



Global Flex Holdings Limited
佳邦環球控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 471)

**ANNOUNCEMENT OF INTERIM RESULTS
FOR THE SIX MONTHS ENDED 30 JUNE 2007**

The board of directors (the “Board”) of Global Flex Holdings Limited (the “Company”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively the “Group”) for the six months ended 30 June 2007 (the “Period”) together with the comparative figures of 2006 as follows:-

Condensed Consolidated Income Statement

For the six months ended 30 June 2007

		Six months ended	
		30 June	
	<i>NOTES</i>	2007	2006
		US\$	US\$
		(unaudited)	(unaudited)
Revenue	3	144,342,734	111,559,071
Cost of sales		(131,933,892)	(96,334,899)
Gross profit		12,408,842	15,224,172
Other income		3,986,294	1,338,406
Selling and distribution costs		(3,878,897)	(3,802,797)
Administrative expenses		(5,961,157)	(4,713,033)
Finance costs		(4,379,540)	(2,652,303)
Profit before taxation		2,175,542	5,394,445
Income tax expense	4	(381,258)	(770,598)
Profit for the period	5	1,794,284	4,623,847
Dividends	6	4,612,903	4,354,839
		US cents	US cents
Earnings per share	7		
– Basic		0.14	0.37
– Diluted		0.14	N/A

Condensed Consolidated Balance Sheet

As at 30 June 2007

	<i>NOTES</i>	30 June 2007 US\$ (unaudited)	31 December 2006 US\$ (audited)
Non-current assets			
Property, plant and equipment	8	90,490,140	79,866,481
Prepaid lease payments – non-current portion		3,829,125	3,606,479
Deposits paid for acquisition of property, plant and equipment		4,639,586	3,764,043
Available-for-sale investment		22,008	22,008
		98,980,859	87,259,011
Current assets			
Inventories		49,963,884	48,605,601
Trade and other receivables	9	112,702,729	143,119,493
Prepaid lease payments – current portion		445,860	428,794
Tax recoverable		865,583	—
Pledged bank deposits		11,050,000	13,517,139
Bank balances and cash		33,377,029	46,782,638
		208,405,085	252,453,665
Current liabilities			
Trade and other payables	10	74,733,992	103,281,270
Tax liabilities		—	392,775
Bank borrowings – due within one year		110,429,681	114,663,379
		185,163,673	218,337,424
Net current assets		23,241,412	34,116,241
Total assets less current liabilities		122,222,271	121,375,252
Non-current liability			
Bank borrowings – due after one year		3,939,334	3,841,869
		118,282,937	117,533,383
Capital and reserves			
Share capital	11	16,129,032	16,129,032
Reserves		102,153,905	101,404,351
		118,282,937	117,533,383

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2007

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis.

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2006.

In respect of the share options newly granted to employees under the Company’s share option scheme during the period, the Group has applied the following accounting policy to account for such equity-settled share-based payment transactions:

Share options granted to employees

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share options reserve).

At each balance sheet date, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss with a corresponding adjustment to share options reserve.

At the time when the share options are exercised, the amount previously recognised in share options reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share options reserve will be transferred to accumulated profits.

In the current interim period, the Group has applied, for the first time, a new standard, amendment and interpretations (“new HKFRSs”) issued by the HKICPA, which are effective for the Group’s financial year beginning 1 January 2007.

The adoption of these new HKFRSs had no material effect on the results or financial position of the Group for the current or prior accounting periods. Accordingly, no prior period adjustment has been recognised.

The Group has not early applied the following new or revised standards or interpretations that have been issued but are not yet effective.

HKAS 23 (Revised)	Borrowing Costs ¹
Hong Kong Financial Reporting Standard (“HKFRS”) ⁸	Operating Segments ¹
HK(IFRIC) – Int 11	HKFRS 2: Group and Treasury Share Transactions ²
HK(IFRIC) – Int 12	Service Concession Arrangements ³

¹ Effective for annual periods beginning on or after 1 January 2009

² Effective for annual periods beginning on or after 1 March 2007

³ Effective for annual periods beginning on or after 1 January 2008

The directors of the Company anticipate that the application of these standards or interpretations will have no material impact on the results and the financial position of the Group.

