



# TOPSEARCH INTERNATIONAL (HOLDINGS) LIMITED

至卓國際(控股)有限公司\*

(Incorporated in Bermuda with limited liability)

## Interim Result 2002

The board of directors (the “Board” or “Directors”) of Topsearch International (Holdings) Limited (the “Company”) is pleased to announce the unaudited condensed combined interim financial statements (“Interim Financial Statements”) of the Company and its subsidiaries (collectively the “Group”) for the six months ended 30 June, 2002 (the “Period”). The Interim Financial Statements have been reviewed by the Company’s audit committee.

### CONDENSED COMBINED PROFIT AND LOSS ACCOUNT

		Six months ended 30 June,	
		2002	2001
		(Unaudited)	(Unaudited)
	Notes	HK\$'000	HK\$'000
TURNOVER	2	<b>508,005</b>	536,694
Cost of sales		<b>(369,656)</b>	(390,725)
GROSS PROFIT		<b>138,349</b>	145,969
Other revenue and gains		<b>2,268</b>	2,103
Selling and distribution costs		<b>(34,816)</b>	(37,003)
Administrative expenses		<b>(48,210)</b>	(41,776)
Other operating expenses		<b>(395)</b>	(2,953)
PROFIT FROM OPERATING ACTIVITIES	3	<b>57,196</b>	66,340
Finance costs	4	<b>(6,313)</b>	(10,113)
PROFIT BEFORE TAX		<b>50,883</b>	56,227
Tax	5	<b>(4,378)</b>	(8,153)
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		<b>46,505</b>	48,074
EARNINGS PER SHARE			
— Basic	7	<b>HK\$0.10</b>	HK\$0.10

## NOTES TO CONDENSED COMBINED FINANCIAL STATEMENTS

30 JUNE, 2002

### 1. BASIS OF PRESENTATION AND ACCOUNTING POLICIES

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). Pursuant to a reorganisation scheme (the “Group Reorganisation”) to rationalise the structure of the Group in preparation for the listing of the Company’s shares on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”), the Company became the holding company of the companies now comprising the Group on 29 May, 2002. The shares of the Company were listed on the Stock Exchange on 21 June, 2002.

These Interim Financial Statements have been prepared using the merger basis of accounting in accordance with Hong Kong Statement of Standard Accounting Practice (“SSAP”) No. 27 “Accounting for Group Reconstructions” issued by the Hong Kong Society of Accountants (“HKSA”). Under this basis, the Interim Financial Statements together with the comparative figures of the corresponding period last year and the related notes thereto have also been presented on the basis that the Company is treated as the holding company of its subsidiaries for the financial period presented rather than from the subsequent date of acquisition of the subsidiaries pursuant to the Group Reorganisation on 29 May, 2002, or since the respective dates of their incorporation, where this is a shorter period.

The Interim Financial Statements of the Group have been prepared in accordance with SSAP No. 25 “Interim Financial Reporting” issued by HKSA and the requirements of the Main Board Listing Rules of the Stock Exchange (the “Listing Rules”).

The basis of presentation and accounting policies adopted in these Interim Financial Statements are consistent with those as set out in the prospectus of the Company dated 11 June, 2002 except for the adoption of the following new and revised SSAPs:

SSAP 1 (Revised)	: Presentation of Financial Statements
SSAP 11 (Revised)	: Foreign Currency Translation
SSAP 15 (Revised)	: Cash Flow Statements
SSAP 33	: Discontinuing Operations
SSAP 34	: Employee Benefits

A summary of their major effects is as follows:

SSAP 1 (Revised) prescribes the basis for the presentation of financial statements and sets out guidelines for their structure and minimum requirements for the content thereof. The main revision to this SSAP is to change the requirements from presenting a statement of recognised gains and losses to a statement of changes in equity. The condensed combined statement of changes in equity for the current interim period and the comparative figures have been presented in accordance with the revised SSAP.

SSAP 11 (Revised) prescribes the basis for the translation of foreign currency transactions and financial statements. The principal impact of this revised SSAP on the condensed combined financial statements is that the profit and loss account of subsidiaries and associates operating in the People’s Republic of China (the “PRC”) and overseas are translated at an average rate for the period on consolidation, rather than translated at the applicable rates of exchange ruling at the balance sheet date as was previously required. This SSAP is required to be applied retrospectively. The Group has adopted the transitional provision of this SSAP that where the calculation of a prior year adjustment is impractical, these changes in policy are applied only to current and future financial statements and the effect on the results of the current period is not significant.

