



Topsearch International (Holdings) Limited

至卓國際（控股）有限公司*

(incorporated in Bermuda with limited liability)

Interim Report

2003

*For identification purposes only



CONTENT

	<i>PAGES</i>
Condensed Consolidated Profit and Loss Account	2
Condensed Consolidated Balance Sheet	3-4
Condensed Consolidated Cash Flow Statement	5
Condensed Consolidated Statement of Changes in Equity	6
Notes to Condensed Consolidated Financial Statements	7-13
Management Discussion and Analysis	14-18
Disclosure of Additional Information	18-22

The board of directors (the "Directors") of Topsearch International (Holdings) Limited (the "Company") is pleased to announce the unaudited condensed consolidated interim financial statements (the "Interim Financial Statements") of the Company and its subsidiaries (collectively the "Group") for the six months ended 30 June 2003 (the "Period") together with comparative figures. The Interim Financial Statements have been reviewed by the Company's audit committee.

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

	Notes	Six months ended 30 June	
		2003 (Unaudited) HK\$'000	2002 (Unaudited) HK\$'000
TURNOVER	2	547,863	508,005
Cost of sales		(457,165)	(369,656)
GROSS PROFIT		90,698	138,349
Other revenue and gains		3,358	2,268
Selling and distribution costs		(33,915)	(34,816)
Administrative expenses		(45,455)	(48,210)
Other operating expenses		(487)	(395)
PROFIT FROM OPERATING ACTIVITIES	3	14,199	57,196
Finance costs	4	(4,843)	(6,313)
PROFIT BEFORE TAX		9,356	50,883
Tax	5	(3,300)	(4,378)
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		6,056	46,505
EARNINGS PER SHARE			
— BASIC	7	HK\$0.01	HK\$0.10

CONDENSED CONSOLIDATED BALANCE SHEET

		30 June	31 December
		2003	2002
		(Unaudited)	(Audited)
	<i>Notes</i>	HK\$'000	<i>HK\$'000</i>
NON CURRENT ASSETS			
Fixed assets		924,097	835,706
Interest in an associate		319	336
Rental and utility deposits		3,480	3,494
Prepaid rental — long term portion		1,735	1,823
		929,631	841,359
CURRENT ASSETS			
Inventories		122,525	114,160
Prepayments, deposits and other receivables		68,096	38,782
Trade receivables	8	327,116	255,251
Cash and cash equivalents		52,002	74,388
		569,739	482,581
CURRENT LIABILITIES			
Trade payables	9	307,717	231,897
Other payables and accruals		45,914	52,696
Tax payable		7,625	4,764
Interest-bearing bank loans, secured	10	228,427	113,449
Current portion of finance lease payables	11	56,190	73,383
		645,873	476,189
NET CURRENT ASSETS/(LIABILITIES)		(76,134)	6,392
TOTAL ASSETS LESS CURRENT LIABILITIES		853,497	847,751

CONDENSED CONSOLIDATED BALANCE SHEET *(Continued)*

		30 June	31 December
		2003	2002
		(Unaudited)	(Audited)
	<i>Notes</i>	HK\$'000	<i>HK\$'000</i>
NON-CURRENT LIABILITIES			
Interest-bearing bank loans, secured	10	89,175	81,187
Finance lease payables	11	51,119	50,145
Deferred tax		36,312	36,012
		<u>176,606</u>	<u>167,344</u>
		<u>676,891</u>	<u>680,407</u>
CAPITAL AND RESERVES			
Share capital	12	64,000	64,000
Proposed final dividend		—	9,600
Reserves		612,891	606,807
		<u>676,891</u>	<u>680,407</u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Six months ended 30 June	
	2003	2002
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES	21,020	(62,602)
NET CASH OUTFLOW FROM INVESTING ACTIVITIES	(123,300)	(43,221)
NET CASH INFLOW FROM FINANCING ACTIVITIES	46,974	197,671
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	(55,306)	91,848
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	74,388	58,421
CASH AND CASH EQUIVALENTS AT END OF PERIOD	19,082	150,269
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	52,002	48,369
Short term time deposits	—	101,900
Bank overdrafts	(32,920)	—
	19,082	150,269

