

The following is the text of a report, prepared for the purpose of incorporating in this prospectus, received from the auditors and reporting accountants of the Company, Ernst & Young, Certified Public Accountants, Hong Kong.



15th Floor
Hutchison House
10 Harcourt Road
Central
Hong Kong

11 June, 2002

The Directors
Topsearch International (Holdings) Limited
DBS Asia Capital Limited

Dear Sirs,

We set out below our report on the financial information regarding Topsearch International (Holdings) Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”), prepared on the basis set forth in Section 1 below, for inclusion in the prospectus of the Company dated 11 June, 2002 (the “Prospectus”).

The Company was incorporated as an exempted company with limited liability in Bermuda on 12 May, 1998 under the Companies Act 1981 of Bermuda (as amended) for the purpose of acting as a holding company of the subsidiaries (the “Subsidiaries”) set out in Section 1 below. The Company has not carried on any business since the date of its incorporation, save for the acquisition on 29 May, 2002 of the entire issued share capital of Topsearch Industries (BVI) Limited (“Topsearch Industries (BVI)”), a company incorporated in the British Virgin Islands, which is, at the date of this report, the intermediate holding company of other subsidiaries set out in Section 1 below.

All of the companies comprising the Group have adopted 31 December as their financial year end for statutory reporting purposes.

As at the date of this report, no audited financial statements have been prepared for the Company, Topsearch Industries (BVI), Topsearch Marketing (USA) Inc. (“Topsearch USA”) and Topsearch Marketing (Taiwan) Limited (“Topsearch Taiwan”) because there is no statutory requirement to prepare such audited financial statements. We have, however, performed our own independent review on the management accounts of these companies since the dates of their incorporation and carried out such procedures as we considered necessary for inclusion of financial information relating to these companies in this report.

We have examined the audited financial statements or, where appropriate, management accounts of all the other subsidiaries of the Company for each of the periods referred to in this report (the "Relevant Periods"), or from their respective dates of incorporation or acquisition where this is a shorter period, in accordance with the Auditing Guideline "Prospectuses and the Reporting Accountant" issued by the Hong Kong Society of Accountants.

We have acted as auditors of all of the companies now comprising the Group for the Relevant Periods except for the following:

Company name	Financial period	Auditors
Topsearch Printed Circuits (Shenzhen) Ltd. ("Topsearch Shenzhen")	Two years ended 31 December, 2000	Zhong Tian Qian Certified Public Accountants, Peoples' Republic of China ("PRC")
	Year ended 31 December, 2001	Ernst & Young Hua Ming Certified Public Accountants, PRC*
Topsearch Marketing (S) Pte Ltd. ("Topsearch Singapore")	Three years ended 31 December, 2001	MGI Chan-Ma & Co., Singapore
Topsearch Marketing (U.K.) Limited ("Topsearch UK")	Three years ended 31 December, 2001	William Hinton, United Kingdom
TPS Marketing (M) Sdn. Bhd. ("Topsearch Malaysia")	Three years ended 31 December, 2001	Sam Ah Chow & Co., Malaysia
Topsearch PCB Marketing (Thailand) Co., Ltd ("Topsearch Thailand")	Three years ended 31 December, 2001	Mrs. Songsri Suwanprasop, Thailand

* *Member firm of Ernst & Young*

The statutory financial statements for the three years ended 31 December, 2001 of the Company's subsidiary established in the PRC were prepared in accordance with the applicable relevant PRC accounting principles and financial regulations. For the purpose of preparation of the consolidated financial statements of Topsearch Industries (Holdings) Limited ("Topsearch Industries") for the years ended 31 December, 1999 and 2000, we have undertaken an independent audit of the financial statements of Topsearch Shenzhen for the years ended 31 December, 1999 and 2000 prepared in accordance with accounting principles generally accepted in Hong Kong. For the purpose of preparation of the consolidated financial statements of Topsearch Industries for the year ended 31 December, 2001, we have performed additional audit procedures on the financial statements of Topsearch Shenzhen for the year ended 31 December, 2001 for the purpose of determining any adjustments necessary to comply with accounting principles generally accepted in Hong Kong.

For Topsearch Singapore, Topsearch UK, Topsearch Malaysia, Topsearch USA, Topsearch Taiwan and Topsearch Thailand, which were not consolidated and not audited by us for each of the two years ended 31 December, 2000, we have performed a review and are satisfied that these subsidiaries and associate are either dormant or their operating results and net assets are not significant to the Group for inclusion in the Prospectus.

The summaries of the combined results, movements in equity and cash flows of the Group for the Relevant Periods, and of the combined balance sheets of the Group as at 31 December, 1999, 2000 and 2001 (the "Summaries") set out in this report have been prepared from the audited financial statements or, where appropriate, management accounts of the companies now comprising the Group and are presented on the basis set out in Section 1 below.

The directors of the Company are responsible for the Summaries. It is our responsibility to form an independent opinion on the Summaries.

In our opinion, the Summaries together with the notes thereon give, for the purpose of this report, a true and fair view of the combined results and the cash flows of the Group for each of the Relevant Periods and of the combined balance sheets of the Group as at 31 December, 1999, 2000 and 2001.

1. BASIS OF PRESENTATION

The Summaries, which are based on the audited financial statements and management accounts of the companies now comprising the Group, include the results, balance sheets, movements in equity and cash flows of the companies now comprising the Group as if the current Group structure had been in existence throughout the Relevant Periods, or since the respective dates of their incorporation where this is a shorter period except for certain overseas subsidiaries and associate have not been consolidated or equity accounted for, for the two years ended 31 December, 1999 and 2000 as the directors considered that their results and assets/liabilities were not significant to the Group. All material intra-group transactions and balances have been eliminated on combination.

