



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 2004

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 2004 together with comparative figures for 2003 as follows:

Consolidated Profit and Loss Account

		Year ended 31 December	
	Notes	2004 HK\$'000	2003 HK\$'000
TURNOVER	2	1,313,000	1,159,339
Cost of sales		(1,053,395)	(943,522)
Gross profit		259,605	215,817
Other revenue		20,751	7,050
Selling and distribution costs		(93,130)	(77,202)
Administrative expenses		(89,173)	(90,403)
Other operating expenses		(4,991)	(3,729)
PROFIT FROM OPERATING ACTIVITIES	3	93,062	51,533
Finance costs	4	(11,670)	(10,330)
PROFIT BEFORE TAX		81,392	41,203
Tax	5	7,564	(8,700)
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		88,956	32,503
DIVIDEND — Proposed final		19,900	6,528
EARNINGS PER SHARE	6		
Basic		13.9 cents	5.1 cents
Diluted		13.9 cents	N/A

Notes:

1. Basis of presentation

The Hong Kong Institute of Certified Public Accountants has issued a number of new Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards, herein collectively referred to as the new HKFRSs, which are generally effective for accounting periods beginning on or after 1 January 2005. The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31 December 2004.

The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

2. Turnover

Turnover represents the net invoiced value of goods sold, net of trade 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:

	2004 HK\$'000	2003 HK\$'000
Asia, excluding the PRC and Taiwan	478,762	489,247
PRC, including Hong Kong	307,298	197,544
Taiwan	217,271	213,506
North America	199,368	182,584
Europe	110,301	76,458
	<u>1,313,000</u>	<u>1,159,339</u>

3. Profit from operating activities

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

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Cost of inventories sold	1,049,795	943,623
Depreciation	140,024	129,012
Minimum lease payments under operating lease rentals on land and buildings	10,510	12,152
Auditors' remuneration	1,428	1,202
Staff costs, excluding directors' remuneration		
Wages and salaries	142,052	151,604
Retirement scheme contributions	7,870	7,717
<i>Less: Forfeited contributions</i>	(510)	(904)
Net retirement scheme contributions*	7,360	6,813
	149,412	158,417
Exchange losses, net	1,873	2,516
Loss on disposal of fixed assets	683	132
Provision/(write-back of provision) for obsolete inventories	3,600	(101)

* At 31 December 2004, there was no forfeited contribution available to reduce contributions to the retirement scheme in future years (2003: HK\$486,000).

4. Finance costs

	Group	
	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Interest on:		
Bank loans and overdrafts wholly repayable within five years	10,613	10,146
Shareholder's loan	177	43
Finance leases	3,508	4,017
Total interest	14,298	14,206
<i>Less: Interest capitalised to land and building</i>	(2,628)	(3,876)
	11,670	10,330

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 (2003: Nil). No Macau profits tax has been provided as the Macau subsidiary of the Company is exempted from Macau Complementary Tax (2003: Nil). 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.

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Group:		
Current — Hong Kong		
Over provision in prior years	(4,550)	—
Current — Elsewhere	6,110	3,700
Refund of 5% PRC corporate income tax*	(6,474)	—
Deferred	(2,650)	5,000
	<u>(7,564)</u>	<u>8,700</u>
Total tax charge/(credit) for the year	<u>(7,564)</u>	<u>8,700</u>

* PRC corporate income tax is provided at the rate of 15% on the profits generated by a subsidiary of the Company in the PRC, Topsearch Printed Circuits (Shenzhen) Ltd. The applicable corporate income tax rate will be reduced to 10% from the standard rate of 15% according to “Detailed Rules for the Implementation of the Income Tax Law of the People’s Republic of China for Foreign Investment Enterprises and Foreign Enterprises” if the company is granted Export Enterprise status by the Shenzhen Economic Development Bureau. The status has to be certified every year based on a criterion that the export sales made by the company exceeded 70% of total sales in any particular year.

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 of HK\$88,956,000 (2003: HK\$32,503,000) and the weighted average of 640,000,000 (2003: 640,000,000) ordinary shares in issue during the year.

The calculation of diluted earnings per share is based on the net profit attributable to shareholders for the year of HK\$88,956,000. The weighted average number of ordinary shares used in the calculation is the 640,000,000 ordinary shares in issue during the year, as used in the basic earnings per share calculation and the weighted average of 121,133 ordinary shares assumed to have been issued at no consideration on the deemed exercise of all share options outstanding during the year.

The diluted earnings per share amount for the year ended 31 December 2003 had not been disclosed as no diluting events existed during that year.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

To all operators of the PCB industry, 2004 was a year ridden with challenges. Price of all major materials hiked sharply. Price of 7628 prepreg (a non-conducting glass cloth coated with resin for lamination purpose) went up 100% from two years ago, price of copper foil went up 50% from two years ago. Accordingly, price of laminate such as 0.059" FR-4 went up over 90% and 0.047" FR-4 went up 60%.