CONDENSED CONSOLIDATED 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 2003	64,000	134,743	19,000	19,739	2	15,300	4,064	9,600	413,959	680,407
Profit for the Period	—	—	—	—	—	—	—	—	6,056	6,056
Transfer to statutory reserve fund	—	—	—	—	—	1,700	—	—	(1,700)	—
Final dividend of 2002 paid	—	—	—	—	—	—	—	(9,600)	—	(9,600)
Exchange adjustments	—	—	—	—	28	—	—	—	—	28
At 30 June 2003	<u>64,000</u>	<u>134,743</u>	<u>19,000</u>	<u>19,739</u>	<u>30</u>	<u>17,000</u>	<u>4,064</u>	<u>—</u>	<u>418,315</u>	<u>676,891</u>
	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	<u>64,000</u>	<u>134,969</u>	<u>19,000</u>	<u>19,739</u>	<u>115</u>	<u>13,660</u>	<u>4,064</u>	<u>—</u>	<u>423,867</u>	<u>679,414</u>

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 JUNE 2003

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 comparative condensed combined financial statements have been prepared under the merger basis of accounting as a result of the Group Reorganisation as mention above. On this basis, the Company has been treated as the holding company of its subsidiaries prior to that date of their acquisition pursuant to the Group Reorganisation on 29 May 2002. Accordingly, the condensed combined results and cash flows of the Group for the period ended 30 June 2002 include the results and cash flows of the Company and its subsidiaries with effect from 1 January 2002, or since their respective dates of incorporation/establishment, where this is a shorter period, as if the existing Group structure had been in existence throughout the period ended 30 June 2002.

The Interim Financial Statements have been prepared on a basis consistent with the principal accounting policies adopted in the 2002 annual report except for the accounting policy on deferred taxation. With the introduction of HK SSAP 12 (revised) "Income taxes", provision for deferred taxation is made for all taxable temporary differences instead of timing differences as previously adopted. This change in accounting policy does not have any impact on the Group's results and net assets for the current or prior periods.

The Interim Financial Statements of the Group have been prepared in accordance with SSAP 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants ("HKSA") and the requirements of the Main Board Listing Rules of the Stock Exchange (the "Listing Rules").

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 People's Republic of China ("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 2003 (Unaudited) HK\$'000	30 June 2002 (Unaudited) HK\$'000
South East Asia	230,861	234,368
Taiwan	108,605	52,398
The PRC and Hong Kong	93,218	102,231
North America	78,114	94,079
Europe	37,065	24,929
	<u>547,863</u>	<u>508,005</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

The Group's profit from operating activities is arrived after charging/(crediting):—

	For the six months ended	
	30 June 2003 (Unaudited) HK\$'000	30 June 2002 (Unaudited) HK\$'000
Depreciation	63,379	56,926
Exchange differences	487	395
Interest income	(186)	(94)
	<u>63,680</u>	<u>57,227</u>

4. FINANCE COSTS

	For the six months ended	
	30 June 2003 (Unaudited) HK\$'000	30 June 2002 (Unaudited) HK\$'000
Interest expenses on:—		
Bank loans and overdrafts wholly repayable within five years	4,500	3,907
Bank loans repayable beyond five years	30	158
Finance leases	2,251	4,295
	<hr/>	<hr/>
Total interest	6,781	8,360
Less: Interest capitalised	(1,938)	(2,047)
	<hr/>	<hr/>
	4,843	6,313
	<hr/> <hr/>	<hr/> <hr/>

5. TAX

	For the six months ended	
	30 June 2003 (Unaudited) HK\$'000	30 June 2002 (Unaudited) HK\$'000
Hong Kong	—	3,115
PRC, other than Hong Kong	3,000	4,263
Refund of 5% corporate income tax	—	(3,000)
Deferred tax	300	—
	<hr/>	<hr/>
Tax charge for the Period	3,300	4,378
	<hr/> <hr/>	<hr/> <hr/>

Hong Kong profits tax has been provided at the rate of 17.5% (2002: 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% (2002:15%) during the Period.

In July 2003, the Inland Revenue Department ("IRD") issued additional assessments for the 3 years ended 31 December 2001 to a subsidiary of the Company (the "subsidiary") to demand tax payments totalling HK\$33 million. In issuing the additional assessments, the IRD adopted a tax assessment basis that was different from the one agreed with the subsidiary in prior years. Furthermore, contentious items were disallowed on a general basis. The subsidiary has lodged an objection to the IRD in August 2003. As at the date of the Interim Financial Statements, the IRD has still been considering the objection. After considering the advice from a leading tax counsel, the directors of the Company consider that the subsidiary has valid arguments in this case. As it is not possible to estimate the outcome of the objection with reasonable certainty at this stage, the directors of the Company consider that no provision for tax should be made in the Interim Financial Statements.

