



ANNUAL REPORT 2003



Topsearch International (Holdings) Limited
至卓國際(控股)有限公司*
(Incorporated in Bermuda with limited liability)

*For identification purposes only

Contents

Corporate Information and Financial Calendar	2
Business Profile	3
Chairman's Statement	4
Management Discussion and Analysis	6
Report of the Directors	9
Report of the Auditors	20
Consolidated Profit and Loss Account	21
Consolidated Balance Sheet	22
Consolidated Summary Statement of Changes in Equity	23
Consolidated Cash Flow Statement	24
Balance Sheet	26
Notes to Financial Statements	27
Financial Summary	60

Corporate Information and Financial Calendar

Executive Directors

Mr. Cheek Ho Fung (*Chairman*)
 Mr. Ng Chi Shing
 Mr. Kwok Chi Kwong, Danny
 Mr. Wong Shui Hing
 Mr. Ting Sui Ping

Auditors

Ernst & Young
Certified Public Accountants
 15th Floor, Hutchison House
 10 Harcourt Road
 Central, Hong Kong

Registered Office

Canon's Court, 22 Victoria Street
 Hamilton HM12
 Bermuda

Company Secretary

Mr. Ng Kit Man

Company website

www.topsearch.com.hk

Principal Share Registrar and Transfer Office

Reid Management Limited
 Argyle House, 41A Cedar Avenue
 Hamilton HM 12
 Bermuda

Hong Kong Branch Share Registrar and Transfer Office

Tengis Limited
 Ground Floor
 Bank of East Asia Harbour View Centre
 56 Gloucester Road
 Wanchai, Hong Kong

Independent Non-executive Directors

Mr. Ng Kwok Ying, Alvin
 Mr. Tang Yok Lam, Andy

Audit Committee

Mr. Ng Kwok Ying, Alvin
 Mr. Tang Yok Lam, Andy

Principal Place of Business

3301, China Merchants Tower
 Shun Tak Centre
 168—200 Connaught Road Central
 Hong Kong

Principal Bankers

The Hongkong and Shanghai
 Banking Corporation Limited
 1 Queen's Road Central
 Hong Kong

Citic Ka Wah Bank
 9th Floor, Lippo Centre Tower 1
 89 Queensway
 Hong Kong

Standard Chartered Bank
 Standard Chartered Bank Building
 4—4A Des Voeux Road Central
 Hong Kong

Financial Calendar

Half year results
 Announced on 19 September 2003

Full year results
 Announced on 16 April 2004

Register of Members
 To be closed from 20 May to 25 May 2004

Annual General Meeting
 To be held on 25 May 2004

Dividends

Interim : Nil
 Final : 1.02 Hong Kong cents per share
 payable on 31 May 2004

Business Profile

Topsearch International (Holdings) Limited ("Topsearch") and its subsidiaries (the "Group") are principally engaged in the manufacture and sale of a broad range of printed circuit boards ("PCBs"). The Group has a global customer base comprising principally Electronics Manufacturing Services ("EMS") companies and Original Equipment Manufacturer ("OEM") which are engaged in the production of a diverse range of products for personal computers ("PC") and PC-related industries, as well as the telecommunications, office components, security, instrumentation equipment and consumer products industries.

Chairman's Statement

Financial Performance

For the year ended 31 December 2003, the Group's turnover increased by 11.3% to HK\$1,159 million. Operating profit was 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.

Dividends

The Board of Directors (the "Board" or "Directors") 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.

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 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 enhance its marketing efforts to expand market coverage and further improve in product mix.

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.

Chairman's Statement

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 meters 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-buried 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 will be 6.9% for 2004 and 9.9% for 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.

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.

CHEOK HO FUNG

Chairman and Chief Executive Officer

Hong Kong, 16 April 2004

Management Discussion and Analysis

Review of the 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 of 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 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.

Management Discussion and Analysis

Interest-bearing Borrowings

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

	2003 HK\$'000	2002 HK\$'000
Amounts 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.

Management Discussion and Analysis

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 report.

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

Contingent Liabilities

As at 31 December 2003, the Group had contingent liabilities related to trade receivables 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.

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.

Report of the Directors

The Directors submit their annual report together with the audited financial statements of the Company and its subsidiaries for the year ended 31 December 2003.

Corporate Reorganization

The Company was incorporated as an exempted company with limited liability in Bermuda on 12 May 1998 under the Companies Act 1981 (as amended). Pursuant to a reorganization scheme (the "Group Reorganization") to rationalize the structure of the Group in preparation for the listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company became the holding company of the companies now comprising the Group on 29 May 2002.

Principal Activities and Geographical Analysis of Operations

The principal activity of the Company is investment holding. Its principal subsidiaries are engaged in manufacturing and sale of Printed Circuits Boards ("PCB"). Details of the Company's principal subsidiaries as at 31 December 2003 are set out in note 15 to the financial statement.

Details of the analysis of the Group's turnover for the year by geographical location is set out in note 4 to the financial statement.

Results and Appropriations

The results for the year ended 31 December 2003 are set out in the consolidated profit and loss account on page 21.

The Directors recommend the payment of a final dividend of 1.02 Hong Kong cents per ordinary share, totaling HK\$6,528,000, to the shareholders whose names appear on the register of members of the Company at the close of business on 25 May 2004.

Share Capital

There were no movement in either Company's authorised or issued share capital during the year.

