535	121,888
Shares issued to Su Sih (BVI) Limited (“SuSih”)					
credited as fully paid of HK\$0.01 each	(b)(iii)	1,264,694,990	12,647	642,465	655,112
		1,500,000,000	15,000	762,000	777,000

- (a) As at the date of incorporation of the Company, its authorised share capital was HK\$380,000 divided into 3,800,000 shares of HK\$0.10 each. On 28 August 2006, one subscriber's share of HK\$0.10 in the Company was allotted and issued to the initial subscriber and was transferred by the initial subscriber on the same day to Tang Hsiang Chien, a director of the Company, for cash at par.
- (b) Pursuant to a written resolution of the sole shareholder of the Company passed on 30 December 2006,
- (i) Each of the then issued and unissued shares of HK\$0.10 each in the share capital of the Company was subdivided into 10 shares of HK\$0.01 each so that the authorised and issued share capital of the Company comprises shares of HK\$0.01 each;
  - (ii) The authorised share capital of the Company was increased from HK\$380,000 to HK\$200,000,000 by the issue of an additional 19,962,000,000 shares. On 30 December 2006, Tang Hsiang Chien transferred 10 shares to SuSih, a company wholly owned by Tang Hsiang Chien for cash at par value; and
  - (iii) On 30 December 2006, the Company issued and allotted, credited as fully paid, 235,305,000 shares to Tang Hsiang Chien (in his capacity as the trustee of Mein et Moi Trust (“MEM Trust”) and 1,264,694,990 shares to SuSih respectively in consideration of a total of 100,000 shares representing the entire issued shares of MTG(INV) transferred to the Company by Tang Hsiang Chien (in his capacity as the trustee of MEM Trust) and SuSih pursuant to a sale and purchase agreement entered into by the Company as purchaser and Tang Hsiang Chien (in his capacity as the trustee of MEM Trust) and SuSih as the vendor.

**24 SHARE CAPITAL (CONTINUED)**

- (c) On 12 January 2007, the Company has adopted a share option scheme whereby its participants may be granted options to subscribe for shares at the discretion of the Board or a committee thereof. The principal terms of the share option scheme are summarised in the directors' report.

**25 RESERVES****(a) Group**

	<b>Merger reserve</b>	<b>General reserve</b>	<b>Exchange reserve</b>	<b>Retained profits</b>	<b>Total</b>
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	Note (i)	Note (iii)			
At 1 January 2005	(551,127)	62,535	1,898	683,191	196,497
Profit for the year	–	–	–	210,822	210,822
Dividends (Note 12)	–	–	–	(80,000)	(80,000)
Distribution to equity holders (Note (ii))	(374)	–	–	–	(374)
Exchange differences	1,732	220	20,891	–	22,843
Transfer	–	5,531	–	(5,531)	–
At 31 December 2005	(549,769)	68,286	22,789	808,482	349,788
Profit for the year	–	–	–	320,017	320,017
Partial consideration pursuant to the Reorganisation (Note 1)	(700,000)	–	–	–	(700,000)
Distribution to equity holders (Note (ii))	–	–	–	(57,793)	(57,793)
Exchange differences	2,934	336	41,529	–	44,799
Transfer	–	12,773	–	(12,773)	–
At 31 December 2006	(1,246,835)	81,395	64,318	1,057,933	(43,189)

**25 RESERVES (CONTINUED)****(a) Group**

Notes:

- (i) The merger reserve of the Group represents the difference between the nominal amount of the share capital issued by the Company and the nominal amount of the share capital of the subsidiaries transferred to the Company, in addition to the partial consideration of HK\$700 million to PHKL pursuant to the Reorganisation as detailed in Note 1.
- (ii) The reduction during the year ended 31 December 2005 represented the injection of additional paid-up capital by the controlling party to Qingyi Precision Maskmaking, a subsidiary of PHKL engaged in the Photomask Business which is excluded from the Group as a result of the Reorganisation.

The reduction during the year ended 31 December 2006 represented the assets and liabilities related to the Photomask Business which are excluded from the Group as a result of the Reorganisation. The above reductions are reflected as a distribution made to the equity holders of the Company.

