TOPSEARCH INTERNATIONAL (HOLDINGS) LIMITED
至卓國際（控股）有限公司 *

(Incorporated in Bermuda with limited liability)

ANNOUNCEMENT OF FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2002

The board of directors (the “Board” or “Directors”) of Topsearch International (Holdings) Limited (the “Company”) is pleased to announce the audited consolidated financial results of the Company and its subsidiaries (the “Group”) for the year ended 31 December 2002 together with comparative figures for 2001 as follows:—

CONSOLIDATED PROFIT AND LOSS ACCOUNT

		Year ended 31 December	
		2002	2001
	Notes	***HK$'000***	*HK$'000*
TURNOVER	*2*	**1,041,298**	1,149,143
Cost of sales		**(799,639)**	(833,538)
Gross profit		**241,659**	315,605
Other revenue		**5,345**	6,939
Selling and distribution costs		**(73,875)**	(78,479)
Administrative expenses		**(99,397)**	(93,737)
Other operating expenses		**(4,879)**	(2,765)
PROFIT FROM OPERATING ACTIVITIES	*3*	**68,853**	147,563
Finance costs	*4*	**(11,089)**	(18,557)
PROFIT BEFORE TAX		**57,764**	129,006
Tax	*5*	**(9,927)**	(18,753)
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		**47,837**	110,253
DIVIDENDS — Proposed final		**9,600**	98,000
EARNINGS PER SHARE			
Basic	*6*	**8.4 cents**	23.0 cents
Diluted		**N/A**	N/A

Notes:

1. Basis of presentation

The Company was incorporated as an exempted company with limited liability in Bermuda on 12 May 1998 under the Companies Act 1981 for 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.

The consolidated financial statements have been prepared using the merger basis of accounting as a result of the Group Reorganisation. Under this basis, the Company has been treated as the holding company of its subsidiaries for the two years ended 31 December 2002 rather than from the date of acquisition of the subsidiaries.

The basis of presentation and accounting policies adopted in the audited consolidated 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 or revised SSAPs:

SSAP1	(Revised)	:	Presentation of Financial Statements
SSAP11	(Revised)	:	Foreign Currency Translation
SSAP15	(Revised)	:	Cash Flow Statements
SSAP34		:	Employee Benefits

The adoption of these new or revised SSAPs had no material effects on the Group's financial results.

2. Turnover

Turnover represents the net invoiced value of goods sold net of discounts and returns. The Group's principal activities during the year were the manufacture and sale of printed circuit boards ("PCBs") with production facilities in Guangdong Province, the People's Republic of China (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:-

	2002	2001
	HK$'000	*HK$'000*
South East Asia	**447,463**	366,877
North America	**184,503**	288,556
The PRC and Hong Kong	**188,218**	288,736
Taiwan	**160,446**	130,857
Europe	**60,052**	74,117
North Asia	**616**	—
	1,041,298	1,149,143

3. Profit from operating activities

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

	2002	2001
	HK$'000	*HK$'000*
Depreciation	**119,896**	98,871
Minimum lease payments under operating lease rentals on land and buildings	**11,455**	10,406
Auditors' remuneration	**1,024**	983
Staff costs, excluding Directors' remuneration:		
Wages and salaries	**158,250**	132,855
Retirement scheme contributions	**7,536**	9,409
Exchange losses — net	**838**	1,110
Loss on disposal of fixed assets	**655**	2,774
Write-back for obsolete inventories	**(1,330)**	(4,000)

4. Finance costs

	2002	2001
	HK$'000	*HK$'000*
Interest expense on:		
Bank loans and overdrafts wholly repayable within five years	**7,536**	5,831
Bank loans repayable beyond five years	**—**	935
Finance leases	**7,423**	11,791
	14,959	18,557
Less: interest capitalised	**(3,870)**	—
	11,089	18,557

5. Tax

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

Profit tax outside Hong Kong is calculated at the rates prevailing in the respective jurisdictions.

	2002	2001
	HK$'000	*HK$'000*
Group:		
Hong Kong	**2,400**	4,200
Outside Hong Kong	**5,800**	8,900
Under provision in prior year	**227**	753
Deferred tax	**1,500**	4,900
Tax charge for the year	**9,927**	18,753

Deferred tax has been provided under the liability method at 16% (2001: 16%) on the timing differences between taxable profit and profit reported in the financial statements.