3. SEGMENTAL INFORMATION

Business segments

For management purposes, the Group is currently organised into four operating divisions – flexible printed circuit boards, rigid printed circuit boards, flexible printed circuit boards assembly and rigid printed circuit boards assembly. These divisions are the basis on which the Group reports its primary segment information.

Principal activities are manufacturing and trading of:

- Flexible printed circuit boards
- Rigid printed circuit boards
- Flexible printed circuit boards assembly
- Rigid printed circuit boards assembly

	Flexible printed circuit boards		Rigid printed circuit boards		Flexible printed circuit boards assembly		Rigid printed circuit boards assembly		Consolidated	
	Six months ended 30 June		Six months ended 30 June		Six months ended 30 June		Six months ended 30 June		Six months ended 30 June	
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
	US\$	US\$	US\$	US\$	US\$	US\$	US\$	US\$	US\$	US\$
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
REVENUE										
External sales	<u>12,168,434</u>	<u>9,213,931</u>	<u>27,281,213</u>	<u>32,469,452</u>	<u>60,423,683</u>	<u>55,555,503</u>	<u>44,469,404</u>	<u>14,320,185</u>	<u>144,342,734</u>	<u>111,559,071</u>
RESULTS										
Segment results	<u>688,157</u>	<u>231,420</u>	<u>(1,325,548)</u>	<u>2,020,936</u>	<u>8,330,494</u>	<u>7,839,067</u>	<u>836,842</u>	<u>1,329,952</u>	<u>8,529,945</u>	<u>11,421,375</u>
Unallocated income									<u>3,986,294</u>	<u>1,338,406</u>
Unallocated corporate expenses									<u>(5,961,157)</u>	<u>(4,713,033)</u>
Finance costs									<u>(4,379,540)</u>	<u>(2,652,303)</u>
Profit before taxation									<u>2,175,542</u>	<u>5,394,445</u>
Income tax expense									<u>(381,258)</u>	<u>(770,598)</u>
Profit for the Period									<u>1,794,284</u>	<u>4,623,847</u>

4. INCOME TAX EXPENSE

	Six months ended	
	30 June	
	2007	2006
	US\$	US\$
	(unaudited)	(unaudited)
PRC Foreign Enterprise Income Tax		
– Current year	489,906	770,598
– Underprovision in prior year	828,867	—
– Tax refunds for prior years	(937,515)	—
	<u>381,258</u>	<u>770,598</u>

No provision for Hong Kong Profits Tax has been made as the Group’s profit neither arise in, nor is derived from, Hong Kong. The tax charge for the period arose from taxation on its subsidiaries located in the People’s Republic of China (the “PRC”).

Pursuant to the relevant laws and regulations in the PRC, Global Flex (Suzhou) Company Limited (“Global Flex (Suzhou)”), Forever Jade Electronics (Suzhou) Company Limited (“Forever Jade (Suzhou)”) and Global Flex (Suzhou) Plant II Co., Ltd. (“Global Flex (Suzhou) Plant II”), PRC subsidiaries of the Company, are entitled to the exemptions from the PRC Foreign Enterprise Income Tax (“FEIT”) for two years starting from their first profit-making year and to a 50% relief from the FEIT for the following three years (“Tax Holidays”).

The first profit-making year of Global Flex (Suzhou) and Forever Jade (Suzhou) is the year ended 31 December 2002 and 31 December 2006, respectively. Global Flex (Suzhou) has its operations located in Suzhou, the PRC which is the coastal economic open zones and is subject to a preferential tax rate of 27%. However, in December 2005, Global Flex (Suzhou) re-invested and increased its capital by US\$16,000,000 to US\$48,000,000. Global Flex (Suzhou) is entitled to another Tax Holidays on a capital proportionate basis from the date of re-investment subject to the approval by the relevant tax authority. Accordingly, one-third of the taxable profit of Global Flex (Suzhou) is subject to the Tax Holidays. During the current period with the approval issued by the relevant tax authority, Global Flex (Suzhou) has received tax refunds from the tax authority, representing the overpayment of FEIT for the two years ended 31 December 2006, of approximately US\$938,000 which has been included in the tax charge for the period.

