



TOPSEARCH INTERNATIONAL (HOLDINGS) LIMITED

至卓國際(控股)有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 2323)

**ANNOUNCEMENT OF FINAL RESULTS
For The Year ended 31 December 2003**

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 2003 together with comparative figures for 2002 as follows:—

CONSOLIDATED PROFIT AND LOSS ACCOUNT

| | | Year ended 31 December | |
|--|--------------|---------------------------|-----------------|
| | | 2003 | 2002 |
| | <i>Notes</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| TURNOVER | 2 | 1,159,339 | 1,041,298 |
| Cost of sales | | (943,522) | (799,639) |
| Gross profit | | 215,817 | 241,659 |
| Other revenue | | 7,050 | 5,345 |
| Selling and distribution costs | | (77,202) | (73,875) |
| Administrative expenses | | (90,403) | (99,397) |
| Other operating expenses | | (3,729) | (4,879) |
| PROFIT FROM OPERATING ACTIVITIES | 3 | 51,533 | 68,853 |
| Finance costs | 4 | (10,330) | (11,089) |
| PROFIT BEFORE TAX | | 41,203 | 57,764 |
| Tax | 5 | (8,700) | (9,927) |
| NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS | | 32,503 | 47,837 |
| DIVIDEND — Proposed final | | 6,528 | 9,600 |
| EARNINGS PER SHARE | | | |
| Basic | 6 | 5.1 cents | 8.4 cents |
| Diluted | | N/A | N/A |

Notes:

1. Basis of presentation

The final results have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice (“SSAP”) and accounting principles generally accepted in Hong Kong.

The final results include the results of the Company and its subsidiaries for the year ended 31 December 2003. The results of subsidiaries acquired or disposed during the year are consolidated from or to their effective dates of acquisition or disposal respectively. All significant intercompany transactions and balances within the Group have been eliminated on consolidation.

The comparative final results were prepared using the merger basis of accounting. On this basis, the Company has been treated as the holding company of its subsidiaries throughout the year ended 31 December 2002 rather than from the date of acquisition of the subsidiaries. Accordingly, the final results of the Group for the year ended 31 December 2002 included the results of the Company and its subsidiaries with effect from 1 January 2002 or since their respective dates of incorporation/establishment, where this was a shorter period, as if the Group had been in existence at that date.

SSAP 12 (Revised) “Income taxes” is effective for the first time for the current year’s financial statements. SSAP 12 prescribes the accounting for income taxes payable or recoverable, arising from the the taxable profit or loss for the current period (current tax); and income taxes payable or recoverable in future periods, principally arising from taxable and deductible temporary differences and the carryforward of unused tax losses (deferred tax). The adoption of the revised SSAP 12 has no significant effect on the Group’s results. However, the related note disclosures are now more extensive than previously required and a deferred tax liability has been recognised on the revaluation of the Group’s land and buildings.

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/results by principal activities is provided.

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

| | 2003 <i>HK\$’000</i> | 2002 <i>HK\$’000</i> |
|---|-------------------------|-------------------------|
| Asia, excluding the PRC, Hong Kong, and Taiwan | 489,247 | 448,079 |
| North America | 182,584 | 184,503 |
| The PRC including Hong Kong | 197,544 | 188,218 |
| Taiwan | 213,506 | 160,446 |
| Europe | 76,458 | 60,052 |
| | <u>1,159,339</u> | <u>1,041,298</u> |

3. Profit from operating activities

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

| | 2003 <i>HK\$'000</i> | 2002 <i>HK\$'000</i> |
|---|-------------------------|-------------------------|
| Cost of inventories sold | 943,623 | 800,969 |
| Depreciation | 129,012 | 119,896 |
| Minimum lease payments under operating lease rentals on land and buildings | 12,152 | 11,455 |
| Auditors' remuneration | 1,202 | 1,024 |
| Staff costs, excluding Directors' remuneration: | | |
| Wages and salaries | 151,604 | 158,250 |
| Retirement scheme contributions | 6,813 | 7,536 |
| Exchange losses — net | 2,516 | 838 |
| Loss on disposal of fixed assets | 132 | 655 |
| Write-back of provision for obsolete inventories | <u>(101)</u> | <u>(1,330)</u> |

4. Finance costs

| | 2003 <i>HK\$'000</i> | 2002 <i>HK\$'000</i> |
|---|-------------------------|-------------------------|
| Interest expense on: | | |
| Bank loans and overdrafts wholly repayable within five years | 10,146 | 7,536 |
| Shareholder's loan | 43 | — |
| Finance leases | <u>4,017</u> | <u>7,423</u> |
| | 14,206 | 14,959 |
| <i>Less:</i> interest capitalised | <u>(3,876)</u> | <u>(3,870)</u> |
| | <u>10,330</u> | <u>11,089</u> |