Reserves

Details of the movements in the reserves of the Group and the Company during the year are set out in note 27 to the financial statements.

Report of the Directors

Distributable Reserves

At 31 December 2003, the distributable reserves of the Company available for distribution as dividends (net of proposed final dividend for the year end 31 December 2003) amounted to HK\$469,582,000, comprising retained earnings of HK\$2,813,000 and the contributed surplus of HK\$466,769,000. Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus shall not be distributed to the shareholders if there are reasonable grounds for believing that:

- (i) the Company is, or would after the payment be, unable to pay its liabilities as they become due; or
- (ii) the realizable value of the Company's assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium account.

Fixed Assets

Details of the movements in fixed assets of the Group are set out in note 14 to the financial statements.

Pre-emptive Rights

There are no provisions for pre-emptive rights under the Company's bye-laws though there are no restrictions against such rights under the laws of Bermuda.

Purchase, Sale or Redemption of the Company's Listed Securities

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

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

- (i) any employee (whether full-time or part-time) of the Company, any of its subsidiaries or any entity ("Invested Entity") in which the Group holds an equity interest, including any executive director of the Company, any of such subsidiaries or any Invested Entity;
- (ii) any non-executive directors (including independent non-executive directors) of the Company, any of its subsidiaries or any Invested Entity;
- (iii) any supplier of goods or services to any member of the Group or any Invested Entity;
- (iv) any customer of the Group or any Invested Entity;

Report of the Directors

- (v) any person or entity that provides research, development or other technological support to the Group or any Invested Entity;
- (vi) any shareholder of any member of the Group or any Invested Entity or any holder of any securities issued by any member of the Group or any Invested Entity; and
- (vii) for the purposes of the Scheme, the Options may be granted to any company wholly-owned by one or more persons belonging to any of the above classes of participants. For the avoidance of doubt, the grant of any options by the Company for the subscription of Shares or other securities of the Group to any person who fall within any of the above classes of participants shall not, by itself, unless the Directors otherwise determined, be construed as a grant of Option under the Scheme.

The basis of eligibility of any of the above class of participants to the grant of any Options shall be determined by the Directors from time to time on the basis of their contribution to the development and growth of the Group. The Scheme was conditionally adopted and approved by the shareholders of the Company on 30 May 2002 and unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of ordinary shares in respect of which options may be granted at any time under the Scheme and any other share option scheme of the Company cannot exceed 30% of the issued share capital of the Company from time to time. The total number of ordinary shares which may be issued upon exercise of all options to be granted under the Scheme and any other share option scheme of the Group must not in aggregate exceed 64,000,000 Shares, being 10% of the Shares in issue. The Company may seek approval of its shareholders in general meeting to refresh the 10% limit provided that the total number of ordinary shares which may be issued upon exercise of all outstanding options to be granted under the Scheme and under any other share option scheme of the Group under the limit as "refreshed" must not exceed 10% of the ordinary shares in issue at the date of approval of the limit. The maximum number of shares issuable under share options to each eligible participant in the Scheme within any 12-month period, is limited to 1% of the shares of such further grant in excess of this limit is subject to issue of a circular to the shareholders and shareholders' approval in a general meeting of the Company with such proposed grantees and their associates abstaining from voting.

Report of the Directors

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors, other than an independent non-executive director who is proposed to be a grantee. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue and with an aggregate value (based on the closing price of the Company's shares at the date of the grant) in excess of HK\$5 million, within any 12-month period up to and including the date of such grant, are subject to shareholders' approval in advance in a general meeting in which the proposed grantees must abstain from voting.

The offer of a grant of share options may be accepted within 28 days from the date of the offer, upon payment of a nominal consideration of HK\$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors, and commences at any time on or after the date upon which the option is deemed to be granted and accepted and expires not later than the 10th anniversary of that date.

The exercise price of the share options is determinable by the directors, but shall not be less than the higher of (i) the closing price of the Company's shares as stated in the Stock Exchange's daily quotation sheets on the date of the grant of the share options which must be a trading day; (ii) the average closing price of the Company's shares as stated in the Stock Exchange's daily quotation sheets for the five trading days immediately preceding the date of grant; and (iii) the nominal value of the shares on the offer date.

The financial impact of share options granted is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the profit and loss account or balance sheet for their cost. Upon the exercise of the share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which are lapsed or cancelled prior to their exercise date are deleted from the register of outstanding options.

No share options have been granted under the Scheme up to the date of approval of the Annual Report.

Apart from as disclosed above under the headings "Share option scheme" and "Directors' Interests in Shares" below, none of the directors or their respective associates had any personal, family, corporate or other interests in the equity or debt securities of the Company or any of its associated corporations (as defined in the SDI Ordinance) or had any right to subscribe for equity or debt securities of the Company, as recorded in the register required to be kept under Section 29 of the SDI Ordinance or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

Report of the Directors

Subsidiaries and An Associate

Details of the Company's principal subsidiaries and an associate at 31 December 2003 are set out in notes 15 and 16 to the financial statements.

Major Customers and Suppliers

For the financial year ended 31 December 2003, the sales of products to the largest and the five largest customers amounted to approximately 14% (2002: 14%) and 48% (2002: 51%) of turnover respectively.

For the financial year ended 31 December 2003, the purchases of materials from the largest and the five largest suppliers amounted to approximately 12% (2002: 15%) and 46% (2002: 56%) of total purchases respectively.