At the date of this report, the Company had direct or indirect interests in the following subsidiaries and associate, all of which are private companies (or, if incorporated or registered outside Hong Kong, have substantially similar characteristics to a private company incorporated in Hong Kong), the particulars of which are set out below:

Company name	Place and date of incorporation/ registration	Issued and fully paid-up share/ registered capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
<i>Subsidiaries</i>					
Topsearch Industries (BVI) Limited	British Virgin Islands 16 October, 1997	Ordinary US\$50,000	100	—	Investment holding

Company name	Place and date of incorporation/ registration	Issued and fully paid-up share/ registered capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Topsearch Industries (Holdings) Limited	Hong Kong 30 August, 1984	Ordinary HK\$1,000 Deferred non-voting* HK\$20,000,000	—	100	Investment holding
Topsearch Printed Circuits (HK) Limited	Hong Kong 9 June, 1987	Ordinary HK\$10,000,000	—	100	Investment holding and sale of printed circuit boards
Topsearch Printed Circuits (Shenzhen) Ltd.	PRC 25 September, 1987	Paid-up US\$20,000,000	—	100	Manufacturing of printed circuit boards
Topsearch Marketing (S) Pte Ltd	Singapore 6 August, 1994	Ordinary S\$1,000	—	100	Provision of marketing services
Topsearch Marketing (U.K.) Limited	United Kingdom 10 July, 1997	Ordinary UK£2	—	100	Provision of marketing services
TPS Marketing (M) Sdn. Bhd.	Malaysia 23 July, 1997	Ordinary RM2	—	100	Provision of marketing services
Topsearch Marketing (USA) Inc.	USA 28 August, 1998	Ordinary US\$1,000	—	100	Provision of marketing services
Topsearch Marketing (Taiwan) Limited	Taiwan 24 December, 1998	Ordinary NT1,000,000	—	100	Provision of marketing Services
<i>Associate</i>					
Topsearch PCB Marketing (Thailand) Co., Ltd.	Thailand 27 May, 1998	Ordinary Baht1,000,000	—	49	Provision of marketing services

* *The non-voting deferred shares carry no rights to dividends, no rights to attend or vote at general meetings and no rights to receive any surplus assets in a return of capital in a winding up unless a sum of HK\$500,000,000,000,000 has been distributed to each holder of the ordinary shares.*

2. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted by the Group in arriving at the financial information set out in this report, which conform with accounting principles generally accepted in Hong Kong, are as follows:

(a) Subsidiaries

A subsidiary is a company whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities. The Company's interests in subsidiaries are stated at cost less any impairment losses.

(b) Associates

An associate is a company, not being a subsidiary or a jointly-controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's share of the post-acquisition results of the associate was not equity accounted for by the Group because the amounts were not significant.

The results of associates are included in the Company's profit and loss account to the extent of dividends received and receivable. The Company's interests in associates are treated as long term assets and are stated at cost less any impairment losses.

(c) Impairment of assets

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

(d) Negative goodwill

Negative goodwill arising on the acquisition of subsidiaries, associates and jointly-controlled entities represents the excess of the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition, over the cost of the acquisition.

For acquisitions prior to 1 January, 2001, negative goodwill was credited to the capital reserve in the year of the acquisition. The Group has taken the advantage of transitional provision 1(a) in Statements of Standard Accounting Practice No. 30 "Business Combinations" and such goodwill has not been restated. There was no negative goodwill arising since 1 January, 2001.

On disposal of subsidiaries, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of negative goodwill which has not been recognised in the profit and loss account and any relevant reserves as appropriate. Any attributable negative goodwill previously credited to the capital reserve at the time of acquisition is written back and included in the calculation of the gain or loss on disposal.

(e) Leased assets

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and is recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in fixed assets and are depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the profit and loss account so as to provide a constant periodic rate of charge over the lease terms.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. The rentals applicable to such operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

(f) Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to 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 or common significant influence. Related parties may be individuals or corporate entities.

(g) Fixed assets and depreciation

Fixed assets are stated at cost less accumulated depreciation and any impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of the asset.

Depreciation is provided using the straight-line basis to write off the cost of each asset over its estimated useful life. The principal rates used for this purpose are as follows:

Land and buildings	Over the lease terms
Leasehold improvements	Over the lease terms
Plant and machinery	9% per annum
Plant and machinery under finance leases	9% per annum
Furniture, fixtures and equipment	18% per annum
Motor vehicles	18% per annum
Moulds, dies, test fixtures and pins	25% per month

The gain or loss on disposal or retirement of a fixed asset recognised in the profit and loss account is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents a building under construction and is stated at cost less any impairment losses, and is not depreciated. Cost comprises direct costs of construction and interest charges on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of fixed assets when completed and ready for use.

(h) Inventories

Inventories are stated at the lower of cost or net realisable value.

Raw materials are valued on a weighted average basis. Work in progress and finished goods are valued at standard cost which approximates actual cost and comprises materials, direct labour and an appropriate proportion of manufacturing overheads.

Net realisable value is based on the estimated selling price less further costs expected to be incurred to completion and disposal.

(i) Revenue recognition

Revenue from the sale of goods is recognised when the Group has transferred to the buyer the significant risks and rewards of ownership of the goods.

Tooling income is recognised when the relevant services are rendered.

Interest income is recognised on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable.

(j) Deferred tax

Deferred tax is provided, using the liability method, on all significant timing differences to the extent it is probable that the liability will crystallise in the foreseeable future. A deferred tax asset is not recognised until its realisation is assured beyond reasonable doubt.

(k) Foreign currencies

Foreign currency transactions are recorded at the applicable rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable market rates of exchange ruling at that date. Exchange differences are dealt with in the profit and loss account.

On combination, the financial statements of overseas subsidiaries are translated into Hong Kong dollars at the applicable rates of exchange ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

(l) Cash equivalents

For the purpose of the combined cash flow statement, cash equivalents represent short term highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from banks repayable within three months from the date of the advance. For the purpose of balance sheet classification, cash equivalents represent assets similar in nature to cash, which are not restricted as to use.