- (iii) As stipulated by regulations in the PRC, the Company's subsidiaries established and operated in the PRC are required to appropriate a portion of their after-tax profit (after offsetting prior year losses) to the general reserve, at rates determined by their respective boards of directors. The general reserve can be utilised to offset prior year losses or be utilised for the issuance of bonus shares. During the year ended 31 December 2006, the boards of directors of the Company's subsidiaries in the PRC appropriated an aggregate amount of approximately HK\$12,773,000 (2005: HK\$5,531,000) to the general reserve.

**(b) Company**

	<b>Accumulated loss</b> HK\$'000
At 31 December 2004 and 2005	–
Loss for the year	597
At 31 December 2006	<u>597</u>

**26 BORROWINGS – GROUP**

	<b>2006</b>	2005
	<b>HK\$'000</b>	HK\$'000
<b>Non-current</b>		
Long-term bank loans (Note a)	<b>749,060</b>	532,757
<b>Current</b>		
Current portion of long-term bank loans (Note a)	<b>166,200</b>	37,500
Short-term bank loans (Note b)	<b>817,537</b>	823,764
Bank overdrafts (Note b)	<b>42,510</b>	2,075
	<b>1,026,247</b>	863,339

Certain short-term bank loans and overdrafts were secured by properties and assets of certain subsidiaries of the Group in 2005 (Note 32).

(a)

	<b>2006</b>	2005
	<b>HK\$'000</b>	HK\$'000
Long-term bank loans	<b>915,260</b>	570,257
Less: current portion included under current liabilities	<b>(166,200)</b>	(37,500)
Long-term portion under non-current liabilities	<b>749,060</b>	532,757

All long-term bank loans are unsecured and carry interest ranging from 0.75% to 1.2% above Hong Kong Inter Bank Offering Rate or Singapore Inter Bank Offering Rate and are repayable in equal quarterly or semi-annual instalments up to 2012.

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

	<b>2006</b>	2005
	<b>HK\$'000</b>	HK\$'000
Long-term bank loans		
Carrying amounts	<b>915,260</b>	570,257
Fair values	<b>927,277</b>	564,626

The fair values of current borrowings equal their carrying amount, as the impact of discounting is not significant. The fair values of non-current borrowings are estimated based on discounted cash flow approach using the prevailing market rates of interest available to the Group of 5.09% (2005: 5.16%) for financial instruments with substantially the same terms and characteristics for the year ended 31 December 2006, depending on the types and currencies of borrowings.

**26 BORROWINGS – GROUP (CONTINUED)**

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

	<b>2006</b> <b>HK\$'000</b>	2005 HK\$'000
Secured	–	67,140
Unsecured	<b>860,047</b>	758,699
	<b>860,047</b>	825,839

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

	<b>2006</b> <b>HK\$'000</b>	2005 HK\$'000
RMB	<b>593,846</b>	473,204
Hong Kong dollars (“HK\$”)	<b>569,918</b>	498,663
U.S. dollars (“US\$”)	<b>610,932</b>	422,024
Japanese Yen (“JPY”)	–	2,205
EURO	<b>611</b>	–
	<b>1,775,307</b>	1,396,096

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

	As at 31 December 2005				
	RMB	HK\$	US\$	JPY	EURO
Long-term loans	5.26%	5.16%	5.38%	–	–
Short-term loans	5.32%	5.14%	5.34%	1.10%	–
Bank overdrafts	–	7.75%	–	–	–

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

**26 BORROWINGS – GROUP (CONTINUED)**

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

	<b>2006</b>	2005
	<b>HK\$'000</b>	HK\$'000
Within 1 year	<b>166,200</b>	37,500
Between 1 and 2 years	<b>263,736</b>	126,191
Between 2 and 5 years	<b>471,524</b>	350,503
Wholly repayable within 5 years	<b>901,460</b>	514,194
Over 5 years	<b>13,800</b>	56,063
	<b>915,260</b>	570,257

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

	<b>2006</b>	2005
	<b>HK\$'000</b>	HK\$'000
Fixed rate		
expiring within one year	<b>382,293</b>	486,996
Floating rate		
expiring within one year	<b>1,148,817</b>	225,342
	<b>1,531,110</b>	712,338

As at 31 December 2006, the facilities were subject to annual review at various dates.