None of the directors, their respective associates had any interest in any of the five largest customers and suppliers of the Group for the financial year ended 31 December 2003.

To the knowledge of the Directors, one of the five largest suppliers owned more than 5% but less than 10% of the issued shares of the Company as at 31 December 2003.

Saved as disclosed above, none of any shareholders of the Company (which, to the knowledge of the Directors, own more than 5% of the issued share of the Company) had any interest in any of the five largest customers and suppliers of the Group for the financial year ended 31 December 2003.

Connected Transactions

The Group's connected transactions also constituted related party transactions, details of which are set out in note 33 to the financial statements.

Directors

The Directors of the Company during the year and up to the date of this report were:

Executive Directors:

Mr. Cheok Ho Fung

Mr. Ng Chi Shing

Mr. Kwok Chi Kwong, Danny

Mr. Wong Shui Hing

Mr. Ting Sui Ping

(appointed on 15 January 2004)

Independent Non-executive Directors:

Mr. Ng Kwok Ying, Alvin

Mr. Tang Yok Lam, Andy

In accordance with Bye-laws 99 and 102(A) of the Company's Bye-laws, Mr. Ng Kwok Ying, Alvin, Mr. Tang Yok Lam, Andy and Mr. Ting Sui Ping will retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

Report of the Directors

Biographical Details of Directors

Executive Directors

Mr. Cheok Ho Fung, aged 52, is the Chairman and Chief Executive Officer and founder of the Group. Mr. Cheok is responsible for overall strategic planning and direction of the Group. Backed by over 17 years' of experience in the PCB industry, Mr. Cheok also spearheads the Group's efforts in seeking out business development, capital investment and joint venture opportunities. Prior to the founding of the Group in 1985, Mr. Cheok had held various financial controller and management positions in different multi-national companies involved in computers and computer related products, application system providers, motor vehicles and agricultural equipment, ship repair and oil-rig construction, business-form printing and PCB manufacturing. Mr. Cheok has been a fellow member of the Association of Chartered Certified Accountants since 1980, Chartered Institute of Cost and Management Accountants since 1981 and Hong Kong Society of Accountants since 1990.

Mr. Ng Chi Shing, aged 43, is the Chief Operating Officer of the Group. Mr. Ng is responsible for overall management, including engineering, research and development and manufacturing activities of the Group. Mr. Ng has accumulated over 17 years of experience in the PCB industries. Prior to joining the Group in 1985, he was employed by a major PCB manufacturer in Hong Kong, where he was responsible for material control. Mr. Ng obtained his degree in Quantitative Analysis for Business from City Polytechnic University, Hong Kong in 1995.

Mr. Kwok Chi Kwong, Danny, aged 44, is the Quality Assurance Director of the Group. He is responsible for all matters in relation to quality assurance and for ensuring that the Group consistently meets the standards set by the QS 9000 quality management system. Prior to joining the Group in 1986, Mr. Kwok had been an auditor for the Quality Assurance Department in a major PCB manufacturer in Hong Kong for two years. Mr. Kwok graduated from the Hong Kong Polytechnic in 1990.

Mr. Wong Shui Hing, aged 50, is the Chief Finance Officer of the Group. In addition to being responsible for overall finance and accounting functions, Mr. Wong oversees the Group's purchasing and shipping activities, as well as human resources and training programs. Prior to joining the Group in 1987, Mr. Wong gained exposure and experience in the field of management accounting in companies involved in ship repair, oil-rig construction and PRC offshore oil drilling services. Mr. Wong graduated from the Hong Kong Baptist College in 1978.

Mr. Ting Sui Ping, aged 46, is the Marketing Director of the Group. He is responsible for overall marketing and sales functions. Mr. Ting has accumulated over 20 years of marketing experience in the PCB marketing. Prior to joining the Group in 2002, he was employed by a major PCB manufacturer in Hong Kong over 10 years.

Report of the Directors

Independent Non-executive Director

Mr. Ng Kwok Ying, Alvin, aged 56, is an independent non-executive Director. Mr. Ng is the founder and currently a senior partner of Ng and Partners, Solicitors. Prior to becoming a solicitor, Mr. Ng worked in the shipping industry for 10 years. Mr. Ng graduated from the University of Hong Kong with a Bachelor of Social Sciences degree. Mr. Ng was appointed as the Company's independent non-executive Director on 3 April 2002.

Mr. Tang Yok Lam, Andy, aged 55, is an independent non-executive Director. Mr. Tang has had over 30 years international working experience in Hong Kong, Japan, London, the US and the PRC in engineering, finance and investment banking areas. Mr. Tang had served at various senior executive positions in multinational companies in Hong Kong, Japan, London, the US and the PRC. Mr. Tang pioneered non-recourse project finance for major power plant financing in the PRC since 1994. Mr. Tang is currently the president of Inflow Finance Limited residing in Beijing. The company provides various investment and strategic advisory services to various enterprises in Greater China, both private enterprises and publicly listed companies. Mr. Tang studied naval architecture in Taiwan, then production management at Cambridge and earned his MBA at Cranfield Institute of Technology (England) in 1977. Mr. Tang was appointed as the Company's independent non-executive Director on 3 April 2002.

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 giving not less than six month 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' Interests in Contracts

Save as disclosed in note 33 to the 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 at the end of the year or at any time during the year.