Global Flex (Suzhou) Plant II was in the pre-operating stage and did not choose to enjoy the Tax Holidays since its establishment. Accordingly, the profit generated by Global Flex (Suzhou) Plant II for the current period was subject to FEIT at a rate of 27%.

No provision for deferred taxation has been recognised in the unaudited condensed consolidated financial statements as the amount involved is insignificant.

5. PROFIT FOR THE PERIOD

Profit for the period has been arrived at after charging (crediting):

	Six months ended	
	30 June	
	2007	2006
	US\$	US\$
	(unaudited)	(unaudited)
Write-down of inventories	534,887	1,241,279
Depreciation of property, plant and equipment	5,306,726	4,161,892
Interest on bank and other borrowings wholly repayable within five years	4,379,540	2,652,303
Release of prepaid lease payments	172,043	7,529
Bank interest income	(908,583)	(528,495)
Compensation received from customers on cancellation of sales orders	(2,143,175)	—
	<u><u> </u></u>	<u><u> </u></u>

6. DIVIDENDS

During the period, dividends of HK2.86 cents (2006: HK2.7 cents) per share were paid to the shareholders of the Company as the final dividends for the year ended 31 December 2006.

The directors do not recommend the payment of an interim dividend for the period (2006: Nil).

7. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share is based on the following data:

	Six months ended	
	30 June	
	2007	2006
	US\$	US\$
	(unaudited)	(unaudited)
Earnings		
Earnings for the purpose of basic and diluted earnings per share (profit for the period)	<u>1,794,284</u>	<u>4,623,847</u>
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	<u>1,250,000,000</u>	<u>1,250,000,000</u>
Effect of dilutive potential ordinary shares in respect of share options granted	<u>7,959,211</u>	
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<u>1,257,959,211</u>	

There was no potential dilutive shares in issue during the six months ended 30 June 2006.

8. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

During the period, the Group spent approximately US\$13,904,000 (1.1.2006 to 31.12.2006: US\$18,690,000) for expanding the Group's operations. Of the amount, approximately US\$2,164,000 (1.1.2006 to 30.6.2006: US\$409,000) was transferred from deposits paid for acquisition of property, plant and equipment.

9. TRADE AND OTHER RECEIVABLES

The Group generally allows an average credit period ranged from 30 days to 150 days to its trade customers.

The following is an aged analysis of trade receivables:

	As at 30 June 2007 US\$ (unaudited)	As at 31 December 2006 US\$ (audited)
Trade receivables:		
0 - 30 days	24,816,954	44,360,145
31 - 60 days	15,586,784	40,696,436
61 - 90 days	13,055,670	25,613,542
91 - 120 days	11,605,394	9,341,355
121 - 150 days	10,597,017	5,134,024
Over 150 days	18,451,597	3,963,804
	94,113,416	129,109,306
Other receivables	18,589,313	14,010,187
	112,702,729	143,119,493

10. TRADE AND OTHER PAYABLES

The following is an aged analysis of trade payables:

	As at 30 June 2007 US\$ (unaudited)	As at 31 December 2006 US\$ (audited)
Trade payables:		
0 - 90 days	40,913,443	78,793,089
91 - 120 days	4,998,968	7,422,400
121 - 180 days	4,392,293	3,145,673
181 - 365 days	4,432,534	1,141,744
Over 365 days	1,332,991	650,315
	56,070,229	91,153,221
Other payables	18,663,763	12,128,049
	74,733,992	103,281,270

11. SHARE CAPITAL

	Number of shares	Nominal value HK\$
Ordinary shares of HK\$0.1 each		
Authorised:		
As at 1 January 2007 and 30 June 2007	5,000,000,000	500,000,000
Issued and fully paid:		
As at 1 January 2007 and 30 June 2007	1,250,000,000	125,000,000
Shown in the condensed consolidated financial statements as		US\$16,129,032

12. CAPITAL RESERVE

The balance as at 31 December 2006 represented the fair value of 15,000,000 ordinary shares in the Company bestowed to several employees of the Company by a controlling shareholder of the Company during the year ended 31 December 2006.