(m) Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the shareholders' equity section of the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

(n) Retirement scheme

Retirement benefits are provided to all staff employed by the Group. In accordance with the Mandatory Provident Fund Schemes Ordinance and the Occupational Retirement Schemes Ordinance ("ORSO"), the Group's Hong Kong employees enjoy retirement benefits under either the Mandatory Provident Fund Scheme (with effect from 1 December, 2000) or the Mandatory Provident Fund Exempted ORSO Scheme under which employer voluntary contributions have to be made. The assets of both schemes are held separately from those of the Group in independently administered funds. The Group's contributions to both schemes are based on a percentage of the employees' monthly salaries. When an employee leaves the Mandatory Provident Fund Exempted ORSO scheme prior to his/her interest in the Group's employer contributions vesting fully, the ongoing contributions payable by the Group may be reduced by the relevant amount of forfeited contributions. In respect of the Mandatory Provident Fund retirement benefits scheme, the Group's employer contributions vest fully with the employees when contributed into the scheme.

Prior to 1 December, 2000, the Group operated a retirement scheme (that is the predecessor of the Mandatory Provident Fund Exempted ORSO Scheme) which had been administered by independent trustees for employees of the Group's subsidiaries in Hong Kong. Employer and employee contributions were based on a percentage of the employees' monthly basic salaries. Under the terms of the scheme, the Group was not required to make additional payments over and above the annual contributions referred to above. Forfeited contributions (in respect of employees who left the scheme prior to their interests in employer contributions vesting fully) could be used to reduce the amount of employer contributions. However, such amounts utilised during the Relevant Periods for this purpose and available at the respective balance sheet dates for subsequent utilisation were not significant.

Employees of the subsidiary in Mainland China are members of the Central Pension Scheme operated by the Chinese government. The subsidiary is required to contribute a certain percentage of their covered payroll to the Central Pension Scheme to fund the benefits. The only obligation for the Group with respect to the Central Pension Scheme is to make the required contributions, which are charged to the profit and loss account in the year to which they relate.

3. COMBINED RESULTS

The following is a summary of the combined results of the Group for the Relevant Periods, prepared on the basis set out in Section 1 above:

	<i>Notes</i>	1999 <i>HK\$'000</i>	2000 <i>HK\$'000</i>	2001 <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	(b)	154,923	192,291	147,563
Finance costs	(c)	<u>(10,465)</u>	<u>(15,090)</u>	<u>(18,557)</u>
Profit before tax		144,458	177,201	129,006
Tax	(e)	<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	(f)	<u>22,200</u>	<u>63,626</u>	<u>98,000</u>
Earnings per Share (HK\$)	(g)			
Basic, cents		<u>23.4</u>	<u>34.7</u>	<u>23.0</u>

(a) Turnover

Turnover represents the net invoiced value of goods sold net of discounts and returns.

The Group's principal activity during the Relevant Periods was the manufacture and sale of printed circuit boards with production facilities in Guangdong Province, the PRC. Accordingly, no analysis of the Group's turnover by principal activities, the business segment, is provided.

The turnover of the Group by geographical area is analysed as follows:

	1999	2000	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Taiwan	46,261	41,458	130,857
North America	257,517	320,061	288,556
South East Asia	421,166	378,201	366,877
Europe	47,688	86,234	74,117
The PRC, including Hong Kong	181,134	322,575	288,736
	<u>953,766</u>	<u>1,148,529</u>	<u>1,149,143</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.

(b) Profit from operating activities

Profit from operating activities is arrived at after charging/(crediting):

	1999	2000	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Depreciation:			
Owned fixed assets	51,689	68,830	76,697
Leased fixed assets	10,252	14,752	22,174
	<u>61,941</u>	<u>83,582</u>	<u>98,871</u>
Minimum lease payments under operating leases on land and buildings	7,926	7,854	10,406
Auditors' remuneration	776	1,154	983
Staff costs, excluding directors' remuneration (<i>note d</i>):			
Wages and salaries	104,390	105,863	132,855
Retirement scheme contributions	5,202	6,222	9,409
	<u>109,592</u>	<u>112,085</u>	<u>142,264</u>
Exchange losses-net	668	1,560	1,110
Provision made/(write-back) for inventory obsolescence	3,742	3,129	(4,000)
Provision for doubtful debts	1,523	161	—
Write-off of bad debts	353	34	—
Loss on disposal of fixed assets	91	20	2,774
Interest income	(880)	(1,822)	(317)
	<u>(880)</u>	<u>(1,822)</u>	<u>(317)</u>

Note: The contribution to profit from operating activities by geographical area is substantially in line with the overall rate of contribution to turnover and accordingly a geographical analysis of contribution pursuant to Listing Rules requirements is not presented.

(c) Finance costs

	1999 <i>HK\$'000</i>	2000 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Interest expense on:			
Bank loans and overdrafts wholly repayable within five years	4,347	5,769	5,831
Bank loans repayable beyond five years	1,273	819	935
Finance leases	4,845	8,502	11,791
	<u>10,465</u>	<u>15,090</u>	<u>18,557</u>

(d) Directors' and senior executives' emoluments

Details of the directors' remuneration are as follows:

	1999 <i>HK\$'000</i>	2000 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Fees:	—	—	—
Other emoluments:			
Basic salaries, other allowances and benefits in kind	4,912	7,539	8,200
Retirement scheme contributions	439	477	756
	<u>5,351</u>	<u>8,016</u>	<u>8,956</u>

Rental expenses amounting to HK\$1,380,000 (2000: HK\$1,380,000; 1999: HK\$1,245,000) in respect of a director's accommodation have been included in directors' other emoluments.