6. Earnings per share

The calculation of basic earnings per share is based on the net profit from ordinary activities attributable to shareholders for the year ended 31 December 2002 of HK$47,837,000 (2001: HK$110,253,000), and the weighted average of 567,955,800 (2001: 480,000,000) ordinary shares in issue during the year ended 31 December 2002.

No diluted earnings per share for the year ended 31 December 2002 has been calculated as no diluting events existed during these years.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

In the second half of fiscal year 2002, products from some customers required additional treatment in certain production processes, which created output imbalance in the different operational processes. Because of this, the Group was not able to reach its projected monthly production output of an average of 1.5 million sq. ft. during the second half of fiscal year 2002. The monthly output remained at its average of 1.2 to 1.3 million sq. ft. for the second half of the fiscal year 2002.

Coupled with this process imbalance, the continuing price erosion during the year turned out to be serious. This is mainly due to the over capacity of the PCB industry. The average loading for the PCB industry worldwide, as estimated by NT Information Ltd, was only around 71% in 2002. In fact, for many medium to large sized PCB manufacturers, the average loading during 2002 could be less than 60%. The Group was able to out-perform the market with its loading running around 80% in the second half of fiscal year 2002. According to a survey conducted by Prismark, an electronics industry consulting firm, a total of seven U.S. PCB manufacturers with around 20 locations shut down during fiscal year 2002 and the permanent capacity loss may be as high as 30,000,000 sq. ft. per year. The worldwide over-capacity would of course be even higher if there were no such shut downs in the U.S., and in some parts of Europe as well. According to estimates by NT Information Ltd released in 2003 , in 2002, the U.S. was estimated to sustain negative growth of 30% whilst Western Europe was estimated to suffer negative growth of 25%. However, China was estimated to enjoy a positive growth of 17% though this does not mean that China is immune from further price erosion. World production saw negative growth of 4% to 7% in 2002. As a result, the weighted average price of the Group's PCB products dropped by 12% over in fiscal year 2002.

However, despite the drop in the sales amount, the Group managed to expand output volume, in terms of square footage, by approximately 3% as compared to the previous year, thanks to the efforts of its strong marketing team and the support of key customers who are looking for a reliable source to support their new production facilities in China. As a result of the decrease in costs of raw materials and with effective cost controls, the overall cost of sales decreased by approximately 4% in 2002. The gross profit ratio decreased to 23.2% in 2002 from 27.5% in 2001.

The growth in sales of multi-layered boards in 2002 has been working well in line with the Group's business strategy for the year. The output volume and sales of multi-layered boards (six layers and above) increased by 51.3% and 23.2% respectively in 2002 against 2001. During the year, the Group observed a significant change in the geographical location of sales. Some of the Group's customers shifted their production bases from North America and Europe to South East Asia. This factor, together with the growth of sales from customers in South East Asia, contributed to the increased proportion of sales in South East Asia from 31.9% to 43.0%, while those from North America and Europe dropped from 25.1% to 17.7% and from 6.4% to 5.8% respectively as compared to the prior year. One of the Group's customers, who is headquartered in Hong

Kong, delegated its procurement function to its group companies in South East Asia. As such, sales to customers in Greater China (ie. China, Hong Kong and Taiwan) decreased slightly from 36.5% to 33.5%. Within Greater China, sales to local customers in China (excluding foreign invested production plants) rose from HK$15,000 in 2001 to HK$10,000,000 in 2002 due to strong marketing efforts such as the opening of the Shanghai office and the setting up of a new marketing team in Shenzhen.

Overall, the Management is disappointed with the results achieved by the Group during fiscal year 2002. The Management has taken steps to further reduce costs including reducing its world-wide staff head count at the end of November 2002. Facing on-going competition in the PCB industry in the year 2003, the Management and all staff have taken measures to overcome the difficulties by adopting and rigidly adhering to various improvement programs with the aim of returning to, or even exceeding, previous earning levels. More information of these programs can be found in the "Prospects" section.

Review of the financial performance

The Group's turnover decreased by 9.4% to HK$1,041 million from HK$1,149 million in 2001. Operating profit was HK$69 million, as compared to HK$148 million in 2001. Profits attributable to shareholders amounted to HK$48 million, as compared to HK$110 million in 2001. Basic earnings per share were 8.4 Hong Kong cents, as compared to 23 Hong Kong cents in 2001.