13. SHARE-BASED PAYMENTS

The Company has a share option scheme for eligible employees of the Group. Details of the share options outstanding during the current period are as follows:

	Number of share options
Granted during the period and outstanding at the end of the period	<u>62,500,000</u>

The closing price of the Company's shares immediately before 24 January 2007, the date of grant, was HK\$0.47. The fair value per option determined at the date of grant using the Black-Scholes option pricing model was HK\$0.11.

The following assumptions were used to calculate the fair value of share options:

Grant date share price	HK\$0.47
Exercise price	HK\$0.475
Expected life	3 years
Expected volatility	53.11%
Dividend yield	8.62%
Risk-free interest rate	3.76%

The Group recognised an expense of approximately US\$794,000 for the period in relation to the share options granted, with a corresponding credit to the share options reserve. The vesting period of the shares options is a six-month period from the date of grant.

The Black-Scholes option pricing model has been used to estimate the fair value of the options. The variables and assumptions used in computing the fair value of the share options are based on the directors' best estimate. The value of an option varies with different variables of certain subjective assumptions.

At each balance date, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the estimates, if any, is recognised in the profit and loss, with a corresponding adjustment to the share options reserve.

14. CAPITAL COMMITMENTS

	As at 30 June 2007 US\$ (unaudited)	As at 31 December 2006 US\$ (audited)
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in the condensed consolidated financial statements	<u>14,993,837</u>	<u>12,696,171</u>

15. RELATED PARTY TRANSACTIONS

During the period, the Group had the following significant transactions with related parties:

Name of related parties	Nature of transactions	Six months ended 30 June	
		2007 US\$ (unaudited)	2006 US\$ (unaudited)
Mr. Hsu Chung, a director	Rental paid	11,188	8,705
Mr. Lin Cheng Hung, a director	Rental paid	<u>3,939</u>	<u>—</u>

As at 30 June 2007, a deposit of approximately US\$901,000 (31.12.2006: US\$901,000) was placed in respect of an agreement entered into in the year 2006 to acquire machineries from Vertex Precision Electronics Inc., the Group's ultimate holding company. The aggregate consideration is approximately US\$1,773,000.

Compensation of key management personnel

The emoluments of directors and other members of key management of the Group during the period were as follows:

	Six months ended	
	30 June	
	2007	2006
	US\$	US\$
	(unaudited)	(unaudited)
Short-term benefits	291,140	282,080
Share-based payments	317,473	—
	<u>608,613</u>	<u>282,080</u>

The emoluments of directors and key management were recommended by the remuneration committee of the Company having regard to the performance of individuals and market trends.

During the period, 12,500,000 share options were granted to each of the two executive directors of the Company, Mr. Wong Chau Chi, Charles and Mr. Shao Yi. Share-based payment expense of US\$317,473 was charged to the condensed consolidated income statement with respect to these share options.

CHAIRMAN's STATEMENT

The first six months in 2007 have been difficult for us compared with the profit level of the first 6 months in 2006. Our profit has decreased by more than 60%.

The sharp decrease of profit and margins were caused by the change of market environment and sudden decrease of demand from certain large customers. The two catalysts worsen our performance. However, they also provide opportunities for us to head for restructure changes mainly in manufacturing processes and efficiency.

1. Rigid printed circuit board ("PCB") industries are facing revolutions as lower end products are needed to phrase out, replace by high end products required by the market. The production cycles, precision of products, cost of materials, customers demand have all altered. The Group has to face lots of changes in short time.
2. Unfavorable external environment: one of our major customers has been experiencing difficulty in their mobile phone business and these inevitably affected the orders flows and profitability of our flexible printed circuit board ("FPC") business.

After identifying these fundamental causes, we have been taking drastic measures to remedy the situations. We are also in the process of hiring more talented technical persons in FPC, PCB and assembly.

With the new and capable top managers who will be focusing on enhancing production systems, we have started implementing the following program: (i) to improve use of our working capital. (ii) to cut down wasteful expenses and increase operating efficiency. (iii) to improve our products mix policy and increase our marketing efforts. These will reduce our reliance on major customers and increase our revenue growth.