SSAP 15 (Revised) prescribes the provision of information about the historical changes in cash and cash equivalents by means of a cash flow statement which classifies cash flows during the period into operating, investing and financing activities. The condensed combined cash flow statement for the current interim period and the comparative figures have been presented in accordance with the revised SSAP.

SSAP 33 prescribes the basis for reporting information about discontinuing/discontinued operations. This SSAP has had no major impact on the Interim Financial Statements.

SSAP 34 prescribes the accounting treatment and disclosures for employee benefits. This SSAP has had no major impact on the Interim Financial Statements.

## 2. TURNOVER

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

The Group's principal activities during the Period 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 is provided.

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

Turnover by geographical area for the six months ended

	<b>30 June, 2002 (Unaudited) HK\$'000</b>	30 June, 2001 (Unaudited) HK\$'000
South East Asia	<b>234,368</b>	162,115
North America	<b>94,079</b>	139,216
The PRC and Hong Kong	<b>102,231</b>	148,243
Taiwan	<b>52,398</b>	40,510
Europe	<b>24,929</b>	46,610
	<b><u>508,005</u></b>	<u>536,694</u>

*Note:* The location of the customer is determined by the location of the entity placing the orders for the purchase of the Group's products.

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

### 3. PROFIT FROM OPERATING ACTIVITIES

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

	<b>For the six months ended</b>	
	<b>30 June, 2002 (Unaudited) HK\$'000</b>	<b>30 June, 2001 (Unaudited) HK\$'000</b>
Depreciation	<b>56,926</b>	50,336
Loss on disposal of fixed assets	—	2,631
Interest income	<b>(94)</b>	(241)

### 4. FINANCE COSTS

	<b>For the six months ended</b>	
	<b>30 June, 2002 (Unaudited) HK\$'000</b>	<b>30 June, 2001 (Unaudited) HK\$'000</b>
Interest expenses on:		
Bank loans and overdrafts wholly repayable with five years	<b>3,907</b>	3,027
Bank loans repayable beyond five years	<b>158</b>	498
Finance leases	<b>4,295</b>	6,588
Total interest	<b>8,360</b>	10,113
Less: Interest capitalised	<b>(2,047)</b>	—
	<b>6,313</b>	10,113

### 5. TAX

	<b>For the six months ended</b>	
	<b>30 June, 2002 (Unaudited) HK\$'000</b>	<b>30 June, 2001 (Unaudited) HK\$'000</b>
Hong Kong:		
Current	<b>3,115</b>	4,122
PRC, other than Hong Kong:		
Current	<b>4,263</b>	4,031
Refund of 5% corporate income tax	<b>(3,000)</b>	—
Tax charge for the Period	<b>4,378</b>	8,153

Hong Kong profits tax has been provided at the rate of 16% (2001: 16%) on the estimated assessable profits arising in Hong Kong in respect of the Period.

Corporate income tax is also provided on the assessable profits generated by a subsidiary in Shekou, the PRC, at a rate of 15% (2001:15%) during the Period.

## **6. EARNINGS PER SHARE**

The calculation of basic earnings per share is based on the combined net profit from ordinary activities attributable to shareholders of approximately HK\$46,505,000 for the six months ended 30 June, 2002 (2001: HK\$48,074,000) and the weighted average issued share capital of 487,955,800 (2001: 480,000,000) ordinary shares deemed to have been issued throughout the period.

There were no potential dilutive ordinary shares in existence for the six months ended 30 June, 2002 and 2001. Accordingly, no diluted earnings per share have been presented.

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **Review of the operating environment**

The worldwide economy for the first half of 2002 was still sluggish and all PCB suppliers were under heavy pricing pressures which affected sales turnover figures. However, despite the minor drop in the sales amount, the Group still managed to expand market share by increasing output volume, in terms of square footage, by approximately 10.3% compared to the same period in the previous year. The increase in output volume was due to the support of key customers who were looking for a reliable source to support their new production facilities in China. According to a well-established industry-wide survey, in 2001 the Group was ranked 13th (2000: 15th) amongst PCB companies in the Asia Pacific region (excluding Japan), and 39th (2000: 52nd) in the world, based on revenue generated over the years.

The growth in multi-layered boards in the first half of 2002 has been working well in line with our business strategy for the year. The proportion of multi-layered boards (six layers and above) has been increasing for five consecutive months from February to June. The product mix pattern has shown that the total output volume for double-sided, four-layered and multi-layered boards have increased by approximately 8.5%, 6.4% and 50.0% respectively in the first half of 2002 against the corresponding period last year.