The number of directors whose remuneration fell within the following bands is as follows:

	1999 Number	2000 Number	2001 Number
Nil - HK\$1,000,000	2	—	1
HK\$1,000,001 - HK\$1,500,000	1	2	2
HK\$1,500,001 - HK\$2,000,000	—	1	—
HK\$2,500,001 - HK\$3,000,000	1	—	—
HK\$3,500,001 - HK\$4,000,000	—	1	—
HK\$5,000,001 - HK\$5,500,000	—	—	1
	<u>4</u>	<u>4</u>	<u>4</u>

The five highest individuals in the Group included four directors during the Relevant Periods. Information relating to the emoluments of these directors has been disclosed above. The details of the emoluments of the remaining one highest paid, non-director individual during the Relevant Periods are set out below and the emoluments fell within the following band:

	1999 <i>HK\$'000</i>	2000 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Basic salaries, other allowances and benefits in kind	962	1,156	1,050
Retirement scheme contributions	72	82	90
	<u>1,034</u>	<u>1,238</u>	<u>1,140</u>
	1999 Number	2000 Number	2001 Number
HK\$1,000,001 - HK\$1,500,000	<u>1</u>	<u>1</u>	<u>1</u>

During the Relevant Periods, no emoluments were paid by the Group to the directors or any of the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office. No director has waived or agreed to waive any emoluments during the Relevant Periods.

(e) **Tax**

Hong Kong profits tax has been provided at the rate of 16% on the estimated assessable profits arising in Hong Kong in respect of the Relevant Periods.

Corporate income tax is also provided on the assessable profits generated by a subsidiary in Shekou, the PRC, at a rate of 15% during the Relevant Periods.

Deferred tax has been provided using the liability method at 16% on timing differences between taxable profits and profits reported in the financial statements during the Relevant Periods.

	1999	2000	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Hong Kong:			
Current	12,168	4,700	4,200
Under/(Over) provision in prior years	15,729	(8,668)	(155)
Deferred tax - Section 4k	(320)	11,412	4,900
PRC other than Hong Kong:			
Current	7,253	9,080	8,900
Under provision in prior years	—	—	908
Refund for reinvestment of profits earned	—	(2,244)	—
Refund of 5% corporate income tax	(2,460)	(3,571)	—
Tax charge for the year	<u>32,370</u>	<u>10,709</u>	<u>18,753</u>

(f) **Dividends**

No dividend has been paid or declared by the Company since the date of its incorporation. The dividends paid or proposed by the members of the Group to their then shareholders during each of the Relevant Periods are as follows:

	1999	2000	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Topsearch Industries (Holdings) Limited			
— Interim	22,200	63,626	—
— Proposed final	—	—	98,000
Topsearch Printed Circuits (HK) Limited			
— Interim	22,200	65,626	100,000
Topsearch Printed Circuits (Shenzhen) Ltd.			
— Interim	22,200	21,000	39,000
	66,600	150,252	237,000
Less: Elimination of dividends from intra-group companies	(44,400)	(86,626)	(139,000)
	<u>22,200</u>	<u>63,626</u>	<u>98,000</u>

The dividend rates and the number of shares ranking for dividends are not presented as such information is not meaningful for the purpose of this report.

(g) Earnings per share

The calculation of earnings per share for each of the Relevant Periods is based on the net profit from ordinary activities attributable to shareholders for each of the respective periods and on the assumption that 480,000,000 shares were in issue, comprising the 10,000,000 shares in issue at the date of the Prospectus and the 470,000,000 shares to be issued pursuant to the Capitalisation Issue, as disclosed more fully in the paragraph headed "Further information about the Company" in Appendix IV to the Prospectus.

(h) Related party transactions

Other than disclosed in Sections 4d and 4j in the accountants' report, during the Relevant Periods, the Group entered into the following material transactions with related companies, subsidiaries not consolidated and associate as set out below:

	<i>Notes</i>	1999 <i>HK\$'000</i>	2000 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Rentals paid to:				
Vintop Property Limited ("Vintop")	<i>(i)</i>	210	—	—
Keentop Investment Limited ("Keentop")	<i>(ii)</i>	<u>1,035</u>	<u>1,380</u>	<u>1,380</u>
Service fee paid to:				
Subsidiaries not consolidated	<i>(iii)</i>	9,306	10,821	—
An associate		<u>1,179</u>	<u>978</u>	<u>886</u>
Sales of products to:				
Topsearch Citilite Limited ("Topsearch Citilite")	<i>(iv)</i>	<u>494</u>	<u>68</u>	<u>946</u>

- (i) The rental expense paid to Vintop, which was beneficially owned by Mr. Cheok Ho Fung, a director of the Company, related to a property leased as his residence. The rental was charged at HK\$70,000 per month from 1 January to 31 March 1999.
- (ii) The rental expense paid to Keentop, which was beneficially owned by the director mentioned above, related to the property leased as his residence. The rental was charged at HK\$115,000 per month from April 1999 to December 2001 pursuant to a tenancy agreement entered into between both parties. Prior to the listing, Topsearch Printed Circuits (HK) Limited ("Topsearch HK") will surrender its rights and interests under the existing tenancy agreement and simultaneously execute a new tenancy agreement with Keentop for a term of three years with an option to renew for a further term of three years.
- (iii) The service fee was paid to overseas subsidiaries not consolidated and an associate by Topsearch HK, for marketing services rendered overseas. The service fee was primarily to reimburse the operating expenses incurred by them. There was no service fee disclosed for the subsidiaries not consolidated for the year ended 31 December, 2001 as all of these subsidiaries had then been consolidated.
- (iv) The sales to Topsearch Citilite, a company jointly owned by Mr. Cheok and Inni International Inc., a substantial shareholder of the Company, were made on the same terms and conditions as the Group sold its products to independent third parties.

The Company's directors have confirmed that all the related party transactions were conducted in the ordinary course of business and except for the tenancy agreement with Vintop, all other related party transactions will continue after the listing of the shares of the Company on The Stock Exchange of Hong Kong Limited.

