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INDEBTEDNESS

Borrowings

As at the close of business on 30 April, 2002, being the latest practicable date for the purpose of ascertaining information contained in this indebtedness statement prior to the printing of this prospectus, the Group had outstanding borrowings of approximately HK\$370.7 million comprising short term secured bank borrowings of approximately HK\$109.3 million, obligations under finance leases of approximately HK\$145.7 million, long term secured bank loans of approximately HK\$102.1 million and long term mortgage loans of approximately HK\$13.6 million.

The outstanding long term secured bank loans comprised a four-year term loan of approximately HK\$97.5 million and a seven-year term loan of approximately HK\$4.6 million.

The outstanding short term secured bank borrowings of approximately HK\$109.3 million comprised bank overdrafts of approximately HK\$12.5 million, trust receipt loans of approximately HK\$51.4 million and short term bank loans of approximately HK\$45.4 million.

Securities

The Group's borrowings are secured by:—

- (i) an assignment of all trade receivables of a subsidiary and the related trade credit insurance policy;
- (ii) cross corporate guarantees by subsidiaries;
- (iii) personal guarantee from Mr. Cheok;
- (iv) charge over certain land and buildings held by a related company; and
- (v) mortgage over certain land and buildings of a subsidiary.

Release of security and guarantees

Application has been made to and consent has been obtained from the banks for the personal guarantee given by Mr. Cheok to be released upon the listing of the Shares on the Main Board and replaced by corporate guarantees and/or other security to be provided by the Company and/or other members of the Group.

Contingent liabilities

As at 30 April, 2002, the Group had contingent liabilities not provided for in respect of discounted bills with recourse amounting to approximately HK\$3.6 million.

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Disclaimer

Save as aforesaid or as otherwise disclosed herein and apart from intra-Group liabilities, the Group did not have, at the close of business on 30 April, 2002, any loan capital issued and outstanding or agreed to be issued, outstanding bank overdrafts and liabilities under acceptance (other than normal trade bills) or other similar indebtedness, debentures, mortgages, charges or loans or acceptance creditors, finance lease or hire purchase commitments or guarantees or other material contingent liabilities.

The Directors have confirmed that there have been no material changes in the indebtedness and contingent liabilities of the Group since 30 April, 2002.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

Net current assets

As at 30 April, 2002, being the latest practicable date for the purpose of this statement, the Group had net current assets of approximately HK\$30.3 million. Current assets of the Group of approximately HK\$443.7 million comprised cash and cash equivalents of approximately HK\$70.0 million, accounts receivable of approximately HK\$221.5 million, inventories of approximately HK\$98.9 million and prepayments, deposits and other receivables of approximately HK\$53.3 million. Cash and cash equivalents are held in RMB, Hong Kong dollars and US dollars. Current liabilities of the Group of approximately HK\$413.4 million comprised bank overdrafts of approximately HK\$12.5 million, trust receipt loans of approximately HK\$51.4 million, short term secured bank loans of approximately HK\$45.4 million, current portion of obligations under finance leases of approximately HK\$77.4 million, current portion of long term secured bank loans of approximately HK\$16.7 million, accounts payable and accrued liabilities of approximately HK\$198.4 million and tax payable of approximately HK\$11.6 million.

Borrowings and banking facilities

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

As at 30 April, 2002, the Group's borrowings of approximately HK\$370.7 million were all denominated in Hong Kong dollars and US dollars. Such borrowings are secured, bear interest at rates ranging from a fixed rate of 0.5% to 2.75% above the basic lending rate per annum in Hong Kong from time to time, and of which approximately HK\$203.4 million are repayable within one year of which approximately HK\$167.3 million are repayable beyond one year.

For each of the three financial years ended 31 December, 2001, the Group's gearing ratio represented by the interest-bearing borrowings as a percentage of the Group's total assets amounted to approximately 14.9%, approximately 19.9% and approximately 26.7%, respectively.

The Group services its debts primarily through cash generated from its operations.

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TRADING RECORD

The table below sets forth a summary of the audited combined results of the Group for each of the three years ended 31 December, 2001, prepared on the assumption that the current structure of the Group had been in existence throughout the periods under review and is extracted from, and has been prepared in accordance with the basis set forth in section 1 of, the accountants' report, the text of which is set forth in Appendix I to this prospectus.