During the Period, we observed a significant change in the geographical relocation of sales. Some of the Group's customers shifted their production bases from North America and Europe to South East Asia. As a result, contribution from South East Asia rose from 30% to 46%, while contributions from North America and Europe dropped from 26% to 19% and from 9% to 5% respectively. Furthermore, one of the Group's customers with its regional headquarters in Hong Kong delegated its procurement function to its group companies in South East Asia. The above factors together with the growth of sales from customers in South East Asia, resulted in changes in the Group's geographic sources of revenue, as compared to last year.

The Group continued to invest resources in upgrading its technical capabilities and in enhancing marketing support/customer services. New marketing offices were also set up in the eastern US, Shanghai, Tokyo and Seoul in the second quarter of 2002 to expand market coverage and further improve customer services to new and existing accounts.

## **Review of financial performance**

The Group's net profit margin increased to approximately 9.2% from 9.0% although the unaudited combined turnover and net profit from ordinary activities attributable to shareholders decreased by approximately 5.3% and 3.3% as compared to the same period last year. Earnings per share remained stable at approximately HK\$0.10 over the Period and the same period last year.

The output level of the Group increased approximately 10.3% whereas the average selling price decreased by approximately 14.2%. The cost of materials, which represented approximately 48% of the total costs of production, decreased by approximately 29.5% per sq. ft. but production overheads, which represented approximately 52% of total costs of production, increased in line with the increase in output levels. The increase in production staff costs were a direct result of enhancements in the Group's labour force, especially in areas such as quality control, research and development and process management. At the same time, the Group's continuous investments in production facilities also resulted in an increase in depreciation. As a result, overall gross profit margin remained stable at 27.2% as compared to the same period last year.

There was no significant change in the bases and rates of profits tax in Hong Kong, the PRC and other regions. A provision for profits tax on the Group's operating profit was made with reference to the applicable tax rates prevailing in relevant areas of operation. A tax refund of approximately HK\$3 million was received and recognised in respect of corporate income tax paid for profit earned by a subsidiary in the PRC in 2000. This refund was granted to the subsidiary under the current tax privilege policy for "Export Enterprises" in Guangdong.

Sales of the Group's products are principally denominated in US dollars and the purchase of materials are mainly denominated in US dollars, HK dollars and RMB. As both the HK dollar and RMB are pegged to the US dollar under the current exchange rate system in Hong Kong and the PRC, the Group is not exposed to significant risk in exchange rate fluctuations.

## **Liquidity and financial resources**

On 21 June, 2002, the Company's shares were listed on the Stock Exchange. The Group raised approximately HK\$198 million, net of related expenses, from the issue of 160 million new ordinary shares in the Company. The listing enlarged the base of shareholders and provided additional funds for the Group's future expansion.

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

As at 30 June, 2002, the Group has total assets of approximately HK\$1,280 million (31 December, 2001: HK\$1,142 million) and interest-bearing borrowings of approximately HK\$333 million (31 December, 2001: HK\$305 million), representing a gearing ratio, defined as interest-bearing borrowings over total assets, of approximately 26.0% (31 December, 2001: 26.7%).

The Group's net current assets of approximate HK\$114 million (31 December, 2001: HK\$16 million) consisted of current assets of approximately HK\$528 million (31 December, 2001: HK\$433 million) and current liabilities of approximately HK\$414 million (31 December, 2001: HK\$417 million), representing a current ratio of approximately 1.28 (31 December, 2001: 1.04).

The improvements in both the gearing ratio and current ratio were mainly attributable to the listing proceeds and net profit generated during the Period.

As at 30 June, 2002, bank loans, overdrafts and other banking facilities of the Group were secured by (a) assignment of all trade receivables of a subsidiary and the related trade credit insurance policy; (b) cross corporate guarantees by subsidiaries; (c) mortgage over certain land and buildings of a subsidiary; (d) personal guarantee from a director of the Company and (e) charge over certain land and buildings held by a related company.

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 of the Company on the Stock Exchange and replaced by a corporate guarantee and/or other security to be provided by the Company and/or other members of the Group.

