



Interim Report 2004



Topsearch International (Holdings) Limited

至卓國際(控股)有限公司*

(incorporated in Bermuda with limited liability)

*For identification purposes only

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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 2004 (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	
		2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000
TURNOVER	2	607,156	547,863
Cost of sales		(482,751)	(457,165)
GROSS PROFIT		124,405	90,698
Other revenue and gains		3,804	3,358
Selling and distribution costs		(44,505)	(33,915)
Administrative expenses		(44,490)	(45,455)
Other operating expenses		(1,099)	(487)
PROFIT FROM OPERATING ACTIVITIES	3	38,115	14,199
Finance costs	4	(5,145)	(4,843)
PROFIT BEFORE TAX		32,970	9,356
Tax	5	5,829	(3,300)
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		<u>38,799</u>	<u>6,056</u>
EARNINGS PER SHARE			
— BASIC	6	<u>HK\$0.06</u>	<u>HK\$0.01</u>

CONDENSED CONSOLIDATED BALANCE SHEET

		30 June 2004 (Unaudited) HK\$'000	31 December 2003 (Audited) HK\$'000
	<i>Notes</i>		
NON-CURRENT ASSETS			
Fixed assets		997,231	963,758
Investments in an associate		100	100
Rental and utility deposits		2,966	3,248
Prepaid rental, long term portion		1,560	1,648
Other assets		1,338	1,283
Deposits for fixed assets		9,901	5,159
		1,013,096	975,196
CURRENT ASSETS			
Inventories		165,426	135,532
Tax recoverable		10,549	4,494
Trade receivables	7	338,992	321,304
Prepayments, deposits and other receivables		27,691	46,470
Due from an associate		266	194
Cash and cash equivalents	8	85,014	73,815
		627,938	581,809
CURRENT LIABILITIES			
Trade payables	9	316,946	281,584
Other payables and accruals		48,223	60,911
Interest-bearing bank loans	10	260,291	192,510
Finance lease payables	11	59,656	56,671
		685,116	591,676
NET CURRENT LIABILITIES		(57,178)	(9,867)
TOTAL ASSETS LESS CURRENT LIABILITIES		955,918	965,329

CONDENSED CONSOLIDATED BALANCE SHEET *(Continued)*

		30 June 2004 (Unaudited) HK\$'000	31 December 2003 (Audited) HK\$'000
	<i>Notes</i>		
NON-CURRENT LIABILITIES			
Interest-bearing bank loans	10	69,571	104,839
Finance lease payables	11	71,705	78,156
Shareholder's loan	12	30,095	30,043
Deferred tax liabilities		45,212	45,212
		<u>216,583</u>	<u>258,250</u>
		<u>739,335</u>	<u>707,079</u>
CAPITAL AND RESERVES			
Issued capital	13	64,000	64,000
Reserves		675,335	636,551
Proposed final dividend		<u>—</u>	<u>6,528</u>
		<u>739,335</u>	<u>707,079</u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Six months ended 30 June	
	2004	2003
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
NET CASH INFLOW FROM OPERATING ACTIVITIES	86,712	21,020
NET CASH OUTFLOW FROM INVESTING ACTIVITIES	(79,891)	(123,300)
NET CASH INFLOW/(OUTFLOW) FROM FINANCING ACTIVITIES	(9,236)	46,974
DECREASE IN CASH AND CASH EQUIVALENTS	(2,415)	(55,306)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	73,815	74,388
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u>71,400</u>	<u>19,082</u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	62,356	52,002
Short term time deposits	22,658	—
Bank overdrafts	(13,614)	(32,920)
	<u>71,400</u>	<u>19,082</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital of the Company (Unaudited) HK\$'000	Share premium account (Unaudited) HK\$'000	Contributed surplus (Unaudited) HK\$'000	Property 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 2004	64,000	134,743	19,000	23,635	(125)	17,030	4,064	6,528	438,204	707,079
Profit for the Period	—	—	—	—	—	—	—	—	38,799	38,799
Final dividend of 2003 paid	—	—	—	—	—	—	—	(6,528)	—	(6,528)
Exchange adjustments	—	—	—	—	(15)	—	—	—	—	(15)
At 30 June 2004	<u>64,000</u>	<u>134,743*</u>	<u>19,000*</u>	<u>23,635*</u>	<u>(140)*</u>	<u>17,030*</u>	<u>4,064*</u>	<u>—</u>	<u>477,003*</u>	<u>739,335</u>