	<i>Note</i>	Year ended 31 December,		
		1999	2000	2001
		<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	(a)	953,766	1,148,529	1,149,143
Cost of sales		<u>(672,612)</u>	<u>(833,366)</u>	<u>(833,538)</u>
Gross profit		281,154	315,163	315,605
Other revenue and gains		3,184	8,423	6,939
Selling and distribution costs		(52,714)	(54,358)	(78,479)
Administrative expenses		(74,464)	(75,357)	(94,844)
Other operating expenses		<u>(2,237)</u>	<u>(1,580)</u>	<u>(1,658)</u>
Profit from operating activities		154,923	192,291	147,563
Finance costs		<u>(10,465)</u>	<u>(15,090)</u>	<u>(18,557)</u>
Profit before tax		144,458	177,201	129,006
Tax	(b)	<u>(32,370)</u>	<u>(10,709)</u>	<u>(18,753)</u>
Net profit from ordinary activities attributable to shareholders		<u>112,088</u>	<u>166,492</u>	<u>110,253</u>
Dividends		<u>22,200</u>	<u>63,626</u>	<u>98,000</u>
Earnings per Share — basic	(c)	<u>23.4 cents</u>	<u>34.7 cents</u>	<u>23.0 cents</u>

Notes:—

(a) Turnover

The principal activities of the Group are the manufacture and sale of PCBs. Turnover represents the net invoiced value of goods sold net of discounts and returns.

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(b) Tax

Hong Kong profits tax has been provided at the rate of 16% for the three years ended 31 December, 2001 based on 50% of the Group's assessable profits arising in Hong Kong during these periods.

PRC corporate income tax is provided on the assessable profits generated by a foreign subsidiary of the Company in the PRC, namely Topsearch Shenzhen, at a rate of 15% for the three years ended 31 December, 2001. Topsearch Shenzhen was granted Export Enterprise status in 1999 and 2000 by the Shenzhen Economic Development Bureau (深圳市經濟發展局), and as such, the income tax rate applicable to Topsearch Shenzhen was reduced to 10% from the standard rate of 15% according to "Detailed Rules for the Implementation of the Income Tax Law of the People's Republic of China for Foreign Investment Enterprises and Foreign Enterprises" (中華人民共和國外商投資企業和外國企業所得稅法實施細則). The status must be certified every year based on a criterion that the export sales of Topsearch Shenzhen must exceed 70% of total sales in any particular year. The Group therefore provisionally paid tax to the PRC authority at the rate of 15% and applied for a refund of 5% once Topsearch Shenzhen has been certified to be eligible for the reduced tax rate of 10% as an Export Enterprise in the subsequent year. As at the Latest Practicable Date, the Group has obtained refund for income tax paid for the year ended 31 December, 1999 and such refund was only recognised in the year of receipt.

(c) Earnings per Share

The calculation of basic earnings per Share for each of the three years ended 31 December, 2001 is based on the profit attributable to shareholders for each of the respective periods, and on the assumption that the 480,000,000 Shares in issue and issuable, comprising 10,000,000 Shares in issue as at the date of this prospectus and 470,000,000 Shares to be issued pursuant to the Capitalisation Issue, as described under "Written resolutions of all the shareholders of the Company passed on 30 May, 2002" in Appendix IV to this prospectus as if all these Shares were outstanding throughout the entire relevant period.

For each of the three years ended 31 December, 2001, members of the Group declared a total dividend of approximately HK\$22.2 million, approximately HK\$63.6 million and approximately HK\$98.0 million, respectively. Payment of such dividends was and is expected to be financed by internal resources of the Group.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL INFORMATION AND RESULTS OF OPERATIONS

Overview

Turnover

The Group derives revenue from the manufacture and sale of double-sided and multi-layer PCBs to customers based in North America, South East Asia, the PRC, Hong Kong, Taiwan and Europe. Most of its customers are companies in the PC and PC-related, telecommunications equipment, office equipment and disk drive industries.

The Group recognises sales based on invoices after the products are delivered or services are rendered. Orders are secured through in-house marketing efforts and referrals from customers and business associates.

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Other Revenue and Gains

Other revenue consists of services income, interest income and other income. Other revenue constituted approximately 0.3%, approximately 0.7% and approximately 0.6% of the Group's turnover in each of the three years ended 31 December, 2001, respectively. Services income includes tooling charges, set-up fees and open/short testing fees.

Cost of Sales

The Group's cost of sales comprise mainly raw material costs, direct labour costs, and production overheads which include depreciation expenses. Raw material costs consist mainly of the costs of laminates, prepregs, solder masks, copper foils, wet film, dry film and a variety of chemicals. Material costs as a percentage of the Group's turnover was approximately 42.5%, approximately 43.1% and approximately 43.7% for each of the three years ended 31 December, 2001, respectively.

Production overheads include direct labour costs, depreciation expenses, water and electricity, spare parts consumed and consumable stores. Production overheads represented approximately 28.0%, approximately 29.4% and approximately 28.8% of the Group's turnover in each of the three years ended 31 December, 2001, respectively.

Operating Expenses

The Group's operating expenses comprise mainly, selling and distribution costs, administrative expenses, other operating expenses and finance costs.

Selling and distribution costs consist of distribution costs, travelling, participation in trade exhibitions, advertising, entertainment, and other marketing related expenses. Selling and distribution costs constituted approximately 5.5%, approximately 4.7% and approximately 6.8% of the Group's turnover in each of the three years ended 31 December, 2001, respectively.