6. DIVIDEND

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2003 (2002: Nil).

7. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the consolidated net profit from ordinary activities attributable to shareholders of approximately HK\$6,056,000 for the six months ended 30 June 2003 (2002: HK\$46,505,000) and the weighted average number of ordinary shares in issue during the Period of 640,000,000 (2002: 487,955,800). There were no potential dilutive ordinary shares in existence for the six months ended 30 June 2003 and 2002. Accordingly, no diluted earnings per share have been presented.

8. TRADE RECEIVABLES

Credit is offered to customers following a financial assessment by the Group. Periodic reviews 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. The Group keeps monitoring its outstanding accounts receivable. Overdue balances are regularly reviewed by the senior management.

An aged analysis of the trade receivables as at the balance sheet date, based on the due date of the sale of goods, is as follows:—

	30 June 2003 (Unaudited) HK\$'000	31 December 2002 (Audited) HK\$'000
Less than 30 days	270,171	163,104
31 — 60 days	24,107	24,387
61 — 90 days	4,088	23,613
Over 90 days	28,750	44,147
	327,116	255,251

9. TRADE PAYABLES

An aged analysis of the trade payables as at the balance sheet date, based on the date of the receipt of the respective goods and services is as follows:—

	30 June 2003 (Unaudited) HK\$'000	31 December 2002 (Audited) HK\$'000
Less than 30 days	229,484	148,388
31 — 60 days	47,320	46,399
61 — 90 days	21,424	25,416
Over 90 days	9,489	11,694
	307,717	231,897

10. INTEREST-BEARING BANK LOANS

	30 June 2003 (Unaudited) HK\$'000	31 December 2002 (Audited) HK\$'000
Amount payable:—		
Bank overdraft, trust receipt loans and short term bank loans repayable within one year or on demand	184,818	89,232
Bank loans, secured and repayable:—		
Within one year	43,609	24,217
In the second year	53,784	34,438
In the third to fifth year, inclusive	35,232	46,749
Beyond five years	159	—
	317,602	194,636
Less: Portion classified as current liabilities	(228,427)	(113,449)
Long term portion	89,175	81,187

11. FINANCE LEASE PAYABLES

	30 June 2003 (Unaudited) HK\$'000	31 December 2002 (Audited) HK\$'000
Amount payable:—		
Within one year	56,190	73,383
In the second year	31,938	34,536
In the third to fifth year, inclusive	19,181	15,609
Beyond five years	—	—
	107,309	123,528
Less: Portion classified as current liabilities	(56,190)	(73,383)
Long term portion	51,119	50,145

12. SHARE CAPITAL

	30 June 2003 (Unaudited) HK\$'000	31 December 2002 (Audited) HK\$'000
Authorized: 2,000,000,000 ordinary shares of HK\$0.1 each	<u>200,000</u>	<u>200,000</u>
Issued and fully paid: 640,000,000 ordinary shares of HK\$0.1 each	<u>64,000</u>	<u>64,000</u>

13. CAPITAL COMMITMENTS

	30 June 2003 (Unaudited) HK\$'000	31 December 2002 (Audited) HK\$'000
Authorized but not contracted for:— Commitments in respect of construction of the factory building	<u>24,214</u>	<u>43,130</u>
Authorized and contracted for:— Commitments in respect of construction of the factory building	<u>13,003</u>	<u>55,774</u>
Commitments in respects of acquisition of fixed assets	<u>16,522</u>	<u>6,217</u>
	<u>29,525</u>	<u>61,991</u>
	<u>53,739</u>	<u>105,121</u>

14. CONTINGENT LIABILITIES

At the balance sheet date, contingent liabilities not provided for in the Interim Financial Statements were as follows:—

	30 June 2003 (Unaudited) HK\$'000	31 December 2002 (Audited) HK\$'000
Trade receivables factored with recourse	<u>11,700</u>	<u>9,360</u>

15. RELATED PARTY TRANSACTIONS

The Group had the following transaction with a related company during the Period.

	For the six months ended	
	30 June	30 June
	2003	2002
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Rental expenses paid to a company a director has beneficial interest	690	690

The monthly rental rate was based on a market rental valuation provided by an independent professional valuer in April 2002.