The output level of the Group increased by approximately 3% whereas the average selling price decreased by approximately 12%. The cost of materials decreased by approximately 20% per sq. ft. but production overheads increased by 8.3% per sq. ft.. 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 decreased from 27.5% to 23.2%.

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 internally generated cash flows, shareholders' equity and borrowings from banks.

As at 31 December 2002, the Group had total assets of approximately HK$1,333 million (31 December 2001: HK$1,142 million) and interest-bearing borrowings HK$328 million (31 December 2001: HK$305 million), representing a gearing ratio, defined as interest-bearing borrowings over total assets, of approximately 24.6% (31 December 2001: 26.7%).

The Group's net current assets of approximately HK$6 million (31 December 2001: HK$16 million) consisted of current assets of approximately HK$492 million (31 December 2001: HK$433 million) and current liabilities of approximately HK486 million (31 December 2001: HK$417 million), representing a current ratio of approximately 1.01 (31 December 2001: 1.04)

As at 31 December 2002, the Group's current assets consisted of approximately HK$74 million (2001: approximately HK$58.5 million) held as cash and cash equivalents, of which 69% in HKD, 23% in USD, 4% in RMB and 4% in other currencies including Singapore dollars, New Taiwan dollars, Korean Won and British Pond.

As at 31 December 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 and replaced by a corporate guarantee and/or other security to be provided by the Company and/or other members of the Group.

Interest-bearing borrowings

As at 31 December, the Group had the interest-bearing borrowings as follows:—

	2002	2001
	HK$'000	HK$'000
Amount payable:—		
Within one year	**196,192**	127,317
In the second year	**68,974**	76,626
In the third to fifth year, inclusive	**62,358**	100,284
Beyond five years	**—**	969
	327,524	305,196
Less: Portion classified as current liabilities	**(196,192)**	(127,317)
Long term portion	**131,332**	177,879

USD denominated loans accounted for 3.6% (2001: 1.6%) of the total interest-bearing borrowings while the remaining portion in HKD. All interest-bearing borrowings are charged with floating rates ranging from 0.5% to 2.75% above basic lending rates per annum. The Directors do not recognise a significant seasonality of borrowing requirements during the year ended 31 December 2002.

Foreign exchange exposure

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

Currently, the Group does not have a foreign currency hedging policy and its foreign exchange gains and losses over past few years were relatively low. The Directors will continue to monitor foreign exchange exposure in the future and will consider hedging any materials foreign exchange exposure to minimize foreign exchange risk should the need arise.

Number and remuneration of employees

As at 31 December 2002, excluding the associate, the Group employed 4,811 staff, of which 124 were employed in Hong Kong, 4,657 in the PRC and 30 in various overseas marketing offices. During the financial year ended 31 December 2002, total staff costs amount to 174 million. Under the Group's remuneration policy, employees are rewarded in line with market rate and in compliance with statutory requirements of all jurisdictions where it operates. The company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants including any employees of the Group. However, no share options have been granted under the share option scheme up to the date of this announcement.

Contingent liabilities

As at 31 December 2002, the Group had no material contingent liabilities not provided for.

Capital commitments

As at 31 December 2002, the Group's capital commitments authorized but not contracted for amounted to HK$43 million (2001: approximately HK$157 million) and those contracted but not provided for amounted to HK$62 million. (2001: approximately HK$54 million). All of these capital commitments were related to construction of factory building or acquisition of fixed assets.

Prospects

An average of 73% to 75% of its total turnover relates to PC and PC-related industry. Although there is high demand for PCB products in the PC and PC-related markets, competition within this industry is intensifying and the relevant technologies are subject to rapid changes. Therefore, the Group is diversifying to alleviate the pain brought about by the over-capacity in the PC-related PCB market which has resulted in strong price erosion. Because of the continuous investment in very advanced equipment and the recruitment of more experienced and talented engineers in the last few years, the Group will be able to gradually transform its product mix from the most competitive PCB products (such as 4 layers mother-boards) to other niche products such as special materials including high Tg, Getek, Rogers and Halogen-free materials. The Group is also entering into the supply of higher layers for back panels, blind-buried-vias PCBs for the application of notebooks, PDA, servers and the supply of HDI microvias PCBs for hand-phones. On average, these products can command a higher profit margin than that of PC-related PCBs. All these products will go into mass-volume production once the new plant is ready in early Q3, 2003. Additionally, production capacity is expected to increase to 1.5m sq ft subsequent to the commencement operations of the new plant. The capability to launch all these high-end and high-margin products forms the basis of the Group's confidence that it will return to its previous earning levels.

