



至卓

T O P S E A R C H

Topsearch International (Holdings) Limited

至卓國際（控股）有限公司*

(Incorporated in Bermuda with limited liability)



**Interim Report
2002**



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

CONDENSED COMBINED BALANCE SHEET

		30 June	31 December
		2002	2001
		(Unaudited)	(Audited)
	<i>Notes</i>	HK\$'000	<i>HK\$'000</i>
NON CURRENT ASSETS			
Fixed assets		746,205	703,506
Interest in an associate		289	287
Rental and utility deposits		3,287	3,240
Prepaid rental — long term portion		1,910	1,998
		751,691	709,031
CURRENT ASSETS			
Inventories		108,711	96,001
Prepayments, deposits and other receivables		37,774	33,590
Accounts receivable	8	231,576	245,095
Short term deposits		101,900	—
Cash and bank balances		48,369	58,463
		528,330	433,149
CURRENT LIABILITIES			
Accounts payable and accrued liabilities	9	230,568	282,929
Tax payable		2,041	6,472
Interest-bearing bank and other borrowings		152,540	92,195
Trust receipt loans, secured		29,332	35,122
		414,481	416,718
NET CURRENT ASSETS		113,849	16,431
TOTAL ASSETS LESS CURRENT LIABILITIES		865,540	725,462

CONDENSED COMBINED BALANCE SHEET *(Continued)*

		30 June	31 December
		2002	2001
		(Unaudited)	(Audited)
	<i>Note</i>	HK\$'000	<i>HK\$'000</i>
NON-CURRENT LIABILITIES			
Interest-bearing bank loans, secured		93,238	105,415
Finance lease payables		58,363	72,464
Deferred tax		34,525	34,512
		186,126	212,391
		679,414	513,071
CAPITAL AND RESERVES			
Share capital	<i>10</i>	64,000	1,000
Reserves		615,414	512,071
		679,414	513,071

CONDENSED COMBINED CASH FLOW STATEMENT

	Six months ended 30 June	
	2002	2001
	(Unaudited) <i>HK\$'000</i>	(Unaudited) <i>HK\$'000</i>
NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES	(62,602)	52,662
NET CASH OUTFLOW FROM INVESTING ACTIVITIES	(43,221)	(59,942)
NET CASH INFLOW/(OUTFLOW) FROM FINANCING ACTIVITIES	197,671	(15,451)
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	91,848	(22,731)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	58,421	34,995
CASH AND CASH EQUIVALENTS AT END OF PERIOD	150,269	12,264
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	48,369	16,807
Short term time deposits	101,900	—
Bank overdrafts	—	(4,543)
	150,269	12,264

CONDENSED COMBINED STATEMENT OF CHANGES IN EQUITY

	Share capital of the Company (Unaudited) HK\$'000	Share premium (Unaudited) HK\$'000	Contributed surplus (Unaudited) HK\$'000	Revaluation reserve (Unaudited) HK\$'000	Exchange fluctuation reserve (Unaudited) HK\$'000	Statutory reserve fund (Unaudited) HK\$'000	Capital reserve (Unaudited) HK\$'000	Proposed final dividend (Unaudited) HK\$'000	Retained profits (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
At 1 January 2002	1,000	—	19,000	—	(15)	12,000	4,064	98,000	379,022	513,071
Profit for the period	—	—	—	—	—	—	—	—	46,505	46,505
Transfer to statutory reserve fund	—	—	—	—	—	1,660	—	—	(1,660)	—
Final dividend of 2001 paid	—	—	—	—	—	—	—	(98,000)	—	(98,000)
Issue of shares to the public	16,000	204,800	—	—	—	—	—	—	—	220,800
Share issue expenses	—	(22,831)	—	—	—	—	—	—	—	(22,831)
Capitalisation issue	47,000	(47,000)	—	—	—	—	—	—	—	—
Surplus arising on revaluation of land and buildings	—	—	—	19,739	—	—	—	—	—	19,739
Exchange adjustments	—	—	—	—	130	—	—	—	—	130
At 30 June 2002	64,000	134,969	19,000	19,739	115	13,660	4,064	—	423,867	679,414
	Share capital of the Company (Unaudited) HK\$'000	Share premium (Unaudited) HK\$'000	Contributed surplus (Unaudited) HK\$'000	Revaluation reserve (Unaudited) HK\$'000	Exchange fluctuation reserve (Unaudited) HK\$'000	Statutory reserve fund (Unaudited) HK\$'000	Capital reserve (Unaudited) HK\$'000	Proposed final dividend (Unaudited) HK\$'000	Retained profits (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
At 1 January 2001	1,000	—	19,000	—	—	—	4,064	—	378,769	402,833
Profit for the period	—	—	—	—	—	—	—	—	48,074	48,074
At 30 June 2001	1,000	—	19,000	—	—	—	4,064	—	426,843	450,907