	Share capital of the Company (Unaudited) HK\$'000	Share premium account (Unaudited) HK\$'000	Contributed surplus (Unaudited) HK\$'000	Property 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>

* These reserve accounts comprise the reserves of HK\$675,335,000 (2003: HK\$612,891,000) in the balance sheet.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2004

1. Basis of Presentation and Accounting Policies

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

The Interim Financial Statements have been prepared on a basis consistent with the principal accounting policies adopted in the 2003 annual report.

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 ("PCBs"), which is the only major business segment of the Group, with production facilities in Guangdong Province, the People's Republic of China (the "PRC"). Accordingly, no further analysis of the Group's turnover by business segment is provided.

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

	For the six months ended	
	30 June 2004 (Unaudited) HK\$'000	30 June 2003 (Unaudited) HK\$'000
Asia, excluding the PRC, Hong Kong and Taiwan	254,182	230,861
The PRC and Hong Kong	111,063	93,218
Taiwan	89,566	108,605
North America	99,337	78,114
Europe	53,008	37,065
	<u>607,156</u>	<u>547,863</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 the Listing Rules requirements is not presented.

3. Profit from Operating Activities

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

	For the six months ended	
	30 June 2004 (Unaudited) HK\$'000	30 June 2003 (Unaudited) HK\$'000
Cost of inventories sold	482,751	457,165
Depreciation	67,589	63,379
Exchange differences	1,099	487
Interest income	(120)	(186)
	<u>482,751</u>	<u>457,165</u>

4. Finance Costs

	For the six months ended	
	30 June 2004 (Unaudited) HK\$'000	30 June 2003 (Unaudited) HK\$'000
Interest expenses on:		
Bank loans and overdrafts wholly repayable within five years	4,747	4,500
Bank loans repayable beyond five years	—	30
Shareholder's loan	52	—
Finance leases	1,748	2,251
	<u>6,547</u>	<u>6,781</u>
Total interest	6,547	6,781
Less: Interest capitalised	(1,402)	(1,938)
	<u>5,145</u>	<u>4,843</u>

5. Tax

	For the six months ended	
	30 June 2004 (Unaudited) HK\$'000	30 June 2003 (Unaudited) HK\$'000
Current-PRC, other than Hong Kong	—	3,000
Refund of 5% corporate income tax	(5,829)	—
Deferred tax	—	300
	<u>—</u>	<u>300</u>
Total tax charge/(credit) for the Period	<u>(5,829)</u>	<u>3,300</u>

No Hong Kong profits tax and PRC corporate income tax have been provided as the Group did not generate any assessable profits arising in Hong Kong and the PRC in the current period. In the prior period, PRC corporate income tax had been provided on the assessable profits generated by a subsidiary in Shekou, the PRC, at the rate of 15% during that period.

6. 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\$38,799,000 for the six months ended 30 June 2004 (2003: HK\$6,056,000) and the weighted average number of ordinary shares in issue during the Period of 640,000,000 (2003: 640,000,000). There were no potential dilutive ordinary shares in existence for the six months ended 30 June 2004 and 2003. Accordingly, no diluted earnings per share have been presented.

7. 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, ranging from 30 to 90 days. The Group closely monitors its outstanding accounts receivable. Overdue balances are reviewed regularly by the senior management. In addition, the trade receivables are covered by credit insurance policy.

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 2004 (Unaudited) HK\$'000	31 December 2003 (Audited) HK\$'000
Current — 30 days	238,157	261,843
31 — 60 days	47,718	30,396
61 — 90 days	25,269	4,926
Over 90 days	27,848	24,139
	<u>338,992</u>	<u>321,304</u>

8. Cash and Cash Equivalents

	30 June 2004 (Unaudited) HK\$'000	31 December 2003 (Audited) HK\$'000
Cash and bank balances	62,356	58,195
Short term deposits	22,658	15,620
	<u>85,014</u>	<u>73,815</u>