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

	<b>2006</b>	2005
	<b>HK\$'000</b>	HK\$'000
Total borrowings		
6 months or less	<b>906,047</b>	992,215
over 6 months and up to 12 months	<b>869,260</b>	403,881
	<b>1,775,307</b>	1,396,096

**27 DEFERRED TAX LIABILITIES – GROUP**

The movement of deferred income tax account is as follows:

	<b>2006</b>	2005
	<b>HK\$'000</b>	HK\$'000
Beginning of the year	<b>13,642</b>	8,927
Charged to consolidated profit and loss account (Note 10)	<b>692</b>	4,715
Distribution to equity holders	<b>(115)</b>	–
End of the year	<b>14,219</b>	13,642
Representing:		
Accelerated depreciation allowances	<b>24,329</b>	18,544
Taxation losses	<b>(10,110)</b>	(4,902)
	<b>14,219</b>	13,642

Deferred taxation has been provided in full on temporary differences under the liability method using the taxation rate of 17.5% (2005: 17.5%). Deferred tax liabilities will be settled after more than twelve months.

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

Deferred tax liabilities:

	<b>Accelerated depreciation allowances</b>
	HK\$'000
At 1 January 2005	(14,199)
Recognised in the profit and loss account	(4,345)
At 31 December 2005	(18,544)
Recognised in the profit and loss account	(5,900)
Distribution to equity holders	115
At 31 December 2006	(24,329)

**27 DEFERRED TAX LIABILITIES – GROUP (CONTINUED)**

Deferred tax assets:

	<b>Taxation losses</b> HK\$'000
At 1 January 2005	5,272
Recognised in the profit and loss account	(370)
At 31 December 2005	4,902
Recognised in the profit and loss account	5,208
At 31 December 2006	10,110

Deferred income tax assets are recognised for tax loss carry forwards to the extent that the realisation of the related benefit through the future taxable profits is probable. The Group did not recognise deferred income tax assets of HK\$59,858,000 (2005: HK\$54,231,000) in respect of accumulated losses amounting to HK\$241,622,000 (2005: HK\$277,247,000) as at 31 December 2006, that can be carried forward against future taxable income. As at 31 December 2006, these tax losses had no expiry date.

**28 CREDITORS AND ACCRUALS**

	<b>Group</b>		<b>Company</b>
	<b>2006</b>	2005	<b>2006</b>
	<b>HK\$'000</b>	HK\$'000	<b>HK\$'000</b>
Creditors	<b>382,330</b>	408,799	–
Accruals	<b>417,700</b>	191,601	<b>1,004</b>
	<b>800,030</b>	600,400	<b>1,004</b>

**28 CREDITORS AND ACCRUALS (CONTINUED)**

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

	Group	
	2006 HK\$'000	2005 HK\$'000
Within credit period	<b>286,059</b>	242,384
0-30 days	<b>58,823</b>	71,529
31-60 days	<b>21,214</b>	49,206
61-90 days	<b>9,629</b>	27,636
Over 90 days	<b>6,605</b>	18,044
	<b>382,330</b>	408,799

**29 AMOUNTS DUE TO A MINORITY SHAREHOLDER/ASSOCIATED COMPANIES**

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

**30 AMOUNTS DUE TO SUBSIDIARIES**

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

**31 COMMITMENTS****(a) Capital commitments**

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

	<b>2006</b>	2005
	<b>HK\$'000</b>	HK\$'000
Contracted but not provided for	<b>271,270</b>	27,744
Authorised but not contracted for	<b>6,998</b>	181,844
	<b>278,268</b>	209,588

At 31 December 2006, the Group had commitment in respect of the injection of additional capital into certain subsidiaries established in the PRC totalling approximately HK\$433,700,000 (2005: HK\$33,150,000).

**(b) Operating lease commitments**

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

	<b>2006</b>	2005
	<b>HK\$'000</b>	HK\$'000
Within one year	<b>3,387</b>	1,655
One to five years	<b>2,035</b>	1,975
More than five years	<b>5,027</b>	5,191
	<b>10,449</b>	8,821

**32 PLEDGE OF ASSETS**

The Group had executed floating debentures over the undertakings, properties and assets of certain subsidiaries, as securities for banking facilities amounting to the following:

	<b>2006</b>	2005
	<b>HK\$'000</b>	HK\$'000
Property, plant and equipment	–	50,406
Stocks and work in progress	–	40,066
Debtors and prepayments	–	294,087
Other assets	–	120,162
Total pledged assets	–	504,721

During the year, all the floating debentures over the undertakings, properties and assets of certain subsidiaries had been released upon the issuance of revised banking facilities for the purpose of settlement of partial consideration of the reorganisation as mentioned in Note 22.