Administrative expenses consist of salaries and allowances, depreciation, costs of telecommunications, printing, stationery, professional and legal fees, utilities and facilities-related expenses, and other miscellaneous expenses. Administrative expenses constituted approximately 7.8%, approximately 6.6% and approximately 8.3% of the Group's turnover in each of the three years ended 31 December, 2001, respectively.

Finance costs consist of interest paid on bank overdrafts, trust receipt loans, short and long term bank loans and obligations under finance leases. Finance costs constituted approximately 1.1%, approximately 1.3% and approximately 1.6% of the Group's total turnover in each of the three years ended 31 December, 2001, respectively.

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Other operating expenses consist of exchange loss, sample costs and research and development costs. Other operating expenses constituted approximately 0.2%, approximately 0.1% and approximately 0.1% of the Group's turnover in each of the three years ended 31 December, 2001, respectively.

Tax

The Group's operations in Hong Kong and the PRC are taxed in accordance with the prevailing tax regulations in the respective countries. The Group's tax charges consisted of Hong Kong profits tax and PRC income tax. Hong Kong profits tax has been provided at the rate of 16% based on 50% of the Group's assessable profits. With respect to the PRC income tax, Topsearch Shenzhen was granted Export Enterprise status in 1999 and 2000, and as such, the income tax rate applicable to Topsearch Shenzhen was reduced to 10% from the standard rate of 15%. The status must be certified every year based on a criterion that the export sales of Topsearch Shenzhen must exceed 70% of total sales in that year. The Group therefore had provisionally paid tax to the PRC authority at the rate of 15% and will apply for a refund of 5% once Topsearch Shenzhen is certified to be eligible for the reduced tax rate of 10% as an Export Enterprise in the subsequent year.

From 1 January, 2001, the Group is subject to value added tax in the PRC. Pursuant to the Implementing Rules of the Provisional Regulations of the People's Republic of China concerning Value Added Tax, value added tax is imposed on the entity or individual who engages in the sale of goods in the PRC, the provision of processing, repair and replacement services in the PRC and/or the importation of goods into the PRC. The rate of value added tax applicable to the Group is 17%. Value added tax is not payable on the importation of raw materials which are used in the production of goods for export out of the PRC. As all the products of the Group are for export, the Group is eligible for applying for refund of value added tax paid on local purchased raw materials for export production upon completion of export customs clearance. Based on the current applicable laws and regulations, the Directors consider that the Group is in a position to obtain full refund.

Provisions for tax on profits of subsidiaries and associate of the Group operating overseas, including Taiwan, the US, the UK, Thailand, Malaysia and Singapore, have been calculated at the applicable rates in the respective jurisdictions in which they operate, based on existing legislation, interpretations and practices in respect thereof. The Group has no dispute with the relevant tax authorities.

Inventory turnover days

Inventory turnover days for each of the three years ended 31 December, 2001 amounted to 29, 43 and 31 days, respectively. The inventory turnover days are based on the closing balances of inventory as at 31 December of, and the turnover for, the respective years.

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Debtors' turnover days

Debtors' turnover days for each of the three years ended 31 December, 2001 amounted to 67, 79 and 79 days, respectively. The debtors' turnover days are based on the closing balances of accounts receivable as at 31 December of, and the turnover for, the respective years.

Creditors' turnover days

Creditors' turnover days for each of the three years ended 31 December, 2001 amounted to 122, 153 and 124 days, respectively. The creditors' turnover days are based on the closing balances of accounts payable and accrued liabilities as at 31 December of, and the cost of goods sold for, the respective years.

For the year ended 31 December, 1999

The Group's turnover for the year ended 31 December, 1999 amounted to approximately HK\$953.8 million and can be classified as follows:—

Type of PCBs	Sales of PCBs <i>HK\$'000</i>	As percentage of total
Double-sided	174,645	18.3%
Four layers	645,625	67.7%
Six layers and above	133,496	14.0%
Total	953,766	100.0%

Location of customers	Sales of PCBs <i>HK\$'000</i>	As percentage of total
Taiwan	46,261	4.9%
North America	257,517	27.0%
South East Asia	421,166	44.2%
Europe	47,688	5.0%
The PRC and Hong Kong	181,134	18.9%
Total	953,766	100.0%

Note: The location of the customer is determined by the location of the entity placing the orders for purchase of the Group's products, regardless of the location of the holding company of such customer.

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Turnover

The Group's turnover in the year ended 31 December, 1999 amounted to approximately HK\$953.8 million. Turnover for double-sided PCBs amounted to approximately HK\$174.6 million. Turnover for multilayer PCBs amounted to approximately HK\$779.2 million, which accounted for approximately 81.7% of its turnover in the period. The total capacity of the Group was approximately 10.8 million sq.ft. in the year. During the period, the Group perused its strategy to move to higher layer-count products when it expanded its capacity.