We are confident that we have found the real causes of the lack of performance during the period under review.

This difficult first half year provides us opportunity for changes into a more efficient and a more market orientated Company.

REVIEW OF OPERATIONS

The Company's principal activity is investment holding whilst its subsidiaries are mainly engaged in manufacture and trading of printed circuit boards.

During the Period, the Group recorded a total turnover of approximately US\$144.3 million, representing an increase of approximately US\$32.8 million (29.4%) as compared to the corresponding period of 2006. The growth was mainly attributable to a slight increase in the demand of flexible printed circuit boards ("FPC") and flexible printed circuit board assembly ("FPCA") by existing customers. Moreover, turnover from rigid printed circuit board assembly ("PCBA") also increased significantly due to the increasing demand from mobile phone customers in the PRC. However, turnover from rigid printed circuit boards ("PCB") reduced by 16% during the Period. It was due to the temporary decline in production capacity as a consequence of the PCB factory relocation, the upgrade of product level and the selection of better margin customers from the end of the first half of 2007. The Group expects the turnover from PCB will increase after restructuring of customer base in the fourth quarter of 2007.

During the Period, the Group has started the development of business of liquid crystal module ("LCM") in order to improve the Group's FPCA business. On the other hand, the Group will continue strengthening the business of PCBA. Forever Jade (Suzhou) will continue to satisfy the demand of existing customers while developing new customer relationships. The Group expects the PCBA business to have positive growth in the second half of 2007.

In order to pick up the PCB segment to a profitable business for the second half of 2007, the Group has brought in new management team members who have solid experience in the PCB sector. The Group expects that with the leadership of the new management team, the Group will be able to use current production capacity more efficiently and raise utilization rate, and also to improve quality control processes.

FINANCIAL REVIEW

For the Period, the Group recorded a turnover of approximately US\$144.3 million, gross profit of approximately US\$12.4 million and profit of approximately US\$1.8 million as compared to a turnover of approximately US\$111.6 million, gross profit of approximately US\$15.2 million and profit of approximately US\$4.6 million for the six months period ended 30 June 2006, representing an increase in turnover of approximately 29.4% and decrease in gross profit and profit of approximately 18.5% and 61.2% respectively.

Turnover

The turnover of the Group for the Period and the comparative figures of the corresponding period of 2006 classified by categories of the major operations are set out below:

Turnover by operations

	Six months ended		Six months ended		Change
	30 June 2007		30 June 2006		
	US\$'000	%	US\$'000	%	%
	(unaudited)		(unaudited)		
FPC solutions					
FPCA	60,424	41.9	55,556	49.8	8.8
FPC	12,168	8.4	9,214	8.3	32.1
Total FPC solutions	72,592	50.3	64,770	58.1	12.1
PCB solutions					
PCBA	44,469	30.8	14,320	12.8	210.5
PCB	27,281	18.9	32,469	29.1	(16.0)
Total PCB solutions	71,750	49.7	46,789	41.9	53.3
Total	144,342	100.0	111,559	100.0	29.4

The Group's turnover was mainly derived from the sales of FPCA and PCBA. With reference to the above table, turnover from the sales of FPCA and sales of PCBA for the Period were approximately US\$60.4 million and US\$44.5 million (2006: US\$55.6 million and US\$14.3 million) respectively, representing approximately 41.9% and approximately 30.8% of the total sales of the Group (2006: 49.8% and 12.8%) during the Period respectively.

The increase in the sales of FPCA by approximately 8.8% during the Period was primarily attributable to the commencement of the development of our LCM business which strengthens the Group's FPCA business. The Group believes that the turnover from FPCA will have significant growth in the near future.

The increase in the sales of FPC by approximately 32.1% during the Period was primarily attributable to the increase of demand from new customers which are manufacturers of high end mobile phones. The orders from those new customers mainly include rigid-flex products. It brought significant contribution to the development of product level of the Group. During the Period, the Group has continued to explore new customers in order to achieve a more extensive customer base and to reduce reliance on any single customer. The directors believe that the expansion and diversification of the customer base is beneficial and will mitigate the concentration risk of the Group.