As the Company continued to change its product mix to higher layered and special material products in 2004, its turnover reached HK\$1,313 million, up 13.3% from the turnover of HK\$1,159 million in 2003. Total shipment volumes, in terms of square footage, went up 3.8% as compared with last year. The shipment of multi-layered boards (6-layered and above) increased 40% over the number last year. Currently, such 6-layered and above multi-layered boards contribute about 35% to the Group's sales. Production reached an average utilization rate of 95%.

Despite the increase in cost of major materials as aforesaid, gross profit was HK\$260 million, a 20.3% growth over that of 2003. The Group's gross profit margin increased from 18.6% in 2003 to 19.8% in 2004. Net profit rose from HK\$33 million to HK\$89 million, up 170%. Net profit margin increased from 2.8% in 2003 to 6.8% in 2004.

The Company continued to invest resources in upgrading its technical initiatives and strengthening its marketing efforts to expand market coverage and further improve its product mix.

The Company expected to benefit from the re-location of all its low-margin products to its new factory in Shaoguan in 2005. Construction of the new factory is on schedule.

Review of the Financial Performance

The Group's turnover increased by 13.3% to HK\$1,313 million from HK\$1,159 million in 2003. Operating profit reached HK\$93 million, while that in 2003 was HK\$52 million. Profits attributable to shareholders amounted to HK\$89 million, as compared to HK\$33 million in 2003. Basic earnings per share were 13.9 Hong Kong cents, as compared to 5.1 Hong Kong cents in 2003.

The Group's shipment volume increased by approximately 3.8% and average sales prices increased by approximately 9.1%. The cost of materials increased by 21.7% per sq. ft. whereas production overheads decreased by 6.7% 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 led to an increase in depreciation. As a result, the overall gross profit margin increased from last year's 18.6% to 19.8% this year.

Shareholders' Equity

The Company's Shareholders' equity continued to increase. As at 31 December 2004, Shareholders' equity was HK\$794.3 million (2003: HK\$707.1 million), an increase of 12% over that of last year mainly due to profits earned during the year.

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 2004, the Group had total assets of approximately HK\$1,763 million (31 December 2003: HK\$1,557 million) and interest-bearing borrowings of HK\$510 million (31 December 2003: HK\$462 million), representing a gearing ratio, defined as interest-bearing borrowings over total assets, of approximately 28.9% (31 December 2003: 29.7%).

The Group's net current asset of approximately HK\$51 million (31 December 2003: net current liabilities of HK\$10 million) consisted of current assets of approximately HK\$716 million (31 December 2003: HK\$582 million) and current liabilities of approximately HK\$665 million (31 December 2003: HK\$592 million), representing a current ratio of approximately 1.08 (31 December 2003: 0.98).

As at 31 December 2004, the Group's current assets consisted of approximately HK\$91 million (31 December 2003: approximately HK\$74 million) held as cash and cash equivalents, of which 21.2% were in HKD, 60.5% were in USD, 16.3% were in RMB and 2% in other currencies.

As at 31 December 2004, bank loans and other banking facilities of the Group were secured by:

- (a) the assignment of certain trade receivables of a subsidiary;
- (b) cross corporate guarantees by the Company and certain subsidiaries of HK\$118 million; and
- (c) the land and buildings held by the Group.

The Group's net current assets also consisted of approximately HK\$396 million (31 December 2003: HK\$321 million) trade receivables from customers. Debtors turnover days was approximately 100 days (31 December 2003: 91 days). The increase was mainly due to the increase in the sales value and additional credits granted to major customers.

As at 31 December 2004, the Group's inventories totaled approximately HK\$206 million up from approximately HK\$136 million recorded at 31 December 2003. Inventory turnover days was approximately 59 days (31 December 2003: approximately 48 days). The increase was mainly due to the purchase of more raw materials at the end of 2004 to support the expected increase in production volume in 2005.

As a result of the increase in inventories, the Group's trade payables totaled approximately HK\$339 million up from the approximately HK\$282 million recorded in 2003. Creditor turnover days was approximately 108 days (31 December 2003: approximately 99 days).

Interest-bearing Borrowings

As at 31 December 2004, the Group had the interest-bearing borrowings as follows:

	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Amounts payable:		
Within one year	249,403	249,181
In the second year	141,831	134,568
In the third to fifth year, inclusive	118,616	78,470
	509,850	462,219
<i>Less:</i> Portion classified as current liabilities	(249,403)	(249,181)
Long term portion	260,447	213,038

Of the total interest-bearing borrowings, USD denominated loans accounted for 14.1% (2003: 16.4%), and the balance of 85.9% were HKD denominated loans (2003: 83.6%). All interest-bearing borrowings are charged with floating rates. The Group had maintained Hong Kong Dollar unexpired interest rate swap contract of HK\$179 million (2003: Nil) to hedge the HIBOR dominated loans. 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 faces minimal risk from exchange rate fluctuations.