During the period, turnover from the PRC and Hong Kong amounted to approximately HK\$181.1 million and constituted approximately 19% of the Group's total turnover, whilst turnover from North America amounted to approximately HK\$257.5 million and constituted approximately 27% of the Group's total turnover. Turnover from South East Asia amounted to approximately HK\$421.2 million for the year ended 31 December, 1999 and constituted approximately 44.2% of the Group's total turnover. Turnover from Europe amounted to approximately HK\$47.7 million and constituted approximately 5% of the Group's total turnover. Turnover from Taiwan amounted to approximately HK\$46.3 million and constituted approximately 4.9% of the Group's total turnover.

Cost of Sales

During the year ended 31 December, 1999, the Group's cost of sales of approximately HK\$672.6 million comprised mainly raw material costs, direct labour costs and production overhead including depreciation expenses.

Operating Expenses

Operating expenses comprised selling and distribution costs of approximately HK\$52.7 million, administrative expenses of approximately HK\$74.5 million, other operating expenses of approximately HK\$2.2 million and finance costs of approximately HK\$10.5 million.

Profit Margin

The Group recorded operating profit of approximately HK\$144.5 million for the year ended 31 December, 1999. The operating profit margin was approximately 15.1%.

Tax

The effective tax rate for the year ended 31 December, 1999 was approximately 22.4%. The relatively high effective tax rate for 1999 was due to a provision made of approximately HK\$15.7 million for Hong Kong profits tax from 1990 to 1998. At that time, the Group was in discussion with the Inland Revenue Department in Hong Kong with regard to calculation of the profits tax payable by the Group. Before the conclusion of the discussion, the Group made additional provision for the profits tax payable from 1990 to 1998. Subsequent to the examination on the Group's taxation affairs by

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the Inland Revenue Department, the Inland Revenue Department agreed that only 50% of the Group's profits were subject to Hong Kong profits tax. As a result of the finalisation of the taxation position of the Group for the period from 1990 to 1998, excessive tax provision made of approximately HK\$8.7 million for profits tax from 1990 to 1998 was written back in 2000.

During the year ended 31 December, 1999, prior year over provisions and a tax refund to Topsearch Shenzhen amounted to approximately HK\$2.5 million as it had complied with the relevant regulatory requirements (i.e. export sales greater than 70% of the total sales in 1997).

Inventory turnover days

Inventory turnover days for the year ended 31 December, 1999 amounted to 29 days.

Debtors' turnover days

Debtors' turnover days for the year ended 31 December, 1999 amounted to 67 days.

Creditors' turnover days

Creditors' turnover days for the year ended 31 December, 1999 amounted to 122 days.

For the year ended 31 December, 2000

The Group recorded turnover of approximately HK\$1,148.5 million for the year ended 31 December, 2000. Turnover can be classified as follows:—

Type of PCBs	Sales of PCBs <i>HK\$'000</i>	As percentage of total
Double-sided	179,582	15.6%
Four layers	829,869	72.3%
Six layers and above	139,078	12.1%
Total	1,148,529	100.0%

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Location of customers	Sales of PCBs <i>HK\$'000</i>	As percentage of total
Taiwan	41,458	3.6%
North America	320,061	27.9%
South East Asia	378,201	32.9%
Europe	86,234	7.5%
The PRC and Hong Kong	322,575	28.1%
Total	1,148,529	100.0%

Note: The location of the customer is determined by the location of the entity placing the orders for purchase of the Group's products, regardless of the location of the holding company of such customer.

Turnover

The Group's turnover for the year ended 31 December, 2000 increased by approximately 20.4% from the previous financial year to approximately HK\$1,148.5 million. Turnover for double-sided PCBs increased by approximately 2.8% from the previous financial year to approximately HK\$179.6 million. The restrained growth in double-sided PCBs was due to more production capacity being devoted to producing multilayer PCBs. Based on the Group's current product mix which concentrates on two to 14 layer PCBs as well as its existing facilities, the Group had a total annual production capacity of approximately 13.2 million sq.ft. for the year ended 31 December, 2000.

During the period, turnover for multilayer PCBs increased by approximately 24.4% to approximately HK\$968.9 million and constituted approximately 84.4% of the Group's total turnover. The increase was due to an increase in the Group's output capacity and an increase in multilayer sales to its major existing customers at that time.

Geographically, turnover from Hong Kong and the PRC increased by approximately 78.1%, as compared to the previous financial year, to approximately HK\$322.6 million and constituted approximately 28.1% of the Group's total turnover. Turnover from North America increased by approximately 24.3%, as compared to the previous financial year, to approximately HK\$320 million and constituted approximately 27.9% of the Group's total turnover mainly due to the marketing efforts of the Group's US marketing office. Turnover from South East Asia decreased by approximately 10.2%, as compared to the previous financial year, to approximately HK\$378.2 million and constituted approximately 32.9% of the Group's total turnover. Turnover from Europe increased by approximately 80.8%, as compared to the previous financial year, to approximately HK\$86.2 million and constituted approximately 7.5% of the Group's total turnover. Turnover from Taiwan decreased by approximately 10.4% as compared to the previous financial year to approximately HK\$41.5 million and constituted approximately 3.6% of the Group's total turnover. The increase in turnover mainly came from orders placed by a US multinational corporation and the Group's marketing efforts.