Report of the Directors

Directors' Interests in Shares

As at 31 December 2003, the interests and short positions of the Directors in the shares, underlying shares and debentures of the Company or its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register maintained by the Company pursuant to Section 352 of the SFO were as follows:

(a) The Company

Name of director	Nature of interest		Number of ordinary shares held	Percentage of issued capital
Mr. Cheek Ho Fung	Direct	Long position	48,000,000	7.5%
Note	Deemed	Long position	432,000,000	67.5%
Total			480,000,000	75.00%

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. Cheek Ho Fung	Direct		12,250	49.00%
Note	Deemed		12,750	51.00%
			25,000	100.00%

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

Report of the Directors

(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%
		20,000,000	99.99%

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 31 December 2003.

Report of the Directors

Substantial Shareholders

As at 31 December 2003, the interests or short positions of every person in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO were as follows:

Name of shareholders	Notes			Number of ordinary shares held	Percentage of issued capital
Inni International Inc.		Direct	Long position	432,000,000	67.5%
Mr. Cheek Ho Fung	(i)	Direct	Long position	48,000,000	7.50%
		Deemed	Long position	432,000,000	67.50%
		Total		480,000,000	75.00%
Mrs. Cheek Chu Wai Min	(ii)	Deemed	Long position	480,000,000	75.00%
Hallgain Management Limited	(iii)	Deemed	Long position	59,414,000	9.28%
Kingboard Chemical Holdings Limited	(iii)	Direct	Long position	264,000	0.04%
		Deemed	Long position	59,150,000	9.24%
		Total		59,414,000	9.28%
Jamplan (BVI) Limited	(iii)	Deemed	Long position	59,150,000	9.24%
Kingboard Investments Limited		Direct	Long position	58,948,000	9.21%

Notes:

- (i) The above interest 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".

Report of the Directors

- (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 31 December 2003.

Audit Committee

The Company established an Audit Committee on 30 May 2002 with written terms of reference in compliance with the Code of Best Practice (the "Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"). The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal controls of the Group.

The Committee comprises two independent non-executive directors, namely Mr. Ng Kwok Ying, Alvin and Mr. Tang Yok Lam, Andy. Two meetings were held for the review of interim and annual financial statements for the current financial 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 of 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.

Auditors

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

On behalf of the Board

CHEOK HO FUNG

Chairman and Chief Executive Officer

Hong Kong, 16 April 2004

Report of the Auditors



安永會計師事務所

To the members

Topsearch International (Holdings) Limited

(Incorporated in Bermuda with limited liability)

We have audited the financial statements on pages 21 to 59 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective responsibilities of directors and auditors

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently. It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Basis of opinion

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes an examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2003 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young

Certified Public Accountants

Hong Kong

16 April 2004

Consolidated Profit and Loss Account

Year ended 31 December 2003

	Notes	2003 HK\$'000	2002 HK\$'000
TURNOVER	5	1,159,339	1,041,298
Cost of sales		(943,522)	(799,639)
Gross profit		215,817	241,659
Other revenue	5	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	6	51,533	68,853
Finance costs	7	(10,330)	(11,089)
PROFIT BEFORE TAX		41,203	57,764
Tax	10	(8,700)	(9,927)
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	11, 27	32,503	47,837
DIVIDEND — Proposed final	12	6,528	9,600
EARNINGS PER SHARE	13		
Basic		5.1 cents	8.4 cents
Diluted		N/A	N/A

Consolidated Balance Sheet

31 December 2003

	Notes	2003 HK\$'000	2002 HK\$'000
NON-CURRENT ASSETS			
Fixed assets	14	963,758	835,706
Interest in an associate	16	294	336
Rental and utility deposits		3,248	3,494
Prepaid rental, long term portion		1,648	1,823
Other assets		1,283	1,283
Deposits for fixed assets		5,159	3,197
		975,390	845,839
CURRENT ASSETS			
Inventories	17	135,532	114,160
Tax recoverable		4,494	—
Trade receivables	18	321,304	255,251
Prepayments, deposits and other receivables		46,470	34,302
Cash and cash equivalents	19	73,815	74,388
		581,615	478,101
CURRENT LIABILITIES			
Trade payables	20	281,584	231,897
Tax payable		—	4,764
Other payables and accruals		60,911	52,696
Interest-bearing bank loans	21	192,510	113,449
Finance lease payables	23	56,671	73,383
		591,676	476,189
NET CURRENT ASSETS/(LIABILITIES)		(10,061)	1,912
TOTAL ASSETS LESS CURRENT LIABILITIES		965,329	847,751
NON-CURRENT LIABILITIES			
Interest-bearing bank loans	21	104,839	81,187
Shareholder's loan	22	30,043	—
Finance lease payables	23	78,156	50,145
Deferred tax liabilities	24	45,212	36,012
		258,250	167,344
		707,079	680,407
CAPITAL AND RESERVES			
Issued capital	25	64,000	64,000
Reserves	27	636,551	606,807
Proposed final dividend	12	6,528	9,600
		707,079	680,407

