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

(Incorporated in Bermuda with limited liability)
(Stock Code: 2323)

INTERIM RESULTS
FOR THE SIX MONTHS ENDED 30 JUNE 2005

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 2005 (the "Period") together with comparative figures. The Interim Financial Statements have been reviewed by the Company's audit committee.

CONDENSED CONSOLIDATED INCOME STATEMENT

		Six months ended 30 June	
		2005	2004
		(Unaudited)	(Unaudited)
	Notes	***HK$'000***	*HK$'000*
TURNOVER	*2*	**777,063**	607,156
Cost of sales		**(617,160)**	(482,751)
GROSS PROFIT		**159,903**	124,405
Other revenue and gains		**4,992**	3,804
Selling and distribution costs		**(55,373)**	(44,505)
Administrative expenses		**(44,458)**	(44,490)
Other operating expenses		**(311)**	(1,099)
PROFIT FROM OPERATING ACTIVITIES	*3*	**64,753**	38,115
Finance costs	*4*	**(9,983)**	(5,145)
PROFIT BEFORE TAX		**54,770**	32,970
Tax	*5*	**(3,300)**	5,829
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		**51,470**	38,799
EARNINGS PER SHARE	*6*		
— BASIC		**7.5 cents**	6.1 cents
— DILUTED		**7.4 cents**	N/A

CONDENSED CONSOLIDATED BALANCE SHEET

	30 June 2005 (Unaudited) *HK$'000*	31 December 2004 (Audited) *HK$'000*
NON-CURRENT ASSETS		
Fixed assets	**1,111,205**	1,004,665
Lease premium for land	**15,771**	16,123
Interest in an associate	**441**	264
Rental and utility deposits	**3,030**	3,065
Prepaid rental, long term portion	**1,191**	1,473
Other assets	**1,701**	1,701
Deposits for fixed assets	**43,644**	20,111
	1,176,983	1,047,402
CURRENT ASSETS		
Inventories	**220,456**	206,137
Lease premium for land	**176**	—
Trade receivables	**396,275**	396,063
Prepayments, deposits and other receivables	**33,160**	22,261
Cash and cash equivalents	**125,495**	91,147
	775,562	715,608
CURRENT LIABILITIES		
Trade payables	**373,133**	339,126
Tax payable	**8,295**	4,948
Other payables and accruals	**46,641**	71,432
Interest-bearing bank loans	**253,623**	185,088
Finance lease payables	**60,460**	56,772
Current portion of shareholder's loan	**22,543**	7,543
	764,695	664,909
NET CURRENT ASSETS	**10,867**	50,699
TOTAL ASSETS LESS CURRENT LIABILITIES	**1,187,850**	1,098,101
NON-CURRENT LIABILITIES		
Interest-bearing bank loans	**172,217**	179,888
Finance lease payables	**79,006**	58,059
Shareholder's loan	**7,500**	22,500
Deferred tax liabilities	**41,365**	43,365
	300,088	303,812
	887,762	794,289
CAPITAL AND RESERVES		
Issued capital	**71,070**	64,000
Reserves	**816,692**	710,389
Proposed final dividend	**—**	19,900
	887,762	794,289

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Accounting policies

The condensed consolidated interim financial statements have been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting". The accounting policies and the basis of preparation adopted in the preparation of the interim financial statements are the same as those used in the annual financial statements for the year ended 31 December 2004 except in relation to the following new and revised Hong Kong Financial Reporting Standards ("HKFRSs") which also include HKASs and Interpretations that affect the Group and are adopted for the first time for the current period's financial statements:

HKAS 17	Leases
HKFRS 3	Business Combinations

A. HKAS 17 — Leases

In prior periods, leasehold land and buildings held for own use were stated at cost less accumulated depreciation and any impairment losses.