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Other Revenue and Gains

Other revenue and gains increased by approximately 165% from the previous financial year to approximately HK\$8.4 million which was mainly due to the increase in service income by approximately HK\$2.2 million generated from the provision of value-added services, such as tooling charges, set-up fees and open/short testing fees, to the Group's customers and due to the increase in interest income of approximately HK\$1 million.

Cost of Sales

During the year ended 31 December, 2000, the Group's cost of sales of approximately HK\$833.4 million comprised mainly raw material costs, direct labor costs and production overhead including depreciation expenses. Such production costs represented an increment of approximately 23.9% from the previous financial year and the increase was in line with the increase of volume of production.

Operating Expenses

Selling and distribution costs increased by approximately 3.1%, as compared to the previous financial year, to approximately HK\$54.4 million. As a percentage of turnover, the Group's selling and distribution costs decreased from approximately 5.5% in the year ended 31 December, 1999 to approximately 4.7% in the year ended 31 December, 2000, as a result of tougher control on sales commission and better arrangement of transportation to reduce freight charges. Sales commission is calculated on the basis of a commission rate and the sales made by the sales agents or representatives of the Group when the selling price is above the threshold price set by the Group's management, which varies among the different models of the Group's products and the different customers. During the year ended 31 December, 2000, prices for individual models of PCBs decreased. The Group successfully controlled the threshold prices so as to reduce the level of commission expenses. Furthermore, the Group successfully negotiated with its customers to fix shipment terms to "free-on-board". As a result, the Group did not have to bear transportation costs for transporting goods from Hong Kong to overseas.

Administrative expenses increased by approximately 1.2% from the previous financial year to approximately HK\$75.4 million, mainly as a result of (1) an increase of approximately HK\$3 million in depreciation charges over additional office equipment that was acquired for the development and upgrading of the computer system of the Group during the year; (2) an increase of approximately HK\$1.2 million in office rent and rate as a result of the expanded scale of operation of the Group; (3) an increase of approximately HK\$0.6 million in traveling expenses for trips made by staff; and (4) an increase in other miscellaneous expenses amounting to approximately HK\$1.0 million. During the same year, staff costs decreased by approximately HK\$4.9 million mainly due to decrease in staff bonus.

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Finance costs increased by approximately 44.2%, as compared to the previous financial year, to approximately HK\$15.1 million, which was mainly due to the increase in interest expenses on finance leases by approximately HK\$3.7 million as more finance leases of new machinery and equipment were incepted for the expansion of production capacity.

Other operating expenses decreased by approximately 29% from the previous financial year to approximately HK\$1.6 million because the Group exercised effective credit controls to reduce the provision for bad debts from approximately HK\$1.6 million in 1999 to approximately HK\$0.2 million in 2000.

Profit Margin

Operating profit for the year ended 31 December, 2000 increased by approximately 22.7%, as compared to prior financial year, to approximately HK\$177.2 million. This resulted mainly from increase in turnover as well as a continuous improvement in operating margin from approximately 15.1% for prior financial year to approximately 15.4% for the year ended 31 December, 2000. The improvement in operating margin was due mainly to the benefits from economies of scale, effective credit control and increase in income from the provision of value-added services to the Group's customers.

Tax

During the year ended 31 December, 2000, the field audit team of the Inland Revenue Department examined the Group's taxation affairs for the years ended 31 December, 1990 to 1999 (inclusive). Thereafter, the Inland Revenue Department agreed that 50% of the Group's assessable profits is taxable. The Group's tax charges for Hong Kong profit tax was computed following the same basis as agreed with the Inland Revenue Department during the field audit.

The Group's tax charges for Hong Kong profits tax was based on a tax rate of 16% of which 50% of its assessable profit is taxable. As for PRC tax, as the Export Enterprise status must be certified every year based on a criterion that the export sales of Topsearch Shenzhen must exceed 70% of total sales in that year, the Group had provisionally paid its tax at the rate of 15%. The Export Enterprises status for 2000 has been approved and the application for a refund of 5% for 2000 is currently in process.

The effective tax rate for the year ended 31 December, 2000 was approximately 6% as compared with approximately 22.4% in the previous financial year.

The lower effective tax rate for 2000 is due to a write back of overprovision of Hong Kong profits tax in previous years of approximately HK\$8.6 million and the refund of PRC income tax of approximately HK\$5.8 million, representing a tax refund for reinvestment of profits earned of approximately HK\$2.2 million and tax refund of approximately HK\$3.6 million as Topsearch Shenzhen had complied with the relevant regulatory requirements (i.e. export sales greater than 70% of the total sales in 1998 and 1999).

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The tax refund of HK\$2.2 million was received in respect of corporate income tax paid for profits earned from 1994 to 1996 being reinvested as capital of Topsearch Shenzhen.