An increase of approximately 210.5% in sales of PCBA was mainly driven by the dramatic growth of the turnover of Forever Jade (Suzhou) and the continuing increase in demand from mobile customers in the PRC. The directors believe that the demand for high density interconnection ("HDI") PCB will also grow in the near future.

A decrease of approximately 16% in sales of PCB was primarily due to the reduction of production capacity because of the relocation of PCB factory and the upgrade of products and the selection of better margin customers from the end of first half of 2007.

Gross profit margin by operations

	Period ended 30 June 2007	Period ended 30 June 2006
	%	%
FPC solutions		
FPCA	<u>16.5</u>	<u>17.5</u>
FPC	<u>8.3</u>	<u>11.1</u>
PCB solutions		
PCBA	<u>4.6</u>	<u>9.4</u>
PCB	<u>(2.2)</u>	<u>9.6</u>
Overall	<u><u>8.6</u></u>	<u><u>13.6</u></u>

The Group's total gross profit for all operations decreased from approximately US\$15.2 million for the six months ended 30 June 2006 to approximately US\$12.4 million for the Period. The overall gross profit margin decreased from approximately 13.6% for the six months ended 30 June 2006 to approximately 8.6% for the Period. The decrease is primarily due to the decrease of gross profit margin of PCB during the Period from approximately 9.6% for the six months ended 30 June 2006 to gross loss of approximately 2.2% during the Period. Moreover, the gross profit margin of PCBA decreased during the Period from approximately 9.4% for the six month period ended 30 June 2006 to approximately 4.6% during the Period.

The gross profit margin of FPCA declined slightly from 17.5% for the six month period ended 30 June 2006 to 16.5% during the Period. The gross profit margin of FPC decreased slightly from approximately 11.1% for the six months period ended 30 June 2006 to approximately 8.3% for the Period. The decreases of the gross profit margins of FPCA and FPC are due to the increase of raw material costs, the slight reduction of product price and product mix.

During the Period, the decrease of gross profit and the gross profit margin of PCB is primarily due to the reduction of turnover of PCB of 16% during the Period. In addition, the unit price of PCB is similar to last year. However, the raw material (such as copper) costs increased significantly. Labour cost and factory overhead rose as a consequent of the appreciation of RMB Currency. These elements have changed the gross profit margin of PCB from positive to negative for the Period.

Although the gross profit of PCBA increased during the Period, the gross profit ratio of PCBA decreased. It is mainly due to the turnover of PCBA major including the assemble charges last year. As a number of customers have requested the Group to purchase the raw material and recharge to them since the beginning of the Period, the unit price increased while the gross profit margin declined.

Profit attributable to shareholders and operating expenses

During the Period, the Group recorded a profit of approximately US\$1.8 million, representing a decrease of approximately 61.2% as compared to approximately US\$4.6 million in the corresponding period of 2006. The decrease was mainly attributable to an increase of administrative and finance expenses.

Transportation and insurance expenses increased slightly. The reason of increase in transportation cost was mainly due to the increase of petrol price. On the other hand, the reason of the increase in insurance expenses was due to the increase in the cost of product duties insurance for products using in motor vehicles during the Period. Other distribution expenses were relatively stable as compared to the six months ended 30 June 2006.

During the Period, the increase of administrative expenses was mainly due to increase of provision for bad debts covered over 12 months according to the Group's accounting policy, the increase in salary and realisation of share option expenses for the Period.

The finance costs increase was mainly due to the raise of bank borrowings during the Period.

Liquidity and financial resources

As at 30 June 2007, the Group had shareholders' funds of approximately US\$118.3 million. Current assets amounted to approximately US\$208.4 million. It mainly comprises bank and cash of approximately US\$33.4 million, pledge bank deposits of approximately US\$11.1 million, inventories of approximately US\$50.0 million and trade receivables of approximately US\$94.1 million. Current liabilities amounted to approximately US\$185.2 million. It mainly comprises bank loans of approximately US\$110.4 million and trade payables of approximately US\$56.1 million. Non-current liability only includes long term bank loan which amounted to approximately US\$3.9 million. The Group has reduced total borrowing by US\$4.1 million from approximately US\$118.5 million as at 31 December 2006 to approximately US\$114.4 million.