Upon the adoption of HKAS 17, the Group's leasehold interests in land and buildings are separated into leasehold land and leasehold buildings. The Group's interest in leasehold land is classified as an operating lease, because the title of the land is not expected to pass to the Group by the end of the lease term, and is reclassified from fixed assets to prepaid land premiums/land lease payments, while leasehold buildings continue to be classified as part of property, plant and equipment. Lease premiums for land paid under operating leases are initially stated at cost and subsequently amortized on the straight-line basis over the lease term.

This change in accounting policy has had no effect on the condensed consolidated income statement and retained earnings. The comparatives on the condensed consolidated balance sheet for the year ended 31 December 2004 have been revised to reflect the reclassification of leasehold land.

B. HKFRS 3 — Business Combinations

The adoption of HKFRS 3 has resulted in a change in accounting policy for negative goodwill. Prior to the adoption of HKFRS 3, the negative goodwill arising from the acquisition of a subsidiary was credited to the capital reserve in the year of acquisition, pursuant to the transitional provision of Statement of Standard Accounting Practice No. 30 "Business Combination". Pursuant to HKFRS 3, the carrying amount of negative goodwill credited to the capital reserve as at 1 January 2005 of HK$4,064,000 was de-recognized by way of a corresponding adjustment to the opening retained profits as at 1 January 2005.

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	
	2005	2004
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Asia, excluding the PRC, Hong Kong and Taiwan	**387,103**	254,182
The PRC and Hong Kong	**153,332**	111,063
Taiwan	**104,932**	89,566
North America	**71,426**	99,337
Europe	**60,270**	53,008
	777,063	607,156

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	
	2005	2004
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Cost of inventories sold	**617,160**	482,751
Depreciation	**74,473**	67,589
Exchange differences	**311**	1,099
Interest income	**(248)**	(120)

4. Finance costs

	For the six months ended 30 June	
	2005	2004
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Interest expenses on:		
Bank loans and overdrafts wholly repayable within five years	**8,110**	4,747
Shareholder's loan	**303**	52
Finance leases	**1,970**	1,748
Total interest	**10,383**	6,547
Less: Interest capitalised	**(400)**	(1,402)
	9,983	5,145

5. Tax

	For the six months ended 30 June	
	2005	2004
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Current-PRC, other than Hong Kong	**5,300**	—
Refund of 5% corporate income tax	**—**	(5,829)
Deferred tax	**(2,000)**	—
Total tax charge/(credit) for the Period	**3,300**	(5,829)

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 the period. No Hong Kong profits tax has been provided as the Group did not generate any assessable profits arising in Hong Kong in the current 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 HK$51,470,000 for the six months ended 30 June 2005 (2004: HK$38,799,000) and the weighted average of 689,522,099 (2004: 640,000,000) ordinary shares in issue during the Period.

The calculation of diluted earnings per share is based on the net profit attributable to shareholders for the Period of HK$51,470,000. The weighted average number of ordinary shares used in the calculation is the 689,522,099 ordinary shares in issue during the Period, as used in the basic earnings per share calculation and the weighted average of 4,276,386 ordinary shares assumed to have been issued at no consideration on the deemed exercise of all share options outstanding during the Period.

The diluted earnings per share amount for the period ended 30 June 2004 had not been disclosed as no diluting events existed during that period.

MANAGEMENT DISCUSSION AND ANALYSIS

Review of operating environment

While the global economic growth continued, the growth rate in PCB continues to improve in the first half of 2005. In the first half of the year, shipment volumes, in terms of square footage, increased about 18%, as compared with the same period last year. Production reached an average utilization rate of about 90%.

During the first half of 2005, major raw material prices become stable. While materials price has been maintained at constant level, the PCB market would only accept a moderate price increase in the products in which 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 2005 progressed well. The shipment level for multi-layered boards, which account for higher margins, increased by about 48% in the first half of 2005 against the corresponding period last year. Currently, multi-layered boards contribute about 38% of the Group's sales.

As a result of the aforesaid factors, the average sales price in the first half of 2005 went up about 8% and total turnover reached HK$777 million, representing an increase of 28% over last year.