Inventory turnover days

Inventory turnover days for the year ended 31 December, 2000 amounted to 43 days, representing an increase of 14 days from the previous financial year. This was mainly due to an increase in inventory balance at year end in order to keep up with the rapid growth of turnover in the fourth quarter of 2000.

Debtors' turnover days

Debtors' turnover days for the year ended 31 December, 2000 amounted to 79 days, representing an increase of 12 days from the previous financial year. This was mainly due to (1) rapid growth of turnover in the fourth quarter of 2000; and (2) credit period granted to certain large customers increased by 15 to 45 days.

Creditors' turnover days

Creditors' turnover days for the year ended 31 December, 2000 amounted to 153 days, representing an increase of 31 days from the previous financial year. This was mainly due to the increase in materials purchased in order to handle the rapid growth of turnover in the fourth quarter of 2000.

For the year ended 31 December, 2001

The Group's turnover for the year ended 31 December, 2001 amounted to approximately HK\$1,149 million and can be classified as follows:—

Type of PCBs	Sales of PCBs <i>HK\$'000</i>	As percentage of total
Double-sided	158,104	13.8%
Four layers	799,920	69.6%
Six layers and above	191,119	16.6%
Total	1,149,143	100.0%

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Location of customers	Sales of PCBs <i>HK\$'000</i>	As percentage of total
Taiwan	130,857	11.4%
North America	288,556	25.1%
South East Asia	366,877	31.9%
Europe	74,117	6.5%
The PRC and Hong Kong	288,736	25.1%
Total	<u><u>1,149,143</u></u>	<u><u>100%</u></u>

Note: The location of the customer is determined by the location of the entity placing the orders for purchase of the Group's products, regardless of the location of the holding company of such customer.

Turnover

The Group's turnover for the year ended 31 December, 2001 increased by approximately 0.05% from the previous financial year to approximately HK\$1,149.1 million. During the year, the Group successfully implemented the strategy to move to higher layer-count PCB products. Turnover for six layer and above PCBs increased by approximately 37.4% from the previous financial year to approximately HK\$191.1 million. Turnover for double-sided and four layer PCBs together decreased by approximately 5.1% from the previous year to approximately HK\$958.0 million. Based on the Group's current product mix which concentrates on two to 14 layer PCBs, as well as its existing facilities, the Group had a total annual production capacity of approximately 15.0 million sq.ft. for the year ended 31 December, 2001.

Geographically, turnover from Taiwan increased by approximately 215.6% from the previous financial year from approximately HK\$41.5 million to approximately HK\$130.9 million. Turnover from other parts of the world decreased by approximately 8.0% from the previous financial year from approximately HK\$1,107.1 million to approximately HK\$1,018.3 million.

Other Revenue and Gains

Other revenue and gains decreased by approximately 17.6% from the previous financial year from approximately HK\$8.4 million to approximately HK\$6.9 million, which was mainly due to decrease in interest income of approximately HK\$1.6 million. Such decrease in interest income was mainly due to a reduced cash balance as a result of the Group's investment in production facilities.

Cost of Sales

During the year ended 31 December, 2001, the Group's cost of sales increased slightly by approximately 0.02% from the previous financial year to approximately HK\$833.5 million, which was in line with the increase in production output during the year.

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Operating Expenses

Selling and distribution costs increased by approximately 44.4% from the previous financial year from approximately HK\$54.4 million to approximately HK\$78.5 million. The increase was mainly attributable to the increase in freight and insurance and claims made from customers. Freight and insurance charged by forwarders and airlines increased from approximately HK\$22.6 million in 2000 to approximately HK\$38.4 million in 2001, which was mainly due to (1) change of shipment terms for some customers (from “free-on-board” in Hong Kong to “cargo, freight and insurance” in the US), and (2) general increase of freight per kg in the fourth quarter of 2001. The increase of customers’ claim during the years was mainly due to (1) a special claim from a customer of approximately US\$381,000 due to changes in design of the board specification; and (2) general increase of approximately HK\$3.0 million of claims from customers due to tougher requirements from customers.

Administrative expenses increased by approximately 25.9% from the previous financial year from approximately HK\$75.4 million to approximately HK\$94.8 million. The increase was mainly due to increase in staff cost, depreciation and travelling. The increase in staff costs, from approximately HK\$36.9 million in 2000 to approximately HK\$47.6 million in 2001, and travelling costs, from approximately HK\$3.6 million in 2000 to approximately HK\$4.7 million in 2001, was mainly caused by the enlarged marketing force and the enhanced marketing efforts. The increase in depreciation of approximately HK\$2.5 million was mainly due to continuous improvements of the computing and communication systems of the Group.

Financial costs increased by approximately 23.0% from the previous financial year from approximately HK\$15.1 million to HK\$18.6 million, which was mainly due to the increase in interest expenses on finance leases by approximately HK\$3.3 million as more finance leases of new machinery and equipment were incepted for the expansion of production capacity.