5. Tax

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the year. In the prior year, Hong Kong profits tax had been provided at the rate of 16% on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

| | 2003 <i>HK\$'000</i> | 2002 <i>HK\$'000</i> |
|--------------------------------|-------------------------|-------------------------|
| Group: | | |
| Hong Kong | — | 2,400 |
| Outside Hong Kong | 3,700 | 5,800 |
| Under provision in prior years | — | 227 |
| Deferred tax | <u>5,000</u> | <u>1,500</u> |
| Total tax charge for the year | <u>8,700</u> | <u>9,927</u> |

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 2003 of HK\$32,503,000 (2002: HK\$47,837,000), and the weighted average of 640,000,000 (2002: 567,955,800) ordinary shares in issue during the year ended 31 December 2003.

Diluted earnings per share for the year ended 31 December 2003 has not been calculated as no diluting events existed during these years.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

In the second half of fiscal year 2003, the Group benefited from the economic recovery in the United States and Europe and the continuous outsourcing of the supply chain to low-cost regions such as China and South East Asia. As a result, shipment volumes, in terms of square footage, were up by 24.4% as compared to last year. Production reached an average utilization rate of over 90% in the second half of the year with the rate even reaching about 95% in the fourth quarter.

During the second half of 2003, supply and demand in the PCB industry became more balanced, major raw material prices started moving upwards and PCB sales prices became more stable as compared with the first half of 2003. However, the average sales price for the year still fell by about 10.5% as compared to last year.

Total turnover reached HK\$1,159.3 million represented an increase of about 11.3% from last year. The shipment of multi-layered boards (6-layered and above), which bring in higher profit margins, increased by about 24%, as compared to last year. Currently, multi-layered boards contribute about 25% to the Group's sales.

The Group continued to invest resources in upgrading its technical capabilities and in enhancing its marketing efforts to expand market coverage and further improve in product mix.

Review of financial performance

The Group's turnover increased by 11.3% to HK\$1,159 million from HK\$1,041 million in 2002. Operating profit reached HK\$52 million, as compared to HK\$69 million in 2002. Profits attributable to shareholders amounted to HK\$33 million, as compared to HK\$48 million in 2002. Basic earnings per share were 5.1 Hong Kong cents, as compared to 8.4 Hong Kong cents in 2002.

The Group's output increased by approximately 24.4% whereas average sales prices decreased by approximately 10.5%. The cost of materials remained steady per sq. ft. and production overheads decreased by 7% per sq. ft.. The decrease in production overheads was a direct result of improvement in production efficiencies and the implementation of a stringent cost reduction program. At the same time, the Group's continuous investments in production facilities resulted in an increase in depreciation. As a result, the overall gross profit margin decreased from 23.2% to 18.6%.

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 31 December 2003, the Group had total assets of approximately HK\$1,557 million (31 December 2002: HK\$1,324 million) and interest-bearing borrowings HK\$462 million (31 December 2002: HK\$318 million), representing a gearing ratio, defined as interest-bearing borrowings over total assets, of approximately 29.7% (31 December 2002: 24%).

The Group's net current liabilities of approximately HK\$10 million (31 December 2002: net current assets of HK\$2 million) consisted of current assets of approximately HK\$582 million (31 December 2002: HK\$478 million) and current liabilities of approximately HK\$592 million (31 December 2002: HK\$476 million), representing a current ratio of approximately 0.98 (31 December 2002: 1.00).

As at 31 December 2003, the Group's current assets consisted of approximately HK\$74 million (2002: approximately HK\$74 million) held as cash and cash equivalents, of which 19.9% in HKD, 66.8% in USD, 12.2% in RMB and 1.1% in other currencies.

As at 31 December 2003, bank loans, overdrafts and other banking facilities of the Group were secured by:—

- (a) cross corporate guarantees by the Company and its subsidiaries;
- (b) a mortgage over certain land and buildings of the Group; and
- (c) a letter of undertaking over the construction in progress of the Group.

Interest-bearing borrowings

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

| | 2003 | 2002 |
|--|------------------|-----------|
| | HK\$'000 | HK\$'000 |
| Amount payable:— | | |
| Within one year | 249,181 | 186,832 |
| In the second year | 134,568 | 68,974 |
| In the third to fifth year, inclusive | 78,470 | 62,358 |
| | 462,219 | 318,164 |
| Less: Portion classified as current liabilities | (249,181) | (186,832) |
| Long term portion | 213,038 | 131,332 |

Of the total interest-bearing borrowings, USD denominated loans accounted for 16.4% (2002: 3.6%), HKD for 83.6% (2002: 96.4%) . All interest-bearing borrowings are charged with floating rates. The Directors do not recognise a significant seasonality of borrowing requirements.