4. COMBINED BALANCE SHEETS

The following is a summary of the combined balance sheets of the Group as at the end of each of the Relevant Periods, prepared on the basis set out in Section 1 above:

	<i>Notes</i>	1999 <i>HK\$'000</i>	2000 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
NON-CURRENT ASSETS				
Fixed assets	(a)	354,882	580,236	703,506
Investment in subsidiaries not consolidated		253	253	—
Interest in an associate	(b)	100	100	287
Rental and utility deposits		2,325	2,935	3,240
Prepaid rental-long term portion		2,347	2,173	1,998
		<u>359,907</u>	<u>585,697</u>	<u>709,031</u>
CURRENT ASSETS				
Inventories	(c)	75,955	136,090	96,001
Prepayments, deposits and other receivables		11,425	18,815	33,590
Due from a director	(d)	7,001	358	—
Due from subsidiaries not consolidated		341	926	—
Due from related companies	(d)	—	118	—
Accounts receivable	(e)	174,831	248,477	245,095
Cash and cash equivalents	(f)	46,001	41,882	58,463
		<u>315,554</u>	<u>446,666</u>	<u>433,149</u>
CURRENT LIABILITIES				
Tax payable		15,841	16,274	6,472
Accounts payable and accrued liabilities	(g)	225,205	348,174	282,929
Due to subsidiaries not consolidated		204	199	—
Dividend payable		15,400	30,000	—
Interest-bearing bank and other borrowings	(i)	47,787	86,230	92,195
Trust receipt loans, secured	(j)	11,290	25,936	35,122
		<u>315,727</u>	<u>506,813</u>	<u>416,718</u>
NET CURRENT ASSETS/ (LIABILITIES)		<u>(173)</u>	<u>(60,147)</u>	<u>16,431</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>359,734</u>	<u>525,550</u>	<u>725,462</u>
NON-CURRENT LIABILITIES				
Interest-bearing bank loans, secured	(j)	10,241	18,293	105,415
Finance lease payables	(h)	31,326	74,812	72,464
Deferred tax	(k)	18,200	29,612	34,512
		<u>59,767</u>	<u>122,717</u>	<u>212,391</u>
		<u>299,967</u>	<u>402,833</u>	<u>513,071</u>
REPRESENTED BY:				
Combined shareholders' equity		<u>299,967</u>	<u>402,833</u>	<u>513,071</u>

(a) Fixed assets

	31 December, 1999		
	Cost	Accumulated depreciation	Net book value
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Land and buildings	49,675	7,985	41,690
Leasehold improvements	91,033	52,062	38,971
Plant and machinery	460,182	211,301	248,881
Furniture, fixtures and equipment	41,383	20,534	20,849
Motor vehicles	4,573	2,785	1,788
Moulds, dies, test fixtures and pins	73,021	70,318	2,703
	<u>719,867</u>	<u>364,985</u>	<u>354,882</u>

	31 December, 2000		
	Cost	Accumulated depreciation	Net book value
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Land and buildings	57,981	11,175	46,806
Leasehold improvements	135,816	65,399	70,417
Construction in progress	13,578	—	13,578
Plant and machinery	663,981	252,463	411,518
Furniture, fixtures and equipment	57,042	27,260	29,782
Motor vehicles	7,376	3,858	3,518
Moulds, dies, test fixtures and pins	89,184	84,567	4,617
	<u>1,024,958</u>	<u>444,722</u>	<u>580,236</u>

	31 December, 2001		
	Cost	Accumulated depreciation	Net book value
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Land and buildings	60,245	14,700	45,545
Leasehold improvements	151,890	75,292	76,598
Construction in progress	41,709	—	41,709
Plant and machinery	783,357	281,752	501,605
Furniture, fixtures and equipment	66,780	34,732	32,048
Motor vehicles	7,640	4,370	3,270
Moulds, dies, test fixtures and pins	109,205	106,474	2,731
	<u>1,220,826</u>	<u>517,320</u>	<u>703,506</u>

The land and buildings are situated in the PRC and are held under lease terms of 30 to 50 years.

The net book value of assets acquired under finance leases which are included in the total amount of plant and machinery at 31 December, 1999, 2000 and 2001 amounted to HK\$103,868,000, HK\$208,836,000 and HK\$265,684,000, respectively.

Certain land and buildings of the Group with a net book value of HK\$31,010,000 have been pledged to a bank to secure long term bank loans granted to a subsidiary.

(b) Interest in an associate

	1999 <i>HK\$'000</i>	2000 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Unlisted investments, at cost	100	100	100
Due from an associate	—	—	187
	<u>100</u>	<u>100</u>	<u>287</u>

The balance with an associate is unsecured, interest-free and has no fixed terms of repayment.

The particulars of the associate are as follows:

Company	Business structure	Place of incorporation and operations	Percentage of ownership interest attributable to the Group	Principal activity
Topsearch PCB Marketing (Thailand) Co. Ltd.	Corporate	Thailand	49	Provision of marketing services

The operating results of the associate were not equity accounted for by the Group because the amounts were insignificant.

(c) Inventories

	1999 <i>HK\$'000</i>	2000 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Raw materials	42,954	77,193	52,302
Work in progress	27,111	32,761	21,930
Finished goods	15,544	38,919	30,552
	<u>85,609</u>	<u>148,873</u>	<u>104,784</u>
Less: Inventory provision	(9,654)	(12,783)	(8,783)
	<u>75,955</u>	<u>136,090</u>	<u>96,001</u>

No inventory was carried at net realisable value as at 31 December, 1999, 2000 and 2001.