Cheok Ho Fung

Director

Wong Shui Hing

Director

Consolidated Summary Statement of Changes in Equity

Year ended 31 December 2003

	Notes	2003 HK\$'000	2002 HK\$'000
Total equity at 1 January		680,407	513,071
Issue of shares, including share premium		—	220,800
Share issue expenses	27	—	(23,057)
Surplus on revaluation	14, 27	8,096	19,739
Revaluation reserve released upon recognition of deferred tax liabilities	27	(4,200)	—
Exchange realignment on translation of the financial statements of foreign entities	27	(127)	17
Net gains not recognised in the profit and loss account		3,769	19,756
Net profit for the year	27	32,503	47,837
Final 2002/2001 dividend paid		(9,600)	(98,000)
Total equity at 31 December		707,079	680,407

Consolidated Cash Flow Statement

Year ended 31 December 2003

	Notes	2003 HK\$'000	2002 HK\$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		41,203	57,764
Adjustments for:			
Interest income	5	(238)	(438)
Depreciation	6	129,012	119,896
Loss on disposal of fixed assets	6	132	655
Write-back of provision for obsolete inventories	6	(101)	(1,330)
Finance costs	7	10,330	11,089
Operating profit before working capital changes		180,338	187,636
Decrease/(increase) in rental and utility deposits		246	(254)
Decrease in prepaid rental, long term portion		175	175
Increase in deposits for fixed assets		(1,962)	(3,197)
Increase in inventories		(21,271)	(16,829)
Increase in trade receivables		(66,053)	(19,516)
Increase in prepayments, deposits and other receivables		(12,168)	(1,995)
Decrease/(increase) in an amount due from an associate		42	(49)
Increase in trade payables		49,687	2,374
Increase/(decrease) in other payables and accruals		8,215	(710)
Foreign exchange differences		(141)	17
Cash generated from operations		137,108	147,652
Interest received		238	438
Interest paid		(10,189)	(7,536)
Interest element on finance lease rental payments		(4,017)	(7,423)
Hong Kong profits tax paid		(10,000)	(5,464)
PRC taxes paid, net		(2,958)	(4,671)
Dividend paid		(9,600)	(98,000)
Net cash inflow from operating activities		100,582	24,996
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of fixed assets		(157,668)	(170,066)
Proceeds from disposal of fixed assets		295	91
Net cash outflow from investing activities		(157,373)	(169,975)

Consolidated Cash Flow Statement

Year ended 31 December 2003

	Notes	2003 HK\$'000	2002 HK\$'000
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of share capital		—	220,800
Share issue expenses		—	(23,057)
New bank loans		137,800	81,226
Repayment of bank loans		(52,652)	(19,010)
Shareholder's loan		30,043	—
Increase/(decrease) in trust receipt loans		17,565	(17,756)
Capital element of finance lease rental payments		(76,538)	(81,257)
Net cash inflow from financing activities		56,218	160,946
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS			
		(573)	15,967
Cash and cash equivalents at beginning of year		74,388	58,421
CASH AND CASH EQUIVALENTS AT END OF YEAR		73,815	74,388
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	19	58,195	54,329
Non-pledged time deposits with original maturity of less than three months when acquired	19	15,620	20,059
		73,815	74,388

Balance Sheet

31 December 2003

	Notes	2003 HK\$'000	2002 HK\$'000
NON-CURRENT ASSETS			
Interests in subsidiaries	15	694,619	644,916
CURRENT ASSETS			
Prepayments, deposits and other receivables		218	262
Dividend receivable		10,000	11,000
Cash and cash equivalents	19	441	20,066
		10,659	31,328
CURRENT LIABILITIES			
Other payables and accruals		382	256
NET CURRENT ASSETS		10,277	31,072
TOTAL ASSETS LESS CURRENT LIABILITIES		704,896	675,988
NON-CURRENT LIABILITY			
Shareholder's loan	22	(30,043)	—
		674,853	675,988
CAPITAL AND RESERVES			
Issued capital	25	64,000	64,000
Reserves	27	604,325	602,388
Proposed final dividend	12	6,528	9,600
		674,853	675,988

Cheok Ho Fung

Director

Wong Shui Hing

Director

Notes to Financial Statements

31 December 2003

1. Corporate Information

The Company was incorporated as an exempted company with limited liability in Bermuda on 12 May 1998 under the Companies Act 1981 (as amended) of Bermuda.

Pursuant to a reorganisation scheme to rationalise the structure of the Group in preparation for the listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") in June 2002, the Company became the holding company of the companies now comprising the Group on 29 May 2002 (the "Group reorganisation").

The principal place of business of Topsearch International (Holdings) Limited is located at Room 3301, China Merchants Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong.

During the year, the Group was involved in the manufacture and sale of printed circuit boards. Details of the principal activities of the Company's subsidiaries are set out in note 15 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

In the opinion of the directors, the ultimate holding company is Inni International Inc., which is incorporated in Liberia.

2. Impact Of A Revised Statement Of Standard Accounting Practice ("SSAP")

The following revised SSAP is effective for the first time for the current year's financial statements and has had a significant impact thereon:

- SSAP 12 (Revised): "Income taxes"

This SSAP prescribes new accounting measurement and disclosure practices. The major effects on the Group's accounting policies and on the amounts disclosed in these financial statements of adopting this SSAP are summarised as follows:

SSAP 12 prescribes the accounting for income taxes payable or recoverable, arising from 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).