Profit Margin

Operating profit for the year ended 31 December, 2001 decreased by approximately 27.2% from the previous financial year from approximately HK\$177.2 million to HK\$129.0 million. This was mainly resulted from the decrease in the average prices of four-layer PCBs by approximately 5%, the decrease in the average prices of PCBs of six layers or above by approximately 3% and the increase in operating expenses.

Tax

The effective tax rate for the year ended 31 December, 2001 was approximately 14.5% as compared to approximately 6% in the previous financial year.

After excluding the under/over provision for prior years in 1999 and 2000, the effective tax rates of the Group for the three years ended 31 December, 2001 are comparable.

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Inventory turnover days

Inventory turnover days for the year ended 31 December, 2001 amounted to 31 days, representing a decrease of 12 days from the previous financial year. This was mainly due to a decrease in inventory balance at year end which is in line with the decrease in turnover in the fourth quarter of 2001.

Debtors' turnover days

Debtors' turnover days for the year ended 31 December, 2001 amounted to 79 days, which was similar to that of the previous financial year.

Creditors' turnover days

Creditors' turnover days for year ended 31 December, 2001 amounted to 124 days, representing a decrease of 29 days from the previous financial year. This was mainly due to a decrease in materials purchased which is in line with the decrease in turnover in the fourth quarter of 2001.

NON-INCLUSION OF PROFIT FORECAST

Based on the Group's unaudited management accounts for the four months ended 30 April, 2002, the Group recorded a turnover of approximately HK\$346 million and profit after tax of approximately HK\$33 million, representing a decrease of approximately 6.4% and approximately 8.2%, respectively, as compared to the same period in the previous financial year. Both the turnover and profit after tax were derived from the manufacture and sale of PCB products. In addition, based on the Group's unaudited management accounts for the four months ended 30 April, 2002 and record of orders on hand, for the period from 1 January, 2002 to the Latest Practicable Date, sales made and orders on hand to be delivered, in aggregate, amounted to approximately HK\$540 million.

The production level of the Group increased by approximately 11% during the four months ended 30 April, 2002 as compared to same period in the previous financial year. Turnover of the Group for the four months ended 30 April, 2002 decreased mainly due to decrease in average selling price by approximately 16%. The unit cost of materials for the four months ended 30 April, 2002 decreased by approximately 27% as compared to the same period in the previous financial year. Although the Group placed continuous efforts in keeping a high capacity utilisation rate and in controlling administration expenses, the increase in depreciation by approximately 15% and labour costs by approximately 19% resulted in a decrease of net profit after tax for the four months ended 30 April, 2002, as compared to same period in the previous financial year.

The Directors and the Sponsor do not consider there to be an adequate and reliable basis upon which a profit forecast can be prepared with the level of accuracy required for inclusion in this prospectus because: (i) the Group's unaudited management accounts are made up only to 30 April, 2002; (ii) it is difficult to estimate the sales for the current year which are subject to, among other

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factors, probable fluctuations in the selling price and quantity of the Group's products sold, the prevailing market conditions and competition in the industry; and (iii) probable fluctuation in the cost of raw materials which may influence profit margin of the Group. Accordingly, the Directors have not included a profit forecast for the year ending 31 December, 2002 in this prospectus. Investors should be aware that there is no assurance that the Group will maintain its historical revenue or profitability and that the historical results of the Group should not, therefore, be used as an indication of its future performance.

FOREIGN EXCHANGE MANAGEMENT

Sales of the Group's products are principally denominated in the US dollar. The percentage of total sales and purchases denominated in the major foreign currencies during each of the three years ended 31 December, 2001 are as follows:—

Sales

	For year ended 31 December,		
	1999	2000	2001
	%	%	%
US\$	99	100	99
HK\$	—	—	1
NT\$	1	—	—
	<hr/>	<hr/>	<hr/>
Total	100	100	100
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

Purchases

	For year ended 31 December,		
	1999	2000	2001
	%	%	%
US\$	63	67	51
HK\$	34	29	38
RMB	3	4	11
	<hr/>	<hr/>	<hr/>
Total	100	100	100
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

Currently, the Group does not have a foreign currency hedging policy as its foreign exchange gains and losses over the past three years have been relatively low. The Directors will continue to monitor foreign exchange exposure in the future and will consider hedging any material foreign exchange exposure to minimise foreign exchange risks should the need arise. For each of the three years ended 31 December, 2001, the net exchange loss of the Group amounted to approximately HK\$0.7 million, approximately HK\$1.6 million and approximately HK\$1.1 million, respectively.

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WORKING CAPITAL

The Directors are of the opinion that after taking into account cash balances of the Group, the expected internally generated funds, and the estimated net proceeds from the New Issue, the Group has sufficient working capital for its present requirements.