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 2004 (Unaudited) HK\$'000	31 December 2003 (Audited) HK\$'000
Current — 30 days	238,966	170,757
31 — 60 days	42,454	56,560
61 — 90 days	29,404	33,034
Over 90 days	6,122	21,233
	<u>316,946</u>	<u>281,584</u>

10. Interest-Bearing Bank Loans

	30 June 2004 (Unaudited) HK\$'000	31 December 2003 (Audited) HK\$'000
Bank overdrafts, secured	13,614	—
Trust receipt loans, secured	63,996	34,931
Bank loans, secured	252,252	262,418
	<u>329,862</u>	<u>297,349</u>
Bank overdrafts, trust receipt loans and short term bank loans repayable within one year or on demand	174,409	117,696
Trust receipt loans, repayable in the second year	—	835
	<u>174,409</u>	<u>118,531</u>
Bank loans, secured and repayable: Within one year	85,882	74,814
In the second year	59,507	84,109
In the third to fifth years, inclusive	10,064	19,895
	<u>155,453</u>	<u>178,818</u>
Portion classified as current liabilities	<u>329,862</u> <u>(260,291)</u>	<u>297,349</u> <u>(192,510)</u>
Long term portion	<u>69,571</u>	<u>104,839</u>

11. Finance Lease Payables

	30 June 2004 (Unaudited) HK\$'000	31 December 2003 (Audited) HK\$'000
Amounts payable:		
Within one year	59,656	56,671
In the second year	41,204	42,081
In the third to fifth years, inclusive	<u>30,501</u>	<u>36,075</u>
	131,361	134,827
Portion classified as current liabilities	<u>(59,656)</u>	<u>(56,671)</u>
Long term portion	<u>71,705</u>	<u>78,156</u>

12. Shareholder's Loan

	30 June 2004 (Unaudited) HK\$'000	31 December 2003 (Audited) HK\$'000
Loan from a controlling shareholder, unsecured and repayable:		
In the second year	22,500	7,543
In the third to fifth years, inclusive	<u>7,595</u>	<u>22,500</u>
	<u>30,095</u>	<u>30,043</u>

The shareholder's loan was advanced by Mr. Cheok Ho Fung, Peter, a director and controlling shareholder of the Company pursuant to the loan agreement dated 17 September 2003. The loan is unsecured, interest-bearing at HIBOR, repayable by 12 monthly installments, together with interest thereon commencing on 18 October 2005 and is subordinated to all the bank borrowings.

13. Share Capital

	30 June 2004 (Unaudited) HK\$'000	31 December 2003 (Audited) HK\$'000
Authorised:		
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>

14. Commitments**(a) Capital Commitments**

	30 June 2004 (Unaudited) HK\$'000	31 December 2003 (Audited) HK\$'000
Authorised and contracted for:		
Commitments in respect of construction of the factory building	32,274	18,095
Commitments in respects of acquisition of fixed assets	14,568	—
	<u>46,842</u>	<u>18,095</u>

(b) Other Commitments

At 30 June 2004, the Group had total commitments of HK\$6,509,000 (31 December 2003: HK\$6,509,000) to make payments in respect of a technology collaboration agreement with Tsinghua University, the PRC, entered into in April 2001.

At 30 June 2004, the Group's contribution payable for the registered capital of a wholly-foreign-owned subsidiary incorporated in the PRC amounted to HK\$156,000,000 (31 December 2003: HK\$156,000,000).

15. Contingent Liabilities

At the balance sheet date, contingent liabilities not provided for were as follows:

	30 June 2004 (Unaudited) HK\$'000	31 December 2003 (Audited) HK\$'000
Trade debtors factored with recourse	<u>11,700</u>	<u>22,688</u>

The trade receivable are covered by credit insurance policy. In the event of non-payment by its customers, the Group will be able to recover 90% of the amounts outstanding.

16. Related Party Transactions

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

	For the six months ended	
	30 June 2004 (Unaudited) HK\$'000	30 June 2003 (Unaudited) HK\$'000
Rental expenses paid to a company in which a director has beneficial interest	<u>690</u>	<u>690</u>

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

17. Comparative Amounts

Amount due from an associate of HK\$194,000, which were disclosed as "Interests in an associate" as non-current assets in the consolidated balance sheet as at 31 December 2003, has been reclassified to "Amount due from an associate" in current assets. In the opinion of the Directors, the above reclassification would produce a more appropriate presentation of the Group's financial position.