Notes to Financial Statements

31 December 2003

2. Impact Of A Revised Statement Of Standard Accounting Practice ("SSAP") (Continued)

The principal impact of the revision of this SSAP on these financial statements is described below:

Measurement and recognition:

- deferred tax assets and liabilities relating to the differences between capital allowances for tax purposes and depreciation for financial reporting purposes and other taxable and deductible temporary differences are generally fully provided for, whereas previously the deferred tax was recognised for timing differences only to the extent that it was probable that the deferred tax asset or liability would crystallise in the foreseeable future; and
- a deferred tax liability has been recognised on the revaluation of the Group's land and buildings.

Disclosures:

- the related note disclosures are now more extensive than previously required. These disclosures are presented in notes 10 and 24 to the financial statements and include a reconciliation between the accounting profit and the tax expense for the year.

Further details of these changes are included in the accounting policy for deferred tax in note 3 and in note 24 to the financial statements.

3. Summary of Significant Accounting Policies

Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the periodic remeasurement of certain fixed assets, as further explained below.

Notes to Financial Statements

31 December 2003

3. Summary of Significant Accounting Policies *(Continued)*

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2003. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively.

The comparative consolidated financial statements have been 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 consolidated results and cash flows of the Group for the year ended 31 December 2002 included the results and cash flows of the Company and its subsidiaries with effect from 1 January 2002 or since their respective dates of incorporation/establishment, where this was a shorter period, as if the Group had been in existence at that date.

In the opinion of the directors, the consolidated financial statements prepared on the above basis present more fairly the results, state of affairs and cash flows of the Group as a whole.

All significant intercompany transactions and balances within the Group have been eliminated on consolidation.

Subsidiaries

A subsidiary is a company whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's profit and loss account to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

Associates

An associate is a company, not being a subsidiary or a jointly-controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's share of the post-acquisition results of its associate has not been equity accounted for by the Group because the amounts are not significant. The results of the associate are therefore included in the Group's profit and loss account to the extent of dividends received and receivable. The Group's interest in the associate is treated as a long term asset and is stated at cost less any impairment losses.

Notes to Financial Statements

31 December 2003

3. Summary of Significant Accounting Policies *(Continued)*

Negative goodwill

Negative goodwill arising on the acquisition of subsidiaries and associate represents the excess of the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition, over the cost of the acquisition.

To the extent that negative goodwill relates to expectations of future losses and expenses that are identified in the acquisition plan and that can be measured reliably, but which do not represent identifiable liabilities as at the date of acquisition, that portion of negative goodwill is recognised as income in the consolidated profit and loss account when the future losses and expenses are recognised.

To the extent that negative goodwill does not relate to identifiable expected future losses and expenses as at the date of acquisition, negative goodwill is recognised in the consolidated profit and loss account on a systematic basis over the remaining average useful life of the acquired depreciable/amortisable assets. The amount of any negative goodwill in excess of the fair values of the acquired non-monetary assets is recognised as income immediately.

In the case of an associate, any negative goodwill not yet recognised in the consolidated profit and loss account is included in the carrying amount thereof, rather than as a separately identified item on the consolidated balance sheet.

Prior to the adoption of SSAP 30 "Business combination" in 2001, negative goodwill arising on acquisitions was credited to the capital reserve in the year of acquisition. On the adoption of SSAP 30, the Group applied the transitional provision of the SSAP that permitted such negative goodwill to remain credited to the capital reserve. Negative goodwill on acquisitions subsequent to the adoption of the SSAP is treated according to the SSAP 30 negative goodwill accounting policy above.

On disposal of subsidiaries and an associate, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of negative goodwill which has not been recognised in the consolidated profit and loss account and any relevant reserves as appropriate. Any attributable negative goodwill previously credited to the capital reserve at the time of acquisition is written back and included in the calculation of the gain or loss on disposal.

Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

Notes to Financial Statements

31 December 2003

3. Summary of Significant Accounting Policies *(Continued)*

Impairment of assets

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years.

A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Fixed assets and depreciation

Fixed assets, other than construction in progress, are stated at cost or valuation less accumulated depreciation and any impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of that asset.

Changes in the values of fixed assets are dealt with as movements in the revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to the profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged. On disposal of a revalued asset, the relevant portion of the revaluation reserve realised in respect of previous valuations is transferred to retained profits as a movement in reserves.

Notes to Financial Statements

31 December 2003

3. Summary of Significant Accounting Policies *(Continued)*

Fixed assets and depreciation *(Continued)*

Depreciation is provided using the straight-line basis to write off the cost or valuation of each asset over its estimated useful life. The principal rates used for this purpose are as follows:

Leasehold land and buildings	Over the lease terms
Leasehold improvements	Over the lease terms
Plant and machinery	9% per annum
Furniture, fixtures and equipment	18% per annum
Motor vehicles	18% per annum
Moulds, dies, test fixtures and pins	25% per month

The gain or loss on disposal or retirement of a fixed asset recognised in the profit and loss account is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents a building under construction and is stated at cost less any impairment losses, and is not depreciated. Cost comprises direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of fixed assets when completed and ready for use.

Other assets

Other assets represent club membership debentures and are stated at cost less any impairment losses.

Leased assets

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and is recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in fixed assets and depreciated over the shorter of the lease terms and the useful lives of the assets. The finance costs of such leases are charged to the profit and loss account so as to provide a constant periodic rate of charge over the lease terms.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessee, rentals payable under operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

Notes to Financial Statements

31 December 2003

3. Summary of Significant Accounting Policies *(Continued)*

Inventories

Inventories are stated at the lower of cost or net realisable value.