Currently, the Group does not have a foreign currency hedging policy and its foreign exchange gains and losses over the 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 2004, excluding the associate, the Group employed 5,975 staff, of which 88 were employed in Hong Kong, 5,851 in the PRC and 36 in various overseas marketing offices. During the financial year ended 31 December 2004, total staff costs amounted to HK\$160 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. During the year under review, 8,740,000 share options were granted under the share option scheme. Subsequent to the balance sheet date, a total of 1,860,000 share options were granted to a Non-executive Director of the Company and a total of 700,000 share options were exercised. As a result, the Company had 9,900,000 share options outstanding under the scheme, representing approximately 1.39% of the Company's shares in issue as at the date of this announcement.

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 31 December 2004, the Group had contingent liabilities related to trade receivables factored with recourse amounting to HK\$34.5 million. (31 December 2003: HK\$22.7 million).

Capital Commitments

As at 31 December 2004, the Group's capital commitments contracted but not provided for amounted to HK\$57 million. (2003: HK\$18 million). All of these capital commitments were related to construction of its factory building or acquisition of fixed assets.

Other Commitments

At 31 December 2004, the Group had total commitments of HK\$5.6 million (2003: HK\$6.5 million) to make payments in respect of a technology collaboration agreement with Tsinghua University, the PRC, entered into in April 2001.

At 31 December 2004, the Group's contribution payable for the registered capital of a wholly-foreign-owned subsidiary of the Group, which is incorporated in the PRC, amounted to HK\$132.6 million (2003: HK\$156 million).

At 31 December 2004, the Group had commitments in respect of interest rate swaps to hedge its bank borrowings of HK\$179 million. (2003: Nil)

Prospects

In order to fight against the industry's norm of continuous price erosion for mature products over long term and improve its profit margin, the Group will continue to identify areas of low manufacturing costs so that it can re-locate its manufacturing base to benefit such opportunities. In addition to this strategy, the Company will continue its day-to-day target of improving its product mix, sourcing better and more price-competitive products, re-engineering and enhancing its production processes and therefore its yield.

The new Shaoguan plant, which will begin mass production shortly, will not just offer the Group a condition to improve its profit margin, but will also offer opportunities for revenue growth in the near future. Manufacturing of current products will be shifted in an orderly and timely fashion from the current Shekou Plant to this new plant to take full advantage.

Accordingly, the Group has confidence in continuing to improve its return on investments in the near future.

Through recent appointments of more independent directors and the impending re-structuring of its Board, the Company will continue to improve its corporate governance and strike a good balance between conformity to the highest business standards and performance, thus satisfying HKEx requirements and ensuring protection of shareholders' interest.

Placing of Existing Shares and Subscription for New Shares

Pursuant to the placing and subscription agreement both dated 24 February 2005, Inni International Inc., a substantial shareholder and controlling shareholder of the Company, placed 70,000,000 ordinary shares of HK\$0.10 each in the capital of the Company in total at HK\$0.90 per share to some third-party independent investors and, on the same day, subscribed for 70,000,000 new shares in total at HK\$0.90 per share.

The net proceeds from subscription of approximately HK\$61.5 million (after deducting expenses of approximately HK\$1.5 million) was used as part of construction cost for the production plant of the Group situated in Shaoguan.

Dividends

The Board has proposed a final dividend of 2.8 Hong Kong cents per share for the financial year ended 31 December 2004. 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 17 May 2005 (Tuesday). Barring unforeseen circumstances and based on cash flow requirements, the Board of Directors proposes distributing approximately 22% of the Company's annual earnings as dividends to shareholders.

Closure of Register of Members

The Register of Members will be closed from 10 May 2005 (Tuesday) to 17 May 2005 (Tuesday), 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 9 May 2005 (Monday).

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 year.

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 to the Listing Rules (in force prior to 1 January 2005 and applicable to results announcement in respect of accounting periods commencing before 1 January 2005) throughout the accounting period under review, except that two Non-executive directors and two Independent 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. Wong Shui Hing and Mr. Ting Sui Ping being the Executive Directors, Mr. Kwok Chi Kwong, Danny, Mr. Tang Yok Lam, Andy and Mr. Ng Kwok Ying, Alvin being the Non-executive Directors and Mr. Leung Shu Kin, Alfred, Mr. Wong Wing Kee and Mr. Look Guy 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 2004, together with the information required under the paragraph 45(1) to 45(3) 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 my gratitude and sincere appreciation to all management and staff members for their diligence and dedication, and also to our business partners and the Company's shareholders for their continuing support.

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

Hong Kong, 7 April 2005

* *For identification purpose only*

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