(d) Due from a director/related companies

Particulars of the amounts due from a director/related companies disclosed pursuant to Section 161B of the Hong Kong Companies Ordinance, are as follows:

Due from a director

	31 December, 1999	Maximum amount outstanding during the year	1 January, 1999
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Mr. Cheok Ho Fung	7,001	7,001	—

	31 December, 2000	Maximum amount outstanding during the year	1 January, 2000
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Mr. Cheok Ho Fung	358	30,630	7,001

	31 December, 2001	Maximum amount outstanding during the year	1 January, 2001
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Mr. Cheok Ho Fung	—	358	358

Due from related companies

	31 December, 2000	Maximum amount outstanding during the year	1 January, 2000
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Keentop Investment Limited	86	86	—
Vintop Property Limited	32	32	—
	118		—

Due from related companies

	31 December, 2001	Maximum amount outstanding during the year	1 January, 2001
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Keentop Investment Limited	—	86	86
Vintop Property Limited	—	32	32
	<u>—</u>		<u>118</u>

The amounts due from a director/related companies were unsecured, interest-free and fully settled in 2001.

(e) Accounts receivable

An ageing analysis of the accounts receivable, based on the respective due dates of the sale of goods, is as follows:

	1999	2000	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Less than 30 days	161,345	232,608	212,134
31 - 60 days	12,667	2,144	13,310
61 - 90 days	1,305	12,277	6,138
91 - 120 days	1,075	1,609	13,513
	<u>176,392</u>	<u>248,638</u>	<u>245,095</u>
Provision for doubtful debts	(1,561)	(161)	—
	<u>174,831</u>	<u>248,477</u>	<u>245,095</u>

Credit is offered to customers following a financial assessment by the Group. Periodic reviews on the credit limit are performed with regard to the customers' established payment record. The Group's credit period varies and depends on individual trade customers which vary from 30 to 90 days and keeps monitoring its outstanding accounts receivable. Overdue balances are regularly reviewed by the senior management of the Group.

(f) Cash and cash equivalents

	1999 <i>HK\$'000</i>	2000 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Cash and bank balances denominated in Hong Kong dollars	21,815	16,708	53,039
Cash and bank balances denominated in Renminbi "RMB"	1,609	9,614	5,424
Short term deposits denominated in foreign currencies	22,577	15,560	—
	<u>46,001</u>	<u>41,882</u>	<u>58,463</u>

RMB is not freely convertible into foreign currencies. Under the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sales and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for foreign currencies through banks authorised to conduct foreign exchange business.

(g) Accounts payable and accrued liabilities

Included in accounts payable and accrued liabilities are the following trade payables:

	1999 <i>HK\$'000</i>	2000 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Current - 30 days	130,215	212,862	174,939
31 - 60 days	25,578	68,776	40,283
61 - 90 days	17,813	9,935	13,484
91 - 120 days	1,246	800	817
	<u>174,852</u>	<u>292,373</u>	<u>229,523</u>
Total accounts payable	174,852	292,373	229,523
Accrued liabilities	50,353	55,801	53,406
	<u>225,205</u>	<u>348,174</u>	<u>282,929</u>

The above ageing analysis of accounts payable is based on the date of the receipt of the respective goods and services.

(h) Finance lease payables

The Group leases certain of its plant and machinery for its printed circuit board business. These leases are classified as finance leases and have remaining lease terms ranging from one month to four years.

For each of the Relevant Periods, the total future minimum lease payments under finance leases and their present values were as follows:

	Minimum lease payments 1999 HK\$'000	Minimum lease payments 2000 HK\$'000	Minimum lease payments 2001 HK\$'000	Present value of minimum lease payments 1999 HK\$'000	Present value of minimum lease payments 2000 HK\$'000	Present value of minimum lease payments 2001 HK\$'000
Amounts payable:						
Within one year	33,041	69,559	82,230	28,416	58,965	73,154
In the second year	23,350	49,377	55,518	21,483	45,209	52,416
In the third to fifth year, inclusive	<u>10,190</u>	<u>31,715</u>	<u>20,835</u>	<u>9,843</u>	<u>29,603</u>	<u>20,048</u>
Total minimum finance lease payments	66,581	150,651	158,583	<u>59,742</u>	<u>133,777</u>	<u>145,618</u>
Future finance charges	<u>(6,839)</u>	<u>(16,874)</u>	<u>(12,965)</u>			
Total net finance lease payables	59,742	133,777	145,618			
Portion classified as current liabilities (<i>note i</i>)	<u>(28,416)</u>	<u>(58,965)</u>	<u>(73,154)</u>			
Long term portion	<u>31,326</u>	<u>74,812</u>	<u>72,464</u>			

(i) Interest-bearing bank and other borrowings

	1999 HK\$'000	2000 HK\$'000	2001 HK\$'000
Bank overdrafts, short term bank loans and current portion of long term bank loans, secured (<i>note j</i>)	19,371	27,265	19,041
Current portion of finance lease payables (<i>note h</i>)	<u>28,416</u>	<u>58,965</u>	<u>73,154</u>
	<u>47,787</u>	<u>86,230</u>	<u>92,195</u>

(j) Bank overdrafts, interest-bearing bank loans

	1999 <i>HK\$'000</i>	2000 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Bank overdrafts, secured	753	6,887	42
Bank loans, secured	28,859	38,671	124,414
	<u>29,612</u>	<u>45,558</u>	<u>124,456</u>
Bank overdrafts and short term bank loans repayable within one year or on demand	<u>17,753</u>	<u>23,887</u>	<u>5,042</u>
Bank loans repayable:			
Within one year	1,618	3,378	13,999
In the second year	1,813	3,668	24,210
In the third to fifth year, inclusive	6,791	11,947	80,236
Repayable beyond five years	1,637	2,678	969
	<u>11,859</u>	<u>21,671</u>	<u>119,414</u>
	29,612	45,558	124,456
Portion classified as current liabilities (<i>note i</i>)	<u>(19,371)</u>	<u>(27,265)</u>	<u>(19,041)</u>
	<u>10,241</u>	<u>18,293</u>	<u>105,415</u>
Trust receipt loans, secured	<u>11,290</u>	<u>25,936</u>	<u>35,122</u>

The bank loans, overdrafts and other banking facilities of the Group are secured by:

- (i) 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 a director of the Company;
- (iv) charge over certain land and buildings held by a related company; and
- (v) mortgage over certain land and buildings of a subsidiary.