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 (the "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 25 "Interim Financial Reporting" issued by the 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 amounts 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 amounts 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 activity 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:—

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

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):—

	For the six months ended	
	30 June 2002 (Unaudited) HK\$'000	30 June 2001 (Unaudited) HK\$'000
Depreciation	56,926	50,336
Loss on disposal of fixed assets	—	2,631
Interest income	(94)	(241)
	<u>56,832</u>	<u>52,726</u>

4. FINANCE COSTS

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

5. TAX

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

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 the rate of 15% (2001:15%) during the Period.

6. DIVIDEND

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

7. 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.

8. ACCOUNTS RECEIVABLE

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

	30 June 2002 (Unaudited) HK\$'000	31 December 2001 (Audited) HK\$'000
Less than 30 days	192,721	212,134
31 — 60 days	20,836	13,310
61 — 90 days	4,986	6,138
Over 90 days	13,033	13,513
	<u>231,576</u>	<u>245,095</u>

Credit is offered to customers following a financial assessment by the Group. Periodic review on the credit limits 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.

9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

	30 June 2002 (Unaudited) HK\$'000	31 December 2001 (Audited) HK\$'000
Less than 30 days	145,690	174,939
31 — 60 days	30,896	40,283
61 — 90 days	7,473	13,484
Over 90 days	3,114	817
	<hr/>	<hr/>
Total accounts payable	187,173	229,523
Accrued liabilities	43,395	53,406
	<hr/>	<hr/>
	230,568	282,929
	<hr/> <hr/>	<hr/> <hr/>

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

10. SHARE CAPITAL

	Number of authorised shares '000	Number of issued shares '000	Nominal value of shares issued HK\$'000
Authorised share capital upon incorporation	10,000	—	—
Increase in authorised share capital	1,990,000	—	—
Shares issued as consideration for the acquisition of the entire issued share capital of a subsidiary pursuant to the Group Reorganisation	—	10,000	1,000
	<hr/>	<hr/>	<hr/>
Pro forma issued share capital as at 1 January 2001 (Unaudited)	2,000,000	10,000	1,000
Capitalisation of the share premium account	—	470,000	47,000
New issue and placing of shares to the public	—	160,000	16,000
	<hr/>	<hr/>	<hr/>
Share capital as at 30 June, 2002 (Unaudited)	2,000,000	640,000	64,000
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

11. CAPITAL COMMITMENTS

	30 June 2002 (Unaudited) HK\$'000	31 December 2001 (Audited) HK\$'000
Authorised but not contracted for:—		
Commitments in respect of construction of the factory building	<u>66,456</u>	<u>156,860</u>
Authorised and contracted for:—		
Commitments in respect of construction of the factory building	<u>82,760</u>	46,071
Commitments in respects of acquisition of fixed assets	<u>31,916</u>	<u>7,854</u>
	<u>114,676</u>	<u>53,925</u>
	<u>181,132</u>	<u>210,785</u>

12. CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities at the end of the Period (2001: Nil).

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 the turnover figures. However, despite the minor drop in the sales amount, the Group still managed to expand its market share by increasing output volume, in terms of square footage, by approximately 10.3% as 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 13 th (2000: 15 th) amongst PCB companies in the Asia Pacific region (excluding Japan), and 39 th (2000: 52 nd) in the world, based on revenue generated over the years.

The growth in sales of 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 sales 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 has 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 as compared to the same period last year. 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, have resulted in changes in the Group's geographic sources of revenue, as compared to last period.

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% respectively 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 by 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 level. The increase in production staff costs was 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, the 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 had 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 approximately 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 of the year 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 over 90% 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 layered 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 US, Japan and Korea and with factories located in the PRC or other low cost production centers in Asia and Eastern Europe. The Group 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 price 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, and is well prepared to grasp 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 the 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 had no contingent liabilities provided for such purpose.