As at 30 June 2007, the Group's current ratio was 1.13 (2006: 1.16) and the gearing ratio (a ratio of total loans to total assets) was 37.2% (2006: 34.9%).

As at 30 June 2007, the Group's bank loan balance was about US\$114.4 million, all loans were fixed rate borrowings which carried interest ranging from 4.65% to 6.42% per annum.

Foreign exchange exposure

For the Period, most assets, liabilities and transactions of the Group are denominated in Renminbi ("RMB"), Hong Kong Dollars ("HKD") and US Dollars ("US\$"). The management believes that foreign exchange risk does not affect the Group since Renminbi has generally appreciated comparing with HKD and US\$. The sales and purchases in US\$ substantially hedged the risks of the transactions in foreign currency and the Group did not make any other hedging arrangement during the Period.

SEGMENTAL INFORMATION

As at 30 June 2007, the detailed segmental information of the Group is set out in note 3 to the condensed financial statements.

EMPLOYEE BENEFITS

As at 30 June 2007, the average number of employees of the Group was approximately 6,000 (2006: 5,700), and the Group's staff costs amount to approximately US\$6.8 million (Period ended 30 June 2006: US\$6.3 million). The remuneration policy of the Group is reviewed annually and is in line with the prevailing market practice. During the Period, the Company has granted 62,500,000 share options (Period ended 30 June 2006: Nil) to its employees or directors under the share option scheme of the Company adopted on 5 July 2005.

The employees of the Company's subsidiaries in the PRC are members of a state-managed social welfare scheme operated by the local government of the PRC. Under the scheme, the Group provides retirement, medical, employment injury, unemployment and maternity benefits to its employees in the PRC in accordance with the relevant PRC rules and regulations. The Group is required to contribute a specified percentage of their payroll costs to the social welfare scheme to fund the benefits. The only obligation of the Group with respect to the social welfare scheme is to make the specified contributions.

MATERIAL ACQUISITIONS AND DISPOSALS AND FUTURE PLANS FOR MATERIAL INVESTMENT

During the Period, the Group did not have any material acquisition or disposals of subsidiaries or associates.

CHARGE ON ASSETS

As at 30 June 2007, pledges of the Group's properties, trade receivable, bank deposits and prepaid lease payment amounted to approximately US\$16.6 million, US\$21.5 million, US\$11.1 million and US\$0.5 million respectively (2006: US\$16.9 million, US\$49.5 million, US\$13.5 million and US\$0.2 million) to secure bank borrowings.

CONTINGENT LIABILITIES

As at 30 June 2007, the Group or the Company did not have any significant contingent liabilities (2006: Nil).

PROSPECTS

Given the continuous fast growth in the market demand for compact, thin, multi-functional and portable electronic devices, the Group will focus on the production, sales and assembly of FPC and PCB. Being a leading enterprise in the FPC industry, the Group will leverage on its professional staff and unique production technologies to manufacture the most advanced multi-layer hollow FPC to meet customers' demand for more advanced products.

With our experienced new management team, the Group will focus on creating shareholder value by releasing more cash which can be spent on paying off the debt, buying back the Company's shares or investing in highly profitable projects, cutting operation costs, increasing operation efficiency and improving product mix policy. We have moved strategically to diversify customer base and grow customer portfolio, we believe the Group will be able to reduce reliance of specific customer and continue to grow the sales of FPCA and PCBA in the second half of 2007.

USE OF PROCEEDS RAISED BY ISSUE OF SHARES

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

The Net Proceeds have been used in accordance with the section headed "Future plans and prospects and use of proceeds" set out in the prospectus. It was stated that about US\$10.0 million out of the Net Proceeds will be used for the dated 28 September 2005 ("Prospectus") purchase of machinery and equipment for the Group's Suzhou plant in expanding the Group's manufacturing facilities and about US\$20.2 million out of the Net Proceeds will be used for the establishment of a new manufacturing plant for the production of FPC, FPCA, PCB and PCBA in Northern China. The directors believe that the establishment of a new manufacturing plant would increase the number of manufacturing facilities and capacity of the Group in order to meet the increase in its customers' demand and its plan to expand its customer base.