Application has been made to and consent has been obtained from the banks for the personal guarantee given by a director of the Company to be released upon the listing of the Shares on The Stock Exchange of Hong Kong Limited and replaced by corporate guarantees and/or other security to be provided by the Company and/or other members of the Group.

(k) Deferred tax

Deferred tax for the Relevant Periods has been provided using the liability method at the rate of 16% on timing differences.

	1999 <i>HK\$'000</i>	2000 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
At beginning of year	18,520	18,200	29,612
Charge/(credit) for the year – Section 3e	(320)	11,412	4,900
At end of year	<u>18,200</u>	<u>29,612</u>	<u>34,512</u>

The components of the deferred tax liabilities principally comprised accelerated capital allowances. The Group did not have any significant unprovided deferred tax liability in respect of each of the Relevant Periods.

(l) Commitments

	1999 <i>HK\$'000</i>	2000 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
(i) Capital commitments			
<i>Authorised but not contracted for:</i>			
Commitments in respect of construction of the factory building	<u>—</u>	<u>197,009</u>	<u>156,860</u>
<i>Authorised and contracted for:</i>			
Commitments in respect of construction of the factory building	<u>—</u>	<u>11,783</u>	<u>46,071</u>
Commitments in respect of acquisition of fixed assets	<u>36,990</u>	<u>30,891</u>	<u>7,854</u>
	<u>36,990</u>	<u>42,674</u>	<u>53,925</u>
	<u>36,990</u>	<u>239,683</u>	<u>210,785</u>

(ii) Operating lease commitments

The Group leases certain of its office properties under operating lease arrangements. Lease for properties are negotiated for terms ranging from one to two years.

At 31 December, 1999, 2000 and 2001, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	1999 <i>HK\$'000</i>	2000 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Within one year	3,514	6,373	11,533
In the second to fifth year, inclusive	327	6,731	5,852
	<u>3,841</u>	<u>13,104</u>	<u>17,385</u>

(iii) Other commitments

	1999	2000	2001
Selling — HK\$ ('000)	<u>2,231</u>	<u>5,093</u>	<u>—</u>
Buying — Japanese Yen ('000)	<u>30,000</u>	<u>70,000</u>	<u>—</u>

As at 31 December 2001, the Group had total commitments of HK\$7,858,000 to make payments within the next three years in respect of a technology collaboration agreement with Tsinghua University entered into in April 2001.

(m) Contingent liabilities

The Group did not have any significant contingent liabilities at the end of each of the Relevant Periods.

(n) Net assets of the Company

The Company was incorporated on 12 May, 1998. On the basis set out in Section 1 above, the net assets of the Company as at 31 December, 2001 would have been HK\$513,071,000, representing its investments in subsidiaries.

(o) Distribution reserves

The Company was incorporated on 12 May, 1998. There were no reserves available for distribution to the shareholders of the Company at 31 December, 2001.

5. COMBINED STATEMENT OF MOVEMENTS IN EQUITY

The movements in the combined shareholders' equity of the Group for the Relevant Periods, prepared on the basis set out in Section 1 above, are as follows:

	Issued capital HK\$'000 (Note 1)	Contributed surplus HK\$'000 (Note 2)	Exchange fluctuation reserve HK\$'000	Statutory reserve fund HK\$'000 (Note 3)	Capital reserve HK\$'000	Proposed final dividend HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1 January 1999	1,000	19,000	—	—	4,064	—	186,015	210,079
Profit for the year	—	—	—	—	—	—	112,088	112,088
Dividends	—	—	—	—	—	—	(22,200)	(22,200)
At 31 December 1999 and 1 January 2000	1,000	19,000	—	—	4,064	—	275,903	299,967
Profit for the year	—	—	—	—	—	—	166,492	166,492
Dividends	—	—	—	—	—	—	(63,626)	(63,626)
At 31 December 2000 and 1 January 2001	1,000	19,000	—	—	4,064	—	378,769	402,833
Exchange adjustments	—	—	(15)	—	—	—	—	(15)
Profit for the year	—	—	—	—	—	—	110,253	110,253
Dividends	—	—	—	—	—	98,000	(98,000)	—
Appropriations	—	—	—	12,000	—	—	(12,000)	—
At 31 December 2001	<u>1,000</u>	<u>19,000</u>	<u>(15)</u>	<u>12,000</u>	<u>4,064</u>	<u>98,000</u>	<u>379,022</u>	<u>513,071</u>

Notes:

- (1) For the purpose of the presentation of the combined balance sheets, the balances of the share capital at 31 December, 1999, 2000 and 2001 represent the 10,000,000 shares of the Company of HK\$0.10 each in issue at the date of the Prospectus.
- (2) The contributed surplus of the Group at 1 January, 1999 represents the difference between the nominal value of the share capital of the subsidiaries acquired as a result of the Group reorganisation in preparation for the listing of the Company's shares, and the nominal value of the share capital of the Company issued in exchange therefor.
- (3) In accordance with the relevant PRC regulations applicable to wholly foreign-owned enterprises, the Company's PRC subsidiary is required to appropriate an amount of not less than 10% of its profits after tax to the statutory reserve fund, which may be used for the increase in paid-up capital of the PRC subsidiary.