16. SUBSEQUENT EVENTS

In addition to the event as detailed in Note 5, on 17 September 2003, Mr. Cheok Ho Fung, a director of the Company, entered into a loan agreement with the Company to provide a loan facility to the Company of up to HK\$30 million. The loan was unsecured, interest-bearing at HIBOR rate and repayable by twelve monthly repayments, together with interest thereon, commencing from 18 October 2005. The loan facility has not been utilized up to the date of the report.

17. COMPARATIVE AMOUNTS

Short term bank loans, amounting to HK\$9,360,000, related to trade receivables factoring as at 31 December 2002 were offset against trade receivables and contingent liabilities so arising from the factoring were disclosed in Note 14 to the Interim Financial Statements, as in the opinion of the Directors, such reclassification would produce a more appropriate presentation of the Group's financial position.

MANAGEMENT DISCUSSION AND ANALYSIS

Review of the operating environment

The over capacity in the PCB industry continued to erode prices during the first half of 2003. As a result, the average selling price for the Group's PCBs declined by about 13.7%, compared to the same period last year. However, as a result of its improvements in process management, the Group managed to expand output volume, in terms of square footage, by about 25.0%. As a result, sales increased by about 7.8% on a half-year to half-year basis. Production reached an average utilization rate of about 86% during the period with the rate even reaching over 90% in the second quarter.


The growth in sales of multi-layered boards (6-layered or above) in the first half of 2003 has been progressing well in line with the business strategy. The shipment level for multi-layered boards, which account for higher profit margins, increased by about 65% in the first half of 2003 against the corresponding period last year. Currently, multi-layered boards contribute about 24% of the Group's sales.

More and more multi-national electronics manufacturers are moving their production plants to or are sourcing their components from low-cost regions such as China and South East Asia. During the Period, while the Group's sales revenue from customers in South East Asia remained stable, sales to Taiwanese customers increased noticeably. The swift relocation and sizable expansion of Taiwan's electronics manufacturers in China in recent years are the major driving forces for this change in the Group's geographical sales locations.

The Group continued to invest resources in upgrading its technical capabilities and in enhancing its marketing efforts to expand market coverage and further improve customer services to new and existing customers.

Review of financial performance

Compared to the results in the same period in 2002, the Group's turnover increased by 7.8% to approximately HK\$547.9 million, operating profit decreased by 75.2% to HK\$14.2 million, net profit attributable to shareholders decreased by 87.0% to approximately HK\$6.1 million, and earnings per share decreased by 90.0% to HK\$0.01 in the first half of 2003.



The Group's shipment levels increased by 25% while the average sales price decreased by 13.7%. The cost of materials increased by 23.0% in line with the increase in shipment levels, and product overheads increased by 24.3%. As a result, the total cost of goods sold increased by 23.7%. The overall gross profit margin decreased from 27.2% in the first half of 2002 to 16.6% in the first half of 2003. Administrative expenses, selling and distribution expenses and other expenses collectively decreased by 4.3%, compared to the same period in 2002, to approximately HK\$80 million.

The Group neither held any significant non-consolidated investments nor underwent any material acquisitions or disposals of subsidiaries and associated companies during the first half of 2003.

Foreign Exchange Exposure

Sales of the Group's products are principally denominated in US dollars and the purchase of materials and payments of operational expenses are mainly denominated in US dollars, HK dollars and RMB. Taking into account the Group's operational and capital requirements in the aforesaid currencies, the Group has minimal risk in the event of fluctuation of exchange rates of US dollars, HK dollars and RMB.

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 such exposure to minimize exchange risk should the need arise.

Liquidity and financial resources

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

As at 30 June 2003, the Group had total assets of approximately HK\$1,499 million (31 December 2002: HK\$1,324 million) and interest-bearing borrowings of approximately HK\$425 million (31 December 2002: HK\$318 million), representing a gearing ratio, defined as interest-bearing borrowings over total assets, of approximately 28.4% (31 December 2002: 24.0%).

The Group's net current liabilities of approximately HK\$76 million (31 December 2002: net current assets of HK\$6.4 million) consisted of current assets of approximately HK\$570 million (31 December 2002: HK\$483 million) and current liabilities of approximately HK\$646 million (31 December 2002: HK\$476 million), representing a current ratio of approximately 0.88 (31 December 2002: 1.01).

As at 30 June 2003, the Group's current assets consisted of approximately HK\$52 million (31 December 2002: approximately HK\$74.4million) held as cash and bank balance, of which 51% in HKD, 26% in USD, 20% in RMB and 3% in other currencies.