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

	Use of proceeds (as set out in Prospectus) US\$ (million)	Changes US\$ (million)	Use of proceeds (revised) US\$ (million)	Use of proceeds up to 30 June 2007 (actual) US\$ (million)	Balance US\$ (million)
Purchase of machinery and equipment for the Group's Suzhou plant	10.0	3.6	13.6	(13.6)	—
Construction of a manufacturing plant for the production of FPC, FPCA, PCB and PCBA in Northern China	20.2	(20.2)	—	—	—
Development of second phase of manufacturing plant for the production of HDI PCB and rigid-flex in Suzhou	—	14.6	14.6	(5.8)	8.8
Purchase of machinery and equipment for increasing assembly capacities for the assembly of electronic component modules in Suzhou plant	—	2.0	2.0	(2.0)	—
	<u>30.2</u>	<u>—</u>	<u>30.2</u>	<u>(21.4)</u>	<u>8.8</u>

Up to 30 June 2007, an amount of approximately US\$21.4 million of the Net Proceeds was used for acquisition of machinery and equipment for the Group's Suzhou plant and development of second phase of manufacturing plant for the production of HDI PCB and rigid-flex in Suzhou. Given that the actual Net Proceeds amounted to US\$30.6 million, the total remaining balance of the Net Proceeds of approximately US\$8.8 million had been placed as short term deposits with licensed banks in Hong Kong and the PRC and is expected to be applied as disclosed in the Prospectus.

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

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

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

During the Period, the Company has adopted a code of conduct regarding the directors' securities transactions on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issues ("Model Code") as set out in Appendix 10 to the Listing Rules. The Company has made specific enquiry of all directors regarding any non-compliance with the Model Code throughout the Period and all the directors confirmed that they have fully complied with the required standard set out in the Model Code.

CODE ON CORPORATE GOVERNANCE

During the Period, the Company has fully complied with the requirements under the Code Provisions in the Code on Corporate Governance Practices ("CG Code") as set out in Appendix 14 to the Listing Rules.

INDEPENDENT NON-EXECUTIVE DIRECTORS AND AUDIT COMMITTEE

As at 30 June 2007, the Company has complied with the provisions of Rule 3.10(1) and 3.10(2) of the Listing Rules that sufficient number of independent non-executive directors have been appointed and that at least one of the independent non-executive directors has appropriate professional qualifications or accounting or related financial management expertise.

Furthermore, in compliance with the requirements of the CG Code and Rules 3.21 of the Listing Rules, an Audit Committee was established by the Company on 5 July 2005 with written terms of reference to review and supervise the Company's financial reporting process and internal controls.

The Audit Committee comprises Mr. Chow Chi Tong and Mr. Liao Kuang Shang, being independent non-executive directors and Mr. Chou Tsan Hsiung, a non-executive director. Currently, Mr. Chow Chi Tong is the Chairman of the Audit Committee.

REVIEW OF ACCOUNTS

The Audit Committee has reviewed, with the management, the accounting principles and policies, audit, internal controls and financial reporting adopted by the Group, and the unaudited interim financial report for the Period and recommended its adoption by the Board. In addition, Deloitte Touche Tohmatsu has reviewed the unaudited interim financial results for the Period in accordance with Statement of Auditing Standards 700 issued by the Hong Kong Institute of Certified Public Accountants.

The unaudited condensed consolidated interim financial statements for the Period was approved by the Board on 14 September 2007.

On behalf of the Board

Lin Cheng Hung

Chairman

Hong Kong, 14 September 2007

As at the date of this announcement, the Board comprises six executive directors, namely Mr. Lin Cheng Hung, Mr. Hsu Chung, Mr. Huang Lien Tsung, Mr. Wong Chau Chi, Charles, Ms. Lin Yi Ting and Mr. Shao Yi; four non-executive directors, namely Mr. Chou Tsan Hsiung, Mr. Nguyen Duc Van, Mr. Yang Yi and Dr. Li Jun, and three independent non-executive Directors, namely Mr. Wang Wei-Lin, Mr. Chow Chi Tong and Mr. Liao Kuang Sheng.