**33 CONSOLIDATED CASH FLOW STATEMENT****(a) Acquisition of additional equity interest of a subsidiary**

On 20 September 2005, Goalink Industrial Ltd. ("Goalink") invested US\$ 500,000 in Shanghai Kaiser Electronics Co., Ltd. which represented 10% of its new registered share capital.

On 27 July 2006, the Group acquired 10% interest in Shanghai Kaiser Electronics Co., Ltd. from Goalink at a consideration of US\$815,000 (approximately HK\$6,354,000).

**33 CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)****(a) Acquisition of additional equity interest of a subsidiary (Continued)**

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

	<b>Acquiree's carrying amount 2006 HK\$'000</b>
Net assets acquired	
Property, plant and equipment	69,646
Land use right	2,242
Stocks and work in progress	857
Debtors and prepayments	9,283
Cash and bank balances	5,237
Creditors and accruals	(10,187)
Balances with group companies	(2,461)
Net assets value	<b>74,617</b>
Additional share of net assets value (10%)	<b>7,462</b>
Less: Consideration paid	<b>(6,354)</b>
Negative goodwill credited to profit and loss account (Note)	<b>1,108</b>

Note: Negative goodwill represents excess of acquirers interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost.

**(b) Analysis of changes in financing**

	<b>Bank loans HK\$'000</b>
At 1 January 2005	906,508
Net cash from financing activities	487,513
At 31 December 2005	1,394,021
Net cash from financing activities	338,776
At 31 December 2006	<b>1,732,797</b>

**33 CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)****(c) Analysis of cash and cash equivalents**

	2006 HK\$'000	2005 HK\$'000
Cash and bank balances	211,150	174,266
Bank overdrafts (Note 26)	(42,510)	(2,075)
	<b>168,640</b>	172,191
Less: Cash restricted for tax and customs duty purpose (Note 23)	(1,424)	(13,499)
Cash and cash equivalents	<b>167,216</b>	158,692

**34 RELATED PARTY TRANSACTIONS**

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

The Group is controlled by Su Sih (BVI) Limited ("SuSih"), which owns 84.3% of the Company's shares. The ultimate parent of the Group is SuSih.

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

**(a) Purchase of raw materials (Note i)**

	2006 HK\$'000	2005 HK\$'000
Associated companies		
Guangdong Shengyi Sci. Tech Co., Ltd.	304,836	195,356
Suzhou Shengyi Sci. Tech Co., Ltd.	34,280	27,396
Minority shareholder of a subsidiary		
Hitachi Chemical Co. (Hong Kong) Limited	176,922	88,389

**(b) Purchase of equipment (Note ii)**

	2006 HK\$'000	2005 HK\$'000
Companies beneficially owned by directors of the Company		
Acumen Works Limited	-	15,000

**34 RELATED PARTY TRANSACTIONS (CONTINUED)****(c) Purchase of finished goods (Note i)**

	2006 HK\$'000	2005 HK\$'000
Minority shareholder of a subsidiary Hitachi Chemical Co. (Hong Kong) Limited	2,361	1,249

**(d) Interest income (Note iii)**

	2006 HK\$'000	2005 HK\$'000
Companies beneficially owned by directors of the Company Su Sih Enterprises Limited Le Baron International Ltd.	714 1,275	2,174 1,807
A director Tang Hsiang Chien	1,754	651

**(e) Management fee expenses (Note iv)**

	2006 HK\$'000	2005 HK\$'000
Company beneficially owned by directors of the Company Su Sih Enterprises Limited	5,000	5,100