MANAGEMENT DISCUSSION AND ANALYSIS

Review of operating environment

While the global economic recovery continued, the growth rate in PCB made a sanity correction in the second quarter. In the first half of the year, shipment volumes, in terms of square footage, increased about 4%, as compared with the same period last year. Production reached an average utilization rate of about 90%.

During the first half of 2004, major raw material prices moved upwards. The price of copper foil, 0.028" and above FR4 core laminates went up for more than 90% compared to one year ago. Because of higher cost of petroleum, shutting down of some fiber glass furnaces due to repair and maintenance, prices for glass cloths and therefore prepreg have also went up drastically. Although materials price has gone up substantially, the PCB market would only accept a moderate price increase in the products in which the Group is producing, ranging from 3% to 8%, indicating that the industry still suffers from a certain extent of excess capacity for the products type that the Group is producing.

In line with the Group's business strategy, the growth in sales of multi-layered boards (6-layered and above) in the first half of 2004 progressed well. The shipment level for multi-layered boards, which account for higher margins, increased by about 43% in the first half of 2004 against the corresponding period last year. Currently, multi-layered boards contribute about 33% of the Group's sales.

As a result of the aforesaid factors, the average sales price in the first half of 2004 went up about 7% and total turnover reached HK\$607.2 million, representing an increase of 11% over last year.

There is no electricity supply interruption to the production plant of the Group which is located in the Shekou Industrial Zone, Shenzhen. The Group continued to invest resources into upgrading its technical capabilities and enhanced its marketing efforts to expand market coverage and further improve product mix.

Review of financial performance

Compared to the results in the same period in 2003, the Group's turnover increased by 10.8% to approximately HK\$607.2 million, operating profit increased by 168.4% to HK\$38.1 million, net profit attributable to shareholders increased by 540.7% to approximately HK\$38.8 million, and earnings per share increased by 6 times to HK\$0.06 in the first half of 2004.

The Group's shipment levels increased by 4% with the average sales price increased by 7%. The average cost of materials increased by 16.7% mainly due to the increase in cost of major raw materials. However, product overheads decreased by 12.4%. As a result, the average cost of goods sold increased by 1.7%. The overall gross profit margin increased from 16.6% in the first half of 2003 to 20.5% in the first half of 2004. Administrative expenses, selling and distribution expenses and other expenses collectively increased by 12.8%, compared to the same period in 2003, to approximately HK\$90 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 2004.

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 2004, the Group had total assets of approximately HK\$1,641 million (31 December 2003: HK\$1,557 million) and interest-bearing borrowings of approximately HK\$491 million (31 December 2003: HK\$462 million), representing a gearing ratio, defined as interest-bearing borrowings over total assets, of approximately 29.9% (31 December 2003: 29.7%).

The Group's net current liabilities of approximately HK\$57 million (31 December 2003: HK\$10 million) consisted of current assets of approximately HK\$628 million (31 December 2003: HK\$582 million) and current liabilities of approximately HK\$685 million (31 December 2003: HK\$592 million), representing a current ratio of approximately 0.92 (31 December 2003: 0.98).

As at 30 June 2004, the Group's current assets consisted of approximately HK\$85 million (31 December 2003: approximately HK\$74 million) held as cash and bank balances, of which 29% in HKD, 63% in USD, 6% in RMB and 2% in other currencies.

As at 30 June 2004, 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 certain construction in progress and land and buildings of the Group.

Interest-bearing borrowings

As at 30 June 2004, the Group had the interest-bearing borrowings as follows:

	30 June 2004 (Unaudited) HK\$'000	31 December 2003 (Audited) HK\$'000
Amount payable:		
Within one year	319,947	249,181
In the second year	123,211	134,568
In the third to fifth years, inclusive	48,160	78,470
	491,318	462,219
Less: Portion classified as current liabilities	(319,947)	(249,181)
Long term portion	171,371	213,038

Of the total interest-bearing borrowings, HKD denominated loans accounted for 81.4%, USD for 17%, TWD for 1% and Japanese Yen for 0.6% as at 30 June 2004. All interest-bearing borrowings are charged with floating rates. The Directors do not recognize a significant seasonality of borrowing requirements.