DISCLOSURE OF ADDITIONAL INFORMATION

Directors' interests in shares

At 30 June, 2002, the interests of the Directors in the share capital of the Company or its associated corporations, as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance"), were as follows:—

(a) The Company

Name of director	<i>Notes</i>	Nature of interest	Number of ordinary shares held
Mr. Cheek Ho Fung	(i)	Corporate	432,000,000
Mr. Cheek Ho Fung	(ii)	Personal	<u>48,000,000</u>
Total			<u><u>480,000,000</u></u>

Notes:—

- (i) These shares are owned by Inni International Inc., a company incorporated in the Republic of Liberia. The shares of Inni International Inc. are owned as to 49% by Mr. Cheek Ho Fung and as to 51% jointly by Mr. Cheek Ho Fung and his wife.
- (ii) These shares are owned by Mr. Cheek Ho Fung.

(b) Associated Corporation – Inni International Inc.

Name of director		Nature of interest	Number of ordinary shares held
Mr. Cheok Ho Fung		Personal	12,250
Mr. Cheok Ho Fung	<i>Note</i>	Family	<u>12,750</u>
Total			<u><u>25,000</u></u>

Note:—

The 12,750 shares in Inni International Inc. are jointly held by Mr. Cheok and his wife.

(c) Subsidiary – Topsearch Industries (Holdings) Limited

Name of director	<i>Notes</i>	Nature of interest	Number of non-voting deferred shares held
Mr. Cheok Ho Fung	<i>(i)</i>	Personal	2,000,100
Mr. Cheok Ho Fung	<i>(i) & (ii)</i>	Family and corporate	<u>17,999,900</u>
Total			<u><u>20,000,000</u></u>

Note:—

(i) These shares are non-voting deferred shares.

(ii) These shares are owned by Inni International Inc., a company incorporated in the Republic of Liberia. The shares of Inni International Inc. are owned as to 49% by Mr. Cheok Ho Fung and as to 51% jointly by Mr. Cheok Ho Fung and his wife.

Save as disclosed above, none of the Directors or their associates had any interest in the issued share capital of the Company or any of its associated corporations, as defined in the SDI Ordinance.

Directors' rights to acquire shares or debentures

Under the terms of a share option scheme (the "Scheme") adopted by the Company on 30 May, 2002, the Board may, at its discretion, grant options to the employees of the Group, Directors and selected participants to subscribe for shares of the Company. The Scheme became effective upon the listing of the Company's shares on the Stock Exchange on 21 June, 2002. At the date of this interim report, no options have been granted to any persons under the Scheme.

Save as disclosed above, other than in connection with the Group Reorganisation in preparation for the Company's initial public offering, at no time since its incorporation was the Company or any of its subsidiaries a party to any arrangement to enable the Directors, their respective spouses or children under 18 years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

Substantial shareholders

As at 30 June, 2002, the register of substantial shareholders maintained under Section 16(1) of the SDI Ordinance shows the following interest of 10% or more of the Company:

Name of shareholder	Notes	Number of ordinary shares held	Percentage of issued share capital
Inni International Inc.	(i)	432,000,000	67.5%
Mr. Cheok Ho Fung	(ii)	480,000,000	75.0%
Mrs. Cheok Chu Wai Min	(ii)	480,000,000	75.0%

Notes:—

- (i) The above interest in the name of Inni International Inc. was also disclosed as interests of Mr. Cheok Ho Fung in the above section headed "Directors' interests in shares".
- (ii) Mrs. Cheok Chu Wai Min is the spouse of Mr. Cheok Ho Fung. The shares of Inni International Inc. are owned as to 49% by Mr. Cheok Ho Fung and as to 51% jointly by Mr. Cheok Ho Fung and Mrs. Cheok Chu Wai Min. The shareholdings stated against Mr. Cheok Ho Fung and Mrs. Cheok Chu Wai Min above represented the same block of shares, which were also included as interests of Mr. Cheok Ho Fung in the above section headed "Directors interests in Shares".

Save as disclosed above, no persons had registered an interest in the issued share capital of the Company that was required to be recorded under Section 16(1) of the SDI Ordinance.

Issue of shares

At 21 June, 2002, the Company issued a total of 160,000,000 ordinary shares of HK\$0.10 each at HK\$1.38 to independent third parties.

Details of movements in the share capital are set out in note 10 to the Interim Financial Statements.

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, sold or redeemed any of the Company's listed securities since that date.

AUDIT COMMITTEE

The Company 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 Rules. The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal controls of the Group. These Interim Financial Statements for the Period have 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 shares 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.

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