**(f) Sales of finished goods (Note v)**

	2006 HK\$'000	2005 HK\$'000
Minority shareholder of a subsidiary Hitachi Chemical Co. (Hong Kong) Limited	27,230	9,104

**34 RELATED PARTY TRANSACTIONS (CONTINUED)****(g) Amounts due from/(to) related parties**

	Note	2006 HK\$'000	2005 HK\$'000
A Director			
Non-trade balances	21	–	25,039
Related parties			
Non-trade balances	22		
Companies beneficially owned by directors of the Company			
Su Sih Enterprises Limited		–	8,955
Qingyi Precision Maskmaking (Shenzhen) Ltd.		5	(2,159)
Photomask (HK) Limited		(709,603)	(1,156)
Organisation significantly influenced by directors of the Company			
Shanghai Tang Tsun Yuan Education Fund		–	(9,842)
		(709,598)	(4,202)
Minority shareholder of a subsidiary			
Trade balance	29	(63,359)	(23,794)
Associated companies			
Trade balance	29	(120,742)	(143,952)

**(h) Key management compensation**

	2006 HK\$'000	2005 HK\$'000
Basic salaries, housing allowances, share options, other allowances and benefits in kind	31,219	19,506
Bonuses	5,919	13,635
	37,138	33,141

**34 RELATED PARTY TRANSACTIONS (CONTINUED)**

- (i) Purchases of raw materials/finished goods from an associated company and a minority shareholder of a subsidiary are made at prices and terms no more than those charged by and contracted with other third party suppliers of the Group.
- (ii) Purchases of equipment from a subsidiary of a controlling shareholder are conducted at prices and terms no more than those charged by third party suppliers of the Group.
- (iii) Interest income from a controlling shareholder and a director are calculated at prime rate (2005: prime rate) and 5.3% (2005: 5.3%) per annum on the amount receivable, respectively.
- (iv) Management fee expense is subject to the terms of an agreement signed by the parties at a fixed monthly fee for the provision of management services and consultancy services by the controlling shareholder. Starting from 1 April 2005, monthly fee was increased from HK\$200,000 to HK\$500,000. The service contract expired on 31 October 2006.
- (v) Sales of finished goods are made at prices and terms no less than those sold by and contracted with other third party customers of the Group which are due within a normal credit year.

### 35 EVENTS AFTER THE BALANCE SHEET DATE

- (a) On 2 February 2007, the Company was successfully listed on the Main Board of the Stock Exchange following the completion of its global offering of 526,600,000 shares comprising a total of 500,000,000 new shares offered for subscription by the Company and a total of 26,600,000 shares offered for sale by SuSih, the Company's controlling shareholder. The net proceeds of the shares offered by SuSih are to be paid to certain employees of the Group. The aggregate net proceeds received by the Company from the global offering after deducting underwriting fees and estimated expenses payable by the Company in connection with the global offering are estimated to be HK\$1,046 million.
- (b) On 20 December 2006, SuSih approved the grant of shares of the Company (the "Shares") to employees from its own shareholding whereby the employees of the Group were granted a total of 64,250,000 Shares, out of which 29,352,000 Shares are subject to being returned to Total Glory Holdings Limited, a wholly owned subsidiary of SuSih, upon resignation or dismissal of the employees for cause during the year that the return condition applies. In respect of those Shares which are not subject to the return condition, the value of such Shares amounting to approximately HK\$78.5 million, based on the offer price of HK\$2.25, will be charged as an employee expense of the Company for the financial year ending 31 December 2007. In respect of those Shares which are subject to the return condition, the value of such Shares will be charged to the employee expense of the Company on a straight-line basis over the relevant vesting year. As a result, the employee expenses of the Company will be increased by approximately HK\$17.2 million, HK\$17.2 million, HK\$17.2 million, HK\$9.9 million and HK\$4.4 million, based on the offer price of HK\$2.25, for each of the financial years ending 31 December 2007, 2008, 2009, 2010 and 2011 respectively. The above employee expenses will have no dilutive impact on the net asset value.
- (c) Pursuant to an agreement dated 12 January 2007 between SuSih and Chung Tai Keung, Canice, and a consultancy agreement dated 1 November 2006 between SuSih and a consultant to SuSih. SuSih has granted to Chung Tai Keung, Canice and the consultant a total of 70,550,000 Shares which are not subject to any return condition. The value of such Shares amounting to approximately HK\$158.8 million, based on the offer price of HK\$2.25, will be charged as an employee expense of the Company for the financial year ending 31 December 2007. The above employee expense will have no dilutive impact on the net asset value.
- (d) On 12 January 2007, the Company has adopted a share option scheme whereby its participants may be granted options to subscribe for shares at the discretion of the Board or a committee thereof. The principal terms of the share option scheme are summarised in the directors' report.