As at 30 June, 2003, bank loans, overdrafts and other banking facilities of the Group were secured by:—

- (a) the assignment of all trade receivables of a subsidiary and the related trade credit insurance policy;
- (b) cross corporate guarantees by the Company and its subsidiaries;
- (c) a mortgage over certain land and buildings of a subsidiary; and
- (d) a charge over the construction in progress of the Group.

Interest-bearing borrowings

As at 30 June 2003, the Group had the interest-bearing borrowings as follows:—

	30 June 2003 (Unaudited) HK\$'000	31 December 2002 (Audited) HK\$'000
Amount payable:—		
Within one year	284,617	186,832
In the second year	85,722	68,974
In the third to fifth year, inclusive	54,413	62,358
Beyond five years	159	—
	424,911	318,164
<i>Less: Portion classified as current liabilities</i>	(284,617)	(186,832)
Long term portion	140,294	131,332

Of the total interest-bearing borrowings, HKD denominated loans accounted for 72%, USD for 27% and Japanese Yen for 1% as at 30 June 2003. All interest-bearing borrowings are charged with floating rates. The Directors do not recognize a significant seasonality of borrowing requirements.

Prospects

It is the Group's strategy to diversify into higher layered and/or special material products to alleviate the impact of over-capacity and price erosion in the PC-related PCB market. During the Period, the Group successfully stay on track, shifting a larger proportion of its product mix to higher layered boards. However, due to the outbreak of the Severe Acute Respiratory Syndrome ("SARS"), many customers delayed their schedules of plant visits and sample verifications. Thus, the development of special material products progressed slowly during the Period. With the SARS outbreak under control and with the removal of HK and China from the World Health Organization's list of infected areas, the management expects the development of special material products to force the pace in the second half of the year.


In addition, with the first phase operation of the new plant, the process imbalance problem will be eliminated. Together with its investments in the latest equipment at the new plant, the Group's production capacity is expected to increase to 1.6million sq. ft. per month in the second half of the year.

The Group, with its high facility production base in China, is in an advantageous position to benefit from the development trend as more and more multi-national electronics manufacturers relocate their production plants to or source components from low-cost regions such as China and South East Asia. Customers from China, Taiwan, HK and South East Asia contributed about 79% to the Group's sales revenues during the Period, as compared to less than 70% two years ago.

Barring unforeseen circumstances, the Directors believe that the continuous increase in orders of higher layered boards, the development of special material products, the commencement of the new production plant and the Group's advantageous geographical position will drive to Group's development and further success. The Directors therefore remain optimistic in the Group's medium and long term outlook.

Number and remuneration of employees

At 30 June 2003, excluding the associate, the Group employed 4,906 staff (31 December 2002: 4,811), of which 118 (31 December 2002: 124) were employed in Hong Kong, 4,750 (31 December 2002: 4,657) in the PRC and 38 (31 December 2002: 30) in various overseas marketing offices. During the first six months of the year, the total staff cost amounted to HK\$80 million (30 June 2002: HK\$77.9 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 options scheme up to the date of this report.

The Group follows a policy of encouraging its subsidiaries to send their staff to attend training classes or seminars that are related directly or indirectly to the Group's businesses.

Contingent liabilities

As at 30 June 2003, the Group had contingent liabilities related to trade receivables factored with recourse amounting to HK\$11.7 million (31 December 2002: HK\$9.4 million)

Capital commitments

As at 30 June 2003, the Group's capital commitments authorized but not contracted for amounted to HK\$24 million (31 December 2002: HK\$43 million) and those contracted but not provided for amounted to HK\$30 million (31 December 2002: HK\$62 million). All of these capital commitments were related to construction of factory building or acquisition of fixed assets.

Dividends

The Directors do not recommend the payment of interim dividend for the six months ended 30 June 2003 (30 June 2002: Nil).

DISCLOSURE OF ADDITIONAL INFORMATION

Directors' service contracts

On 30 May 2002, the Company entered into separate service agreements with Mr. Cheok Ho Fung, Mr. Ng Chi Shing, Mr. Kwok Chi Kwong and Mr. Wong Shui Hing respectively for an initial period of three years, which is renewable thereafter. Under the respective service agreements with Mr. Ng Chi Shing, Mr. Kwok Chi Kwong and Mr. Wong Shui Hing, such agreements may be terminated by either party by giving not less than three months' written notice to the other party while under the service agreement with Mr. Cheok Ho Fung, such agreement may be terminated by either party by giving not less than six months' written notice to the other party.