ADJUSTED NET TANGIBLE ASSETS

The following statement of adjusted net tangible assets of the Group is based on the audited net tangible assets of the Group as at 31 December, 2001 as shown in the accountants' report, the text of which is set forth in Appendix I to this prospectus, and adjusted as described below:—

	<i>HK\$'000</i>
Audited net tangible assets of the Group as at 31 December, 2001	513,071
Unaudited profit after tax of the Group for the four months ended 30 April, 2002, based on its unaudited management accounts (<i>Note 1</i>)	32,959
Surplus arising on the revaluation of the Group's property interests as at 30 April, 2002 (<i>Note 2</i>)	19,739
Dividend declared for the year ended 31 December, 2001	(98,000)
Estimated net proceeds from the New Issue (<i>Note 3</i>)	200,000
Adjusted net tangible assets	<u>667,769</u>
Adjusted net tangible asset value per Share (based on 640,000,000 Shares in issue and to be issued as mentioned herein) (<i>Note 4</i>)	<u>HK\$1.04</u>

Notes:—

1. For the four months ended 30 April, 2002, the Group recorded unaudited results with a turnover of approximately HK\$346 million and a profit attributable to shareholders of approximately HK\$33 million, respectively.
2. The surplus arising on the revaluation of the Group's property interests, accounting for approximately 3.0% of the adjusted tangible assets value of the Group (based on the estimated net proceeds from the New Issue), will be incorporated into the Group's financial statements for the year ending 31 December, 2002. The annual depreciation charges will be increased by approximately HK\$226,000 following the incorporation of the revaluation surplus. A copy of the valuation report is set forth in Appendix II to this prospectus.
3. The estimated net proceeds from the New Issue takes no account of any Shares which may be issued upon the exercise of the Over-allotment Option and any options which may be granted under the Share Option Scheme. If the Over-allotment Option is exercised in full, the estimated net proceeds from the New Issue will be approximately HK\$232.3 million based on the Offer Price.

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4. The adjusted net tangible asset value per Share is arrived at after the adjustment referred to in this section and on the basis of 640,000,000 Shares in issue and to be issued under the New Issue and the Capitalisation Issue but takes no account of any Shares which may be allotted and issued upon the exercise of the Over-allotment Option or any options which may be granted under the Share Option Scheme or which may be allotted and issued or repurchased by the Company pursuant to the general mandates for the allotment and issue or repurchase of Shares described under “Written resolutions of all the shareholders of the Company passed on 30 May, 2002” in Appendix IV to this prospectus.

PROPERTY INTERESTS

The Group owns various units in two industrial buildings situated at Shekou, Shenzhen in the PRC for production workshop, warehouse and ancillary office use with a total apportioned site area and gross floor area of approximately 13,108.70 sq.m. and approximately 38,702.05 sq.m. respectively. The Group also owns a plot of land adjacent to the said industrial buildings for construction of additional production facilities.

Moreover, the Group has rented properties in Shenzhen for workshop or warehouse uses and dormitory use.

In Hong Kong, the Group has rented Units 3301-3308 and 3318 on the 33rd floor of China Merchants Tower as its head office. The Group has also rented three warehouse units in Kwai Chung and a house in Southern District of Hong Kong Island as Director’s quarters.

In addition, the Group has rented properties in Shanghai, Taiwan, Singapore, Malaysia, Thailand, UK and USA as sales offices.

Particulars of these properties are set forth in Appendix II to this prospectus.

DTZ Debenham Tie Leung Limited, an independent property valuer, has valued the Group’s properties at HK\$120.1 million as at 30 April, 2002. The text of a letter, a summary of the valuations and an extract of the valuation certificate from DTZ Debenham Tie Leung Limited are set forth in Appendix II to this prospectus. The letter, summary of valuations and full text of the valuation certificate are available from inspection as referred to under the section headed “Documents available for inspection” in Appendix V to this prospectus.

DIVIDEND POLICY

During each of the three years ended 31 December, 2001, members of the Group declared dividends of approximately HK\$22.2 million, approximately HK\$63.6 million and approximately HK\$98.0 million respectively. Such dividend should not be regarded as an indication of the dividend policy to be adopted by the Company following the listing of the Shares on the Main Board. The declaration of any future dividends and the amount of such dividends will be subject to the discretion of the Directors and will depend on, among other things, the profitability of the Group, its financial condition, cash requirements and availability and such other factors as the Directors may consider relevant.

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DISCLOSURE UNDER PRACTICE NOTE 19 OF THE LISTING RULES

The Directors have confirmed that as at the Latest Practicable Date, they were not aware of any circumstances which would give rise to a disclosure requirement under Practice Note 19 of the Listing Rules.

DISTRIBUTABLE RESERVES

The Company was incorporated in Bermuda on 12 May, 1998. There was no reserve available for distribution to shareholders of the Company as at 31 December, 2001 (being the date to which the latest audited financial statements of the Group were made up).

NO MATERIAL ADVERSE CHANGE

The Directors confirm that there has been no material adverse change in the financial or trading position or prospects of the Company or its subsidiaries since 31 December, 2001 (being the date to which the latest audited financial statements of the Group were made up).