## **Prospects**

Looking forward to the end of the year, the management expects the Group to enjoy a better sales performance than the first half of the year, although continued price erosion will cause considerable pressure to its profit margin. As there is a general excess of capacity in the market, such price erosion will continue until this excess disappears. The Group's sales performance in the third quarter reflected a strong rebound in the computer and peripherals industry. As a result, the capacity utilization rate of our factory is expected to be boosted during these months. With more Original Equipment Manufacturers and Electronics Manufacturing Services companies moving their production facilities into the PRC, the Group with our strategic location at Shenzhen, will continue to explore business opportunities aggressively through the local sales offices.

Although the telecommunications industry is still on the down side, the stable growth of demand for computer and peripherals products in 2002, especially in the Greater China region, is creating rising demand for motherboards and riser cards. In particular, the demand for high performance graphic cards will help to contribute to growth in the higher layer products. The management expects demand to soar in the third and fourth quarters which will boost sales figures and change our product mix to the higher layered sector significantly.

Through our global sales network, the management will work to develop new business with large electronics companies in the different markets, especially those with headquarters located in the USA, Japan and Korea and with factories located in the PRC or other low cost production centers in Asia and Eastern Europe. The Group, in fact, is currently conducting business discussions with large potential accounts, aiming to become their qualified vendor in the near future.

Even though the economy will remain sluggish and the market is still being dominated by keen pricing competition, the management has proven the Group's ability to outperform the market. The management is confident that the Group will fully overcome future challenges, being well prepared to grasp arising business opportunities once the economy recovers.

### **Use of proceeds from the new issue and placing**

The net proceeds from the public offer and placing of the Company's ordinary shares amounted to approximately HK\$198 million, net of related expenses. As at 30 June, 2002, the Group has utilized a total of approximately HK\$41 million of the proceeds in reducing trust receipt loans and short term bank loans. The remaining proceeds were placed on short-term deposits with licensed banks in Hong Kong. The Directors planned to apply the proceeds in the construction of new factory building and acquisition of new machinery.

### **Number and remuneration of employees**

At 30 June, 2002, excluding the associate, the Group employed 4,578 people (30 June, 2001: 4,011 people) of whom 132 (30 June, 2001: 117) were employed in Hong Kong, 4,414 (30 June, 2001: 3,872) in the PRC and 32 (30 June, 2001: 22) in various overseas marketing offices. During the first six months of the year, employee costs totaled HK\$77.9 million (30 June, 2001: HK\$65.9 million). The Group's employment and remuneration policies remained the same as those described in the prospectus.

As at 30 June, 2002, 57 employees had completed the required number of years of service under Employment Ordinance to be eligible for long service payments on termination of their employment with the Group. The Group is only liable to make such payment where termination meets the required circumstances specified in the Ordinance. As at 30 June, 2002, the Group has no contingent liabilities provided for such purpose.

### **DIVIDEND**

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June, 2002 (2001: Nil).

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

The Company's shares were listed on the Main Board of the Stock Exchange on 21 June, 2002. Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities since that date.

### **AUDIT COMMITTEE**

The Company has established an Audit Committee on 30 May, 2002 with written terms of reference in compliance with the Code of Best Practice (the "Code") as set out in Appendix 14 of the Listing Rule. The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal control system of the Group. This Interim Financial Statements for the Period has been reviewed by the Audit Committee.



## **COMPLIANCE WITH THE CODE OF BEST PRACTICE**

None of the directors of the Company is aware of any information that would reasonably indicate that the Company is not, since the listing of the share of the Company on the Stock Exchange on 21 June, 2002, in compliance with the Code of Best Practice as set out in Appendix 14 of the Listing Rules, except that the independent non-executive directors of the Company are not appointed for specific terms as required by paragraph 7 of the Code, but are subject to retirement by rotation and re-election at the annual general meeting in accordance with the Bye-laws of the Company.

## **PUBLICATION OF THE RESULTS ON THE WEBSITE OF THE STOCK EXCHANGE**

The Interim Financial Statements of the Company for the six months ended 30th June, 2002, together with the information required under the paragraph 46(1) to 46(6) of Appendix 16 to the Listing Rules, will be published on the Company's website (*www.topsearch.com.hk*) and website of the Stock Exchange (*www.hkex.com.hk*) in due course.

## **APPRECIATION**

On behalf of the Board, I would like to extend our gratitude and sincere appreciation to all management and staff members for their diligence and dedication, the continuing support of our business partners and the Company's shareholders.

On behalf of the Board  
**CHEOK HO FUNG**  
*Chairman and Chief Executive Officer*

Hong Kong, 18 September, 2002

\* *For identification only*

Please also refer to the published version of this announcement in the South China Morning Post.