6. COMBINED CASH FLOW STATEMENTS

The combined cash flow statements of the Group for the Relevant Periods prepared on the basis set out in Section 1 above, are as follows:

	<i>Note</i>	1999 <i>HK\$'000</i>	2000 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
NET CASH INFLOW FROM OPERATING ACTIVITIES	<i>(a)</i>	196,540	261,368	231,825
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE				
Interest received		880	1,822	317
Interest paid		(5,620)	(6,588)	(6,766)
Interest element on finance lease rental payments		(4,845)	(8,502)	(11,791)
Dividend paid		(6,800)	(49,026)	(30,000)
Net cash outflow from returns on investments and servicing of finance		<u>(16,385)</u>	<u>(62,294)</u>	<u>(48,240)</u>
TAX				
Tax refund/(paid), net		<u>(17,372)</u>	<u>1,136</u>	<u>(23,655)</u>
INVESTING ACTIVITIES				
Purchases of fixed assets		(80,286)	(194,775)	(144,975)
Proceeds from disposal of fixed assets		<u>100</u>	<u>7</u>	<u>2,776</u>
Net cash outflow from investing activities		<u>(80,186)</u>	<u>(194,768)</u>	<u>(142,199)</u>
NET CASH INFLOW BEFORE FINANCING ACTIVITIES		<u>82,597</u>	<u>5,442</u>	<u>17,731</u>

	<i>Note</i>	1999 <i>HK\$'000</i>	2000 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
NET CASH INFLOW BEFORE FINANCING ACTIVITIES		82,597	5,442	17,731
FINANCING ACTIVITIES	<i>(b)</i>			
Capital element of finance lease rental payments		(28,108)	(40,153)	(70,875)
New bank loans		—	12,386	101,300
Repayment of bank loans		(1,509)	(2,574)	(3,557)
Net cash inflow/(outflow) from financing activities		<u>(29,617)</u>	<u>(30,341)</u>	<u>26,868</u>
INCREASE /(DECREASE) IN CASH AND CASH EQUIVALENTS		52,980	(24,899)	44,599
Cash and cash equivalents at beginning of year		<u>(36,022)</u>	<u>16,958</u>	<u>(7,941)</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR		<u><u>16,958</u></u>	<u><u>(7,941)</u></u>	<u><u>36,658</u></u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS				
Cash and bank balances		23,424	26,322	58,463
Short term deposits		22,577	15,560	—
Short term bank loans and bank overdrafts, secured		(17,753)	(23,887)	(5,042)
Trust receipt loans repayable within three months		<u>(11,290)</u>	<u>(25,936)</u>	<u>(16,763)</u>
		<u><u>16,958</u></u>	<u><u>(7,941)</u></u>	<u><u>36,658</u></u>

(a) Reconciliation of profit from operating activities to net cash inflow from operating activities

	1999	2000	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit from operating activities	154,923	192,291	147,563
Interest income	(880)	(1,822)	(317)
Depreciation	61,941	83,582	98,871
Loss on disposal of fixed assets	91	20	2,774
Provision made/(write-back) for inventory obsolescence	3,742	3,129	(4,000)
Movements in balances with subsidiaries not consolidated	(118)	(590)	727
Increase in interest in an associate	—	—	(187)
Increase in rental and utility deposits	(130)	(610)	(305)
Decrease/(increase) in prepaid rental, long term portion	(2,348)	174	175
Decrease/(increase) in inventories	(17,295)	(63,264)	44,089
Increase in prepayments, deposits and other receivables	(130)	(7,390)	(14,775)
Movements in balance with the holding company	(1)	—	—
Decrease/(increase) in amount due from a director	(7,001)	6,643	358
Decrease in investment in subsidiaries not consolidated	—	—	253
Decrease/(increase) in amount due from a related company	—	(118)	118
Decrease/(increase) in accounts receivable	(7,839)	(73,646)	3,382
Increase/(decrease) in accounts payable and accrued liabilities	11,585	122,969	(65,245)
Increase in trust receipt loans with maturity of over three months	—	—	18,359
Foreign exchange difference	—	—	(15)
Net cash inflow from operating activities	<u>196,540</u>	<u>261,368</u>	<u>231,825</u>

(b) Analysis of changes in financing during the Relevant Periods

	Finance lease payables <i>HK\$'000</i>	Interest-bearing long term bank loans secured <i>HK\$'000</i>
Balance as at 1 January, 1999	38,510	13,368
Cash outflow from financing, net	(28,108)	(1,509)
Inception of finance leases	49,340	—
	<hr/>	<hr/>
Balance as at 31 December, 1999 and at 1 January, 2000	59,742	11,859
Cash inflow/(outflow) from financing, net	(40,153)	9,812
Inception of finance leases	114,188	—
	<hr/>	<hr/>
Balanced as at 31 December, 2000 and at 1 January, 2001	133,777	21,671
Cash inflow/(outflow) from financing, net	(70,875)	97,743
Inception of finance leases	82,716	—
	<hr/>	<hr/>
Balance as at 31 December, 2001	<u>145,618</u>	<u>119,414</u>

(c) Major non-cash transactions

For each of the three years ended 31 December, 2001, the Group entered into finance lease arrangements in respect of fixed assets with a total capital value at the inception of the leases of HK\$49,340,000, HK\$114,188,000 and HK\$82,716,000, respectively.

7. DIRECTORS' REMUNERATION

Save as disclosed herein, no remuneration has been paid or is payable in respect of any of the Relevant Periods referred to in this report by the Company or any of the other companies now comprising the Group to the directors of the Company. Under the arrangements currently in force, the estimated amount of directors' fees and other emoluments payable to the directors of the Company for the year ending 31 December, 2002 will be approximately HK\$8,848,000, excluding discretionary bonuses payable under directors' service contracts. Further details of the directors' service contracts are set out in the paragraph headed "Particulars of directors' service contracts" in the section headed "Further information about directors, management and staff" in Appendix IV to the Prospectus.

8. SUBSEQUENT EVENTS

- (a) On 29 May, 2002, the Company became the holding company of the Group.
- (b) On 29 May, 2002, the companies now comprising the Group underwent a reorganisation in preparation for the listing of the Company's shares on the Stock Exchange. Further details of the reorganisation are set out in the paragraph headed "Corporate reorganisation" in the section headed "Further information about the Company" in Appendix IV to the prospectus.

Save as aforesaid, no other significant events took place subsequent to 31 December, 2001.

9. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company or any of the companies now comprising the Group in respect of any period subsequent to 31 December, 2001.

Yours faithfully,
Ernst & Young
Certified Public Accountants
Hong Kong