Raw materials are valued on a weighted average basis. Work in progress and finished goods are valued at standard cost which approximates actual cost determined on a weighted average basis and comprises direct materials, direct labour and an appropriate proportion of manufacturing overheads.

Net realisable value is based on the estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheet, cash and cash equivalents comprise cash on hand and at banks, including short term deposits, which are not restricted as to use.

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the profit and loss account or in equity if it relates to items that are recognised in the same or a different period, directly in equity.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences:

- except where the deferred tax liability arises from the initial recognition of an asset or liability and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries and an associate, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Notes to Financial Statements

31 December 2003

3. Summary of Significant Accounting Policies *(Continued)*

Income tax *(Continued)*

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax assets and unused tax losses can be utilised:

- except where the deferred tax asset relating to the deductible temporary differences arises from negative goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries and an associate, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (b) tooling and subcontracting income, when the relevant services are rendered;
- (c) royalty income, on an accrual basis in accordance with the relevant trademark licensing agreement; and
- (d) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable.

Notes to Financial Statements

31 December 2003

3. Summary of Significant Accounting Policies *(Continued)*

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale.

Employee benefits

Employment Ordinance long service payments

Certain of the Group's employees have completed the required number of years of service to the Group in order to be eligible for long service payments under the Hong Kong Employment Ordinance in the event of the termination of their employment. The Group is liable to make such payments in the event that such a termination of employment meets the circumstances specified in the Employment Ordinance. A provision has not been recognised in respect of possible future long service payments to employees, as it is not considered probable that the situation will result in a material future outflow of resources from the Group.

Retirement benefit schemes

The Group operates two retirement benefit schemes for its eligible employees in Hong Kong. In accordance with the Mandatory Provident Fund Schemes Ordinance and the Occupational Retirement Schemes Ordinance (the "ORSO"), the Group's Hong Kong employees enjoy retirement benefits under either the Mandatory Provident Fund Scheme or the Mandatory Provident Fund Exempted ORSO Scheme under which employer voluntary contributions have to be made. The assets of both schemes are held separately from those of the Group in independently administered funds. The Group's contributions to both schemes are based on a percentage of the employees' monthly salaries. When an employee leaves the Mandatory Provident Fund Exempted ORSO Scheme prior to his/her interest in the Group's employer contributions vesting fully, the ongoing contributions payable by the Group may be reduced by the relevant amount of forfeited contributions. In respect of the Mandatory Provident Fund Scheme, the Group's employer contributions vest fully with the employees when contributed into the scheme.

Employees of the Group's subsidiary in Mainland China are members of the Central Pension Scheme operated by the Chinese government. The subsidiary is required to contribute a certain percentage of its payroll costs to the Central Pension Scheme to fund the benefits. The only obligation for the Group with respect to the Central Pension Scheme is to make the required contributions, which are charged to the profit and loss account as they become payable in accordance with the rules of the Central Pension Scheme.

Notes to Financial Statements

31 December 2003

3. Summary of Significant Accounting Policies *(Continued)*

Employee benefits *(Continued)*

Share option scheme

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The financial impact of share options granted under the share option scheme is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the profit and loss account or balance sheet for their cost. Upon the exercise of share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which are cancelled prior to their exercise date, or which lapse, are deleted from the register of outstanding options.

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the capital and reserves section of the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

Foreign currencies

Foreign currency transactions are recorded at the applicable exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable exchange rates ruling at that date. Exchange differences are dealt with in the profit and loss account.

On consolidation, the financial statements of overseas subsidiaries are translated into Hong Kong dollars using the net investment method. The profit and loss accounts of overseas subsidiaries are translated into Hong Kong dollars at the weighted average exchange rates for the year, and their balance sheets are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated to Hong Kong dollars at the weighted average exchange rates for the year.

Notes to Financial Statements

31 December 2003

4. Segment Information

Segment information is presented in respect of the Group's business and geographical segments. Business segment information is chosen as the primary segment reporting format because this is more relevant to the Group's internal financial reporting.

(a) Business segment

No further business segment information is presented as the manufacture and sale of printed circuit boards is the only major business segment of the Group.

(b) Geographical segment

In determining the Group's geographical segments, revenue and results are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets.

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

	2003 HK\$'000	2002 HK\$'000
Asia, excluding the People's Republic of China (the "PRC"),		
Hong Kong and Taiwan	489,247	448,079
Taiwan	213,506	160,446
PRC, including Hong Kong	197,544	188,218
North America	182,584	184,503
Europe	76,458	60,052
	1,159,339	1,041,298

As the Group's production facilities are located in Guangdong Province, the PRC, no further geographical segment information on assets and capital expenditure is provided.

Notes to Financial Statements

31 December 2003

5. Turnover and Other Revenue

Turnover represents the Group's net invoiced value of goods sold, net of trade discounts and returns.