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.

Number and remuneration of employees

As at 31 December 2003, excluding the associate, the Group employed 4,918 staff, of which 105 were employed in Hong Kong, 4,780 in the PRC and 33 in various overseas marketing offices. During the financial year ended 31 December 2003, total staff costs amount to 167 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 2003, the Group had contingent liabilities related to trade receivable factored with recourse amounting to HK\$22.7 million. (31 December 2002: HK\$9.4 million).

Capital commitments

As at 31 December 2003, the Group did not have any capital commitments authorized but not contracted for (2002: approximately HK\$43 million). The capital commitments contracted but not provided for amounted to HK\$18 million. (2002: approximately HK\$62 million). All of these capital commitments were related to construction of factory building or acquisition of fixed assets.

Other commitments

During the year ended 31 December 2003, a wholly-foreign-owned subsidiary was incorporated in the PRC. The Group's contribution payable for the registered capital of this subsidiary amounted to HK\$156 million as at balance sheet date.

Prospects

With continuous cost controls and constant efforts to change its product mix to higher layered and special materials products, the Group witnessed a promising recovery in its profit levels during the second half of FY2003, although the average monthly profit achieved was still below the target, set at the previous average monthly profit for FY2001 and the first six months of FY2002.

Fundamental problems still lie in the current cost structure and the average sales per sq ft in the products that the Group is currently manufacturing at its Shekou facilities.

Accordingly, the Group plans to re-locate all its low-end, low-priced products, primarily 2 and 4 layer boards, to another manufacturing site, which will be located in Shaoguan, because major costs such as labour, electricity and water will be much cheaper there than in Shekou. A factory with a covered area of approximately 33,800 sq meter will be constructed shortly and is expected to be completed at the end of 2004. Initially all outer-layers of the Group's low-end products will be manufactured there, and eventually the inner-layers of its 4-layered product will also be built there. The relocation of these manufacturing facilities will allow the Group to once again become competitive in this category of products, while at the same time leaving sufficient room to grow its high-layered and high-priced products at the present Shekou facilities.

After the completion of the relocation, expected to be in FY2005, both the Shekou and Shaoguan plants will each possess an outer-layer capacity of one million sq ft per month, reaching a total outer-layer capacity of two million sq ft per month. The inner-layer capacity to outer-layer capacity of the present Shekou plant will also be greatly improved, increasing the average sales price and profit margin for products built at this site. This will provide a solution to the Group's current problem areas.

In the short term before the completion of the Shaoguan plant, the Group will continue to work towards its profit targets by further decreasing its orders in the low-end 4 layered mother board market and seeking more business in high-layered, other specialty products such as HDI, blind-and-burried vias, special products and metal-laminated boards.

N.T. Information Ltd, an industry research firm, in its Jan 2004 report forecasted that world-wide PCB growth for 2004 will be 6.9% and 9.9% in 2005. China will continue to lead this growth, at an average rate of 20 to 22 % per year during the two years. This will therefore provide a springboard for the Group's expansion plan as it realizes its primary objective to streamline its manufacturing cost structure and to achieve its profit target.

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 2003, the Group has utilized a total of approximately HK\$108 million in construction of new factory building, HK\$32 million in acquisition of new equipment, HK\$58 million in reduction of bank loans.

Dividends

The Board has proposed a final dividend of 1.02 Hong Kong cents per share for the financial year ended 31 December 2003. 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 25 May 2004. 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 Thursday, 20 May to Tuesday, 25 May 2004, 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 4:30 p.m. on Wednesday, 19 May 2004.

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.

COMPLIANCE WITH THE CODE OF BEST PRACTICE

In the opinion of the Directors, the Company has complied with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") throughout the accounting period covered by the annual report, except that non-executive Directors of the Company are not appointed for specific terms but are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Bye-Laws of the Company.

BOARD OF DIRECTORS

As at the date of this announcement, the Board comprises of Mr. Cheok Ho Fung, Mr. Ng Chi Shing, Mr. Kwok Chi Kwong, Danny, Mr. Wong Shui Hing and Mr. Ting Sui Ping being the Executive Directors and Mr. Ng Kwok Ying, Alvin and Mr. Tang Yok Lam, Andy being the Independent Non-Executive Directors.

PUBLICATION OF THE RESULTS ON THE WEBSITE OF THE STOCK EXCHANGE

The consolidated financial statements of the Company for the year ended 31 December 2003, together with the information required under the paragraph 46(1) to 46(6) of Appendix 16 to the Listing Rules, will be published on the Company's website (www.topsearch.com.hk) and the Stock Exchange's website (www.hkex.com.hk) in due course.

APPRECIATION

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

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

Hong Kong, 16 April 2004

* *For identification purpose only*

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