Save as disclosed above, none of the Directors has or is proposed to have a service agreement with the Company or any of its subsidiaries, which is not determinable within one year without payment of compensation other than statutory compensation.

Directors' interest in contracts

Save as disclosed in Notes 15 and 16 to the Interim Financial Statements, no contracts of significance in relation to the Group's business to which the Company or its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted any time during the Period or up to the date of the Interim Financial Statements.

Directors' interests in shares

As at 30 June 2003, the interests and short positions of the Directors in the shares, underlying shares and debentures of the Company or its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO") as recorded in the register maintained by the Company pursuant to Section 352 of the SFO were as follows:—

(a) The Company

Name of directors	Nature of interest		Number of ordinary shares held	Percentage of issued capital
Mr. Cheek Ho Fung	Direct	Long position	48,000,000	7.50%
	<i>Note</i>	Deemed	432,000,000	67.50%
		Total	<u>480,000,000</u>	<u>75.00%</u>

Note: These shares are owned by Inni International Inc., a company incorporated in 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.

(b) Associated Corporation — Inni International Inc.

Name of directors	Nature of interest		Number of ordinary shares held	Percentage of issued capital
Mr. Cheek Ho Fung	Direct		12,250	49.00%
	<i>Note</i>	Deemed	<u>12,750</u>	<u>51.00%</u>
		Total	<u>25,000</u>	<u>100.00%</u>

Note: These shares are jointly owned by Mr. Cheek and his wife.

(c) **Subsidiary – Topsearch Industries (Holdings) Limited**

Name of directors	Nature of interest	Number of non-voting deferred shares held	Percentage of issued capital
Mr. Cheek Ho Fung	Direct	2,000,100	10.00%
	<i>Note</i> Deemed	<u>17,999,900</u>	<u>89.99%</u>
	Total	<u><u>20,000,000</u></u>	<u><u>99.99%</u></u>

Note: These shares are owned by Inni International Inc., a company incorporated in 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.

Save as disclosed above, none of the Directors, chief executives or any of their associates had any interests or short positions in the shares, underlying shares or debentures of the Company or its associated corporations were recorded in the register required to be kept under Section 352 of the SFO as at 30 June 2003.

Directors' rights to acquire shares or debentures

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 options scheme up to the date of this report.

Save as disclosed above, at no time during the Period was the Company or any of its subsidiaries a party to any arrangement to enable the Directors, their respective spouses or children under 18 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 2003, the interests or short positions of every person in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO were as follows:—

Name of shareholder	Note	Nature of interest		Number of ordinary shares held	Percentage of issued capital
Inni International Inc.		Direct	Long position	<u>432,000,000</u>	<u>67.50%</u>
Mr. Cheok Ho Fung	(i)	Direct	Long position	48,000,000	7.50%
		Deemed	Long position	<u>432,000,000</u>	<u>67.50%</u>
		Total		<u>480,000,000</u>	<u>75.00%</u>
Mrs. Cheok Chu Wai Min	(ii)	Deemed	Long position	<u>480,000,000</u>	<u>75.00%</u>
Hallgain Management Limited	(iii)	Deemed	Long position	<u>59,414,000</u>	<u>9.28%</u>
Kingboard Chemical Holdings Limited		Direct	Long position	264,000	0.04%
	(iii)	Deemed	Long position	<u>59,150,000</u>	<u>9.24%</u>
		Total		<u>59,414,000</u>	<u>9.28%</u>
Jamplan (BVI) Limited	(iii)	Deemed	Long position	<u>59,150,000</u>	<u>9.24%</u>
Kingboard Investments Limited		Direct	Long position	<u>58,948,000</u>	<u>9.21%</u>

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".
- (iii) Kingboard Investments Limited and Kingboard Laminates Limited, holder of 202,000 shares in the Company, are wholly-owned subsidiaries of Jamplan (BVI) Limited which in turn is a wholly-owned subsidiary of Kingboard Chemical Holdings Limited. Hallgain Management Limited owns 40.8% equity shares in Kingboard Chemical Holdings Limited.

Save as disclosed above, no persons had any interests or shorts positions in the shares and underlying shares of the Company as recorded under Section 336 of the SFO as at 30 June 2003.

Purchase, sale or redemption of the Company's listed securities

Neither the Company, nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the Period.

AUDIT COMMITTEE

These Interim Financial Statements have not been audited, but have been reviewed by the Company's 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 in compliance with the Code of Best Practice as set out in Appendix 14 of the Listing Rules throughout the Period, 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, 19 September 2003