There has not been any electricity supply interruption to the production plant of the Group which is located in the Shekou Industrial Zone, Shenzhen as well as the one in Shaoguan. With investment over HK$150 million up to end of June in the Shaoguan plant, which has commenced production in April 2005 with outer layer processes and achieved output of 300,000 square feet by the month of June. The Group will continue to increase the production capacity in the Shaoguan plant by new investment in machinery and also reallocation of machinery from Shekou, so as to achieve better profit margin and enhance the Group's competitiveness in the market. The Group's overall production capacity can be increased by 20% by the end of 2005.

The Group continue to invest resources into upgrading its technical capabilities and enhance 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 2004, the Group's turnover increased by 28% to approximately HK$777 million, operating profit increased by 70% to HK$65 million, net profit attributable to shareholders increased by 33% to approximately HK$51 million, and earnings per share increased to HK$0.07 in the first half of 2005.

The Group's shipment levels increased by 18% with the average sales price increased by 8%. The average cost of materials increased by 15% mainly due to the increase in cost of major raw materials. The overall gross profit margin slightly improved to 21% in the first half of 2005 as compared to 20% in the first half of 2004. Administrative expenses, selling and distribution expenses and other expenses collectively increased by 11%, compared to the same period in 2004, to approximately HK$100 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 2005.

Foreign exchange exposure

Sales of the Group's products are principally denominated in USD and the purchases of materials and payments of operational expenses are mainly denominated in USD, HKD 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 USD, HKD 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 2005, the Group had total assets of approximately HK$1,953 million (31 December 2004: HK$1,763 million) and interest-bearing borrowings of approximately HK$596 million (31 December 2004: HK$510 million), representing a gearing ratio, defined as interest-bearing borrowings over total assets, of approximately 30% (31 December 2004: 29%).

The Group's net current assets of approximately HK$11 million (31 December 2004: HK$51 million) consisted of current assets of approximately HK$776 million (31 December 2004: HK$716 million) and current liabilities of approximately HK$765 million (31 December 2004: HK$665 million), representing a current ratio of approximately 1.01 (31 December 2004: 1.08).

As at 30 June 2005, the Group's current assets consisted of approximately HK$125 million (31 December 2004: approximately HK$91 million) held as cash and bank balances, of which 31% in HKD, 38% in USD, 31% in RMB.

As at 30 June 2005, 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; and

(c) the land and buildings held by the Group.

Interest-bearing borrowings

As at 30 June 2005, the Group had the interest-bearing borrowings as follows:

	30 June 2005 (Unaudited)	31 December 2004 (Audited)
	HK$'000	*HK$'000*
Amounts payable:		
Within one year	**336,626**	249,403
In the second year	**151,693**	141,831
In the third to fifth years, inclusive	**107,030**	118,616
	595,349	509,850
Less: Portion classified as current liabilities	**(336,626)**	(249,403)
Long term portion	**258,723**	260,447

Of the total interest-bearing borrowings, HKD denominated loans accounted for 84% and USD for 16% as at 30 June 2005. All interest-bearing borrowings are charged with floating rates. There is no significant variation on borrowing requirements of the Group due to seasonality.

Prospects

As reported earlier in our last statement on 7 April 2005 in our 2004 Annual Report, construction of our new Shaoguan plant went well. Since then the outer layer plant has already begun mass production, and is now turning out a monthly output of approximate 300K sq. ft. of outer layers and beginning to contribute reasonable profit to the overall performance of our Group. Meanwhile, the second plant intended for inner layer production is also near completion and expected to begin mass production sometime in the last quarter of this fiscal year.

Our plan to manufacture inner layers also in Shaoguan has been brought forward from our original schedule of Q2 for two reasons. The first reason is the shortening of production cycle time and transportation of inner layers from our Shekou factory to the Shaoguan factory, thereby strengthening our competitiveness in the market. The other reason is the much faster rise in costs in Shekou, Shenzhen due to local labour shortage driving increase in labour costs and extensive inflation. Earlier shifting of production of both inner layers and outer layers in such a rapidly changing environment would definitely allow us to better place our Group's competitive position in the market.