Prospects

Construction work of our new plant at Shaoguan went well in the last few months and allowing for unforeseeable circumstances, the relocation of the production line for our low-end products to the Shaoguan plant should be realized by early next year. As explained in our last annual report, the relocation will allow the Group to boost the competitiveness of the product category, and at the same time provide ample room for it to grow its high-layered and high price products at its present Shekou facilities.

Although there are recent concerns that the semi-conductors and IT-related industry may have reached their peak in their usual business cycles, clouded further by the rise in petroleum price and uncertainties in the U.S. economy, the Group remains confident of its business resilience. We believe the continuous efforts over the past few years to improve its product mix would shield it from the possible adverse impacts of the potential downturn. The current relatively small high-price product base of the Group means it has tremendous room for development in the area. The recent success in obtaining business from targeted customers and market areas of the segment proved that the Group is heading in the right direction. It is confident of achieving a product mix that promises higher returns. The landing of new customers also testified to customers' recognition of the Group's technical capability and good quality level vis-a-vis its competitors.

The Group remains generally optimistic of its short and long-term performance.

Number and remuneration of employees

At 30 June 2004, excluding the associate, the Group employed 4,704 staff (31 December 2003: 4,918), of which 96 (31 December 2003: 105) were employed in Hong Kong, 4,573 (31 December 2003: 4,780) in the PRC and 35 (31 December 2003: 33) in various overseas marketing offices. 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 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 2004, the Group had contingent liabilities related to trade receivables factored with recourse amounting to HK\$11.7 million (31 December 2003: HK\$22.7 million).

The trade receivable are covered by credit insurance policy. In the event of non-payment by its customers, the Group will be able to recover 90% of amounts outstanding.

Capital commitments

As at 30 June 2004, the Group's capital commitments contracted but not provided for amounted to HK\$47 million (31 December 2003: HK\$18 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 an interim dividend for the six months ended 30 June 2004 (30 June 2003: 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 Note 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 2004, 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 director		Nature of interest		Number of ordinary shares held	Percentage of issued capital
Mr. Cheek Ho Fung		Direct	Long position	48,000,000	7.50%
Mr. Cheek Ho Fung	<i>Note</i>	Deemed	Long position	<u>432,000,000</u>	<u>67.50%</u>
		Total		<u><u>480,000,000</u></u>	<u><u>75.00%</u></u>

Note: 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.

(b) Associated Corporation -Inni International Inc.

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

Note: These shares are jointly owned by Mr. Cheok Ho Fung and his wife.

(c) Subsidiary -Topsearch Industries (Holdings) Limited

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

Note: 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.

Saved as disclosed above, none of the Directors, chief executives or any of their associates had any interest 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 2004.

Substantial Shareholders

As at 30 June 2004, 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 shareholders	Notes			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. Cheek 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. Cheek 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	(iii)	Direct	Long position	264,000	0.04%
		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 interests in the name of Inni International Inc. was also disclosed as interest of Mr. Cheek Ho Fung in the above section headed "Directors' Interests in Shares".
- (ii) Mrs. Cheek Chu Wai Min is the spouse of Mr. Cheek Ho Fung. 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 Mrs. Cheek Chu Wai Min. The shareholdings stated against Mr. Cheek Ho Fung and Mrs. Cheek Chu Wai Min above represented the same block of shares, which were also included as interests of Mr. Cheek 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 36.18% equity shares in Kingboard Chemical Holdings Limited.

Saved as disclosed above, no person 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 2004.

SHARE OPTION SCHEME

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include any employees, non-executive directors and customers of the Group, any of its subsidiaries, or any entity ("Invested Entity") in which the Group holds an equity interest, suppliers of goods or services and person or entity that provides research, development or other technological support to the Group, its subsidiaries, or any Invested Entity, and any shareholder of the Group, its subsidiaries or Invested Entity. The number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme and any other share option scheme of the Company must not exceed 30% of the issued share capital of the Company from time to time. The Scheme was adopted on 30 May 2002 and became effective on 21 June 2002. No share options were granted during the Period or were outstanding as at 30 June 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.

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 Directors, 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, 31 August 2004