With increasing globalization, pricing pressure on end products and its components will force more and more multi-national electronics manufacturers to move their production plants to or to source their components from low cost regions. The Group, as a result, estimates a further consolidation in the PCB industry in such high cost regions as North America, Europe and Japan in the coming years. Particularly, PCB manufacturers in less competitive areas will continue to shut down. Meanwhile, the PCB industry in Asia, specifically China and South East Asia, is expected to grow rapidly in future. With well established networks and multi-national customers, particularly their group companies in Greater China and South East Asia, the Group is in an advantageous position to gain from this trend.

In the absence of any further unforeseen circumstances such as a more serious world-wide economic down-turn, the Group remains optimistic in its medium and long term future outlook in view of the situation as described earlier.

USAGE OF PROCEEDS FROM THE NEW ISSUE

The net proceeds from the initial public offer and placing of the Company's ordinary shares amounted to approximately HK$198 million, net of related expenses. As at 31 December 2002, the Group has utilized a total of approximately HK$75 million in construction of new factory building, HK 12 million in acquisition of new equipment, HK$41 million in reduction of bank loans. The remaining proceeds were placed on short term deposits with licensed banks in Hong Kong. The Directors planned to apply the remaining proceeds in construction of new factory building and acquisition of new equipment.

DIVIDENDS

The Board has proposed a final dividend of 1.5 Hong Kong cents per share for the financial year ended 31 December 2002. The final dividend, if approved at the forthcoming Annual General Meeting, will be payable to shareholders whose names appear on the Register of Members at the close of business on 15 May 2003. Barring unforeseen circumstances and based on cash flow requirements, the Board of Directors proposes distributing approximately 20% of annual earnings as dividends to shareholders.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members will be closed from Monday, 12 May to Thursday, 15 May 2003, both dates inclusive. In order to qualify for the final dividend, transfer forms accompanied by relevant share certificates, must be lodged with the Company's Share Registrar in Hong Kong, Tengis Limited, G/F, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong, not later than 4:00 p.m. on Friday, 9 May 2003.

CODE OF BEST PRACTICE

In the opinion of the Directors, the Company complied with the Code of Best Practice (the "Code") as set out in Appendix 14 of the Listing Rules, since the listing of the share of the Company on the Stock Exchange on 21 June 2002, 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 are eligible for re-election at the annual general meeting in accordance with the bye-laws of the Company.

PUBLICATION OF THE RESULTS ON WEBSITE OF THE STOCK EXCHANGE

A detailed results announcement containing the information required by paragraphs 45(1) to 45(3) of Appendix 16 to the Listing Rules will be published on the Stock Exchange's website (www.hkex.com.hk) and the Company's website (www.topsearch.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, 11 April 2003

* *For identification purpose only*

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that an Annual General Meeting of the Members of Topsearch International (Holdings) Limited (the "Company") will be held at Harbour Room, Harbour Room Level (3/F), The Ritz-Carlton Hotel, 3 Connaught Road Central, Hong Kong on Thursday, 15 May 2003 at 9:30 a.m. for the following purposes:

1. To receive and consider the Audited Consolidated Financial Statements and the Reports of the Directors and of the Auditors for the year ended 31 December 2002;

2. To declare a final dividend;

3. To elect Directors, to fix the maximum number of Directors, to authorise the Board of Directors to appoint additional Directors up to the maximum number determined and to authorise the Board of Directors to fix Directors' remuneration;

4. To appoint Auditors and to authorise the Board of Directors to fix Auditors' remuneration;

5. To consider as special business and, if thought fit, pass with or without amendments, the following resolution as an ordinary resolution:

   "**THAT**

   (a) the exercise by the Directors during the Relevant Period (as defined below) of all the powers of the Company to purchase its shares, subject to and in accordance with the applicable laws, be and is hereby generally and unconditionally approved;

   (b) the total nominal amount of shares of the Company to be purchased pursuant to the approval in paragraph (a) above shall not exceed 10% of the total nominal amount of the share capital of the Company in issue on the date of passing of this resolution and the said approval shall be limited accordingly; and