In order to develop the northern China and north Asia markets and to mitigate impact of rising manufacturing costs including labour, electricity and water, all of which are rapidly increasing lately in Shekou, Shenzhen, the Company has a plan to relocate additional operation from the current Shekou plant to Tongliao, Inner Mongolia of China. Such relocation will be commenced after the Shaoguan plant's full operation which is expected to be in place around Q4 2006.

During the last few months our efforts in enhancing our product mix to higher margin products have also been satisfactory. Today, the share of our 6-layers and special materials product account for more than 40% of our monthly sales on average. Our short and medium term goal is to further improve this to 50%.

Lastly, although the Group has exerted its best efforts in implementing strategies which would allow her to improve her return of investment, like all other industries, her performance may be affected by external economical and political factors beyond her control. The potential continuous rise of the RMB since its official revaluation on 21 August 2005 and the recent rapid rise in petroleum price are just two of such factors.

Barring these unforeseen circumstances, the Group remains cautiously optimistic about its continuous improvement in its performance as witnessed in this Fiscal 2005 interim report.

Number and remuneration of employees

At 30 June 2005, excluding the associate, the Group employed 6,494 staff (31 December 2004: 5,975), of which 90 (31 December 2004: 88) were employed in Hong Kong, 6,366 (31 December 2004: 5,851) in the PRC and 38 (31 December 2004: 36) 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 2005, the Group had contingent liabilities related to trade receivables factored with recourse amounting to HK$38.2 million (31 December 2004: HK$34.5 million).

The trade receivables 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 2005, the Group's capital commitments contracted but not provided for amounted to HK$46 million (31 December 2004: HK$57 million). All of these capital commitments were related to construction of factory building or acquisition of fixed assets.

During the Period, the Group set up a new wholly-foreign owned subsidiary in the PRC for the operation of a new factory in Tongliao with total cost of investment of USD42,000,000. At the balance sheet date, the Group has entered into an agreement for the first phase construction costs for the factory at approximately HK$120 million.

Dividends

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2005 (30 June 2004: Nil).

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 it 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.

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.

CORPORATE GOVERNANCE

The Company is committed to ensuring high standards of corporate governance and devotes considerable effort to identifying and formalizing practices in the best interests of shareholders.

Code provisions on Corporate Governance

The Company has complied throughout the six-months ended 30 June 2005 with the Code Provisions on Corporate Governance as set out in Appendix 14 to the Listing Rules except for the deviation under the Code Provisions A.2.1 of the Listing Rules.

Under the Code Provisions A.2.1, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive officer should be clearly established and set out in writing.

The Board will review in the current year and propose any amendment, if necessary to ensure compliance with the Code on Corporate Governance as set out in the Listing Rules.

Model Code for Securities Transactions by Directors of Listed Issuers ("the Model Code")

The Company, having made specific enquiries, confirms that members of the Board complied with the Model Code and the Own Code throughout the six-months to 30 June 2005. Senior managers, who, because of their offices in the Company, are likely to be in possession of unpublished price sensitive information, also have to comply with the provisions of the Model Code and the Own Code.

AUDIT COMMITTEE

These Interim Financial Statements have not been audited, but have been reviewed by the Company's audit committee.

BOARD OF DIRECTORS

As at the date of this announcement, the Board comprises Mr. Cheok Ho Fung, Mr. Ng Chi Shing, Mr. Wong Shui Hing and Mr. Ting Sui Ping being the executive directors, 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 INTERIM REPORT ON STOCK EXCHANGE'S WEBSITE

The 2005 Interim Report of the Company containing all the information required by the Listing Rules will be published on the websites of the Company (www.topsearch.com.hk) and the Stock Exchange (www.hkex.com.hk) in due course.

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, 29 August 2005

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