   (c) for the purpose of this resolution, "Relevant Period" means the period from the passing of this resolution until whichever is the earliest of:

      (i) the conclusion of the next annual general meeting of the Company;

      (ii) the revocation or variation of the authority given under this resolution by ordinary resolution passed by the Company's shareholders in general meetings; and

      (iii) the expiration of the period within which the next annual general meeting of the Company is required by the bye-laws of the Company or any applicable laws to be held.";

6. To consider as special business and, if thought fit, pass with or without amendments, the following resolution as an ordinary resolution:

   "**THAT**

   (a) the exercise by the Directors of the Company during the Relevant Period (as defined below) of all the powers of the Company to issue, allot and deal with additional shares of the Company and to make or grant offers, agreements and options which would or might require shares to be allotted, issued or dealt with during or after the end of the Relevant Period (as defined below), be and is hereby generally and unconditionally approved, provided that, otherwise than pursuant to (i) a rights issue where shares are offered to shareholders on a fixed record date in proportion to their then holdings of shares (subject to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of any recognised regulatory body or any stock exchange in any territory outside Hong Kong) or (ii) any option scheme or similar arrangement for the time being adopted for the grant or issue to officers and/or employees of the Company and/or any of its subsidiaries and/or any eligible grantee pursuant to the scheme of shares or rights to acquire shares of the Company, or (iii) any scrip dividend scheme or similar arrangement providing for the allotment of shares in lieu of the whole or part of a dividend on shares of the Company in accordance with the bye-laws of the Company, the total nominal amount of additional shares to be issued, allotted, dealt with or agreed conditionally or unconditionally to be issued, allotted or dealt with shall not in total exceed 20% of the total nominal amount of the share capital of the Company in issue on the date of passing of this resolution and the said approval shall be limited accordingly; and

(b) for the purpose of this resolution, "Relevant Period" means the period from the passing of this resolution until whichever is the earliest of:

(i) the conclusion of the next annual general meeting of the Company;

(ii) the revocation or variation of the authority given under this resolution by ordinary resolution passed by the Company's shareholders in general meetings; and

(iii) the expiration of the period within which the next annual general meeting of the Company is required by the bye-laws of the Company or any applicable laws to be held."; and

7. To consider as special business and, if thought fit, pass with or without amendments, the following resolution as an ordinary resolution:

"**THAT** conditional upon the passing of the ordinary resolutions numbered 5 and 6 as set out in the notice convening this meeting, the general mandate granted to the Directors of the Company pursuant to the ordinary resolution numbered 6 as set out in the notice convening this meeting to exercise the powers of the Company to allot, issue and deal with the shares of the Company be and is hereby extended by the addition thereto of the total nominal amount of shares of the Company repurchased by the Company pursuant to the exercise by the Directors of the powers of the Company to purchase such shares since the granting of the general mandate referred to in the ordinary resolution numbered 5 as set out in the notice convening this meeting, provided that such amount shall not exceed 10% of the total nominal amount of the share capital of the Company in issue on the date of passing of this resolution.".

On behalf of the Board
Cheok Ho Fung
Chairman and Chief Executive Officer

Hong Kong, 11 April 2003

Notes:

(a) The Register of Members of the Company will be closed from Monday, 12 May 2003 to Thursday, 15 May 2003 (both days inclusive), during which period no transfer of shares of the Company will be registered. In order to qualify for entitlement to the proposed final dividend as set out in the Company's announcement of annual results for the year ended 31 December 2002 and for attending this meeting, all transfers of shares of the Company accompanied by the relevant share certificates and the appropriate transfer forms must be lodged with the Company's Share Registrar in Hong Kong, Tengis Limited, at G/F Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong for registration not later than 4:00 p.m. on Friday, 9 May 2003.

(b) A shareholder of the Company, who is the holder of two or more shares of the Company, entitled to attend and vote at this meeting is entitled to appoint more than one proxy to attend and vote on his behalf. A proxy need not be a shareholder of the Company. If more than one proxy is so appointed, the appointment shall specify the number and class of shares in respect of which each such proxy is so appointed.

(c) The instrument appointing a proxy and the power of attorney or other authority, if any, under which it is signed, or a certified copy of such power or authority, must be lodged with the Company's Share Registrar in Hong Kong, Tengis Limited, at G/F Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong not less than 48 hours before the time fixed for holding this meeting or any adjournment thereof.

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