An analysis of turnover and other revenue is as follows:

	2003	2002
	HK\$'000	HK\$'000
Turnover		
Sale of goods	1,159,339	1,041,298
Other revenue		
Tooling income	3,799	4,215
Subcontracting income	1,718	—
Interest income	238	438
Royalty income	444	391
Others	851	301
	7,050	5,345

6. Profit From Operating Activities

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

		2003	2002
	<i>Notes</i>	HK\$'000	HK\$'000
Cost of inventories sold		943,623	800,969
Depreciation	14	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	8		
Wages and salaries		151,604	158,250
Retirement scheme contributions		7,717	8,017
Less: Forfeited contributions		(904)	(481)
Net pension contributions*		6,813	7,536
		158,417	165,786
Exchange losses, net		2,516	838
Loss on disposal of fixed assets		132	655
Write-back of provision for obsolete inventories		(101)	(1,330)

* At 31 December 2003, the Group had forfeited contributions of HK\$486,000 available to reduce its contributions to the retirement scheme in future years (2002: HK\$471,000).

Notes to Financial Statements

31 December 2003

7. Finance Costs

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

8. Directors' Remuneration

Directors' remuneration for the year, disclosed pursuant to the requirements of the Listing Rules and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	Group	
	2003	2002
	HK\$'000	HK\$'000
Fees	240	120
Other emoluments:		
Basic salaries, other allowances and benefits in kind	7,632	7,677
Retirement scheme contributions	683	662
	8,315	8,339
	8,555	8,459

All the directors' fees were paid to the independent non-executive directors. There were no other emoluments payable to the independent non-executive directors during the year (2002: Nil).

Rental expenses amounting to HK\$1,380,000 (2002: HK\$1,380,000) in respect of a director's accommodation have been included under directors' other emoluments above (note 33).

Notes to Financial Statements

31 December 2003

8. Directors' Remuneration (Continued)

The number of directors whose remuneration fell within the following bands is as follows:

	Number of directors	
	2003	2002
Nil to HK\$1,000,000	3	3
HK\$1,000,001 to HK\$1,500,000	2	2
HK\$4,500,001 to HK\$5,000,000	—	1
HK\$5,000,001 to HK\$5,500,000	1	—
	6	6

There was no arrangement under which a director waived or agreed to waive any emoluments during the year.

9. Five Highest Paid Employees

The five highest paid employees during the year included three (2002: four) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining two (2002: one) highest paid, non-director employees for the year are as follows:

	Group	
	2003	2002
	HK\$'000	HK\$'000
Salary, other allowances and benefits in kind	2,725	1,152
Retirement scheme contributions	39	107
	2,764	1,259

The number of non-director, highest paid employees whose remuneration fell within the following bands is as follows:

	Number of employees	
	2003	2002
HK\$1,000,001 to HK\$1,500,000	1	1
HK\$1,500,001 to HK\$2,000,000	1	—
	2	1

Notes to Financial Statements

31 December 2003

10. 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.

Tax recoverable represents the excess of provisional tax paid over the estimated tax liability.

	2003	2002
	HK\$'000	HK\$'000
Group:		
Current — Hong Kong		
Charge for the year	—	2,400
Underprovision in prior years	—	227
Current — Elsewhere	3,700	5,800
Deferred (note 24)	5,000	1,500
Total tax charge for the year	8,700	9,927

A reconciliation of the tax expense applicable to profit before tax using the statutory rates for the countries in which the Company and its subsidiaries are domiciled to the tax expense at the effective tax rates, and a reconciliation of the applicable rates (i.e., the statutory tax rates) to the effective tax rates, are as follows:

	Group			
	2003		2002	
	HK\$'000	%	HK\$'000	%
Profit before tax	41,203		57,764	
Tax at the statutory tax rate	7,211	17.5	9,242	16.0
Lower tax rates for PRC subsidiary at 15% (2002: 15%)	(588)	(1.4)	(1,297)	(2.2)
Effect on opening deferred tax of increase in rates	794	1.9	—	—
Adjustments in respect of current tax of previous periods	—	—	227	0.4
Income not subject to tax	—	—	(12)	(0.0)
Expenses not deductible for tax	1,283	3.1	1,767	3.1
Tax charge at the Group's effective rate	8,700	21.1	9,927	17.2

Notes to Financial Statements

31 December 2003

11. Net Profit from Ordinary Activities Attributable to Shareholders

The net profit from ordinary activities attributable to shareholders for the year ended 31 December 2003 dealt with in the financial statements of the Company was HK\$8,465,000 (2002: HK\$10,476,000) (note 27).

12. Dividend

	2003	2002
	HK\$'000	HK\$'000
Proposed final — 1.02 cents (2002: 1.50 cents) per ordinary share	6,528	9,600

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

13. 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\$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.

Diluted earnings per share amounts for the two years ended 31 December 2003 and 2002 have not been disclosed as no diluting events existed during these years.

Notes to Financial Statements

31 December 2003

14. Fixed Assets

Group

	Land and buildings	Leasehold improvements	Construction in progress	Plant and machinery	Furniture, fixtures and equipment	Motor vehicles	Moulds, dies, test fixtures and pins	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cost or valuation:								
At beginning of year	64,100	171,172	116,683	814,530	71,207	9,016	120,808	1,367,516
Additions	—	17,390	62,460	149,806	4,767	937	14,021	249,381
Disposals	—	—	—	(1,282)	(840)	—	—	(2,122)
Revaluation	(100)	—	—	—	—	—	—	(100)
Exchange realignment	—	—	—	—	26	—	—	26
At 31 December 2003	64,000	188,562	179,143	963,054	75,160	9,953	134,829	1,614,701
Analysis of cost or valuation:								
At cost	—	188,562	179,143	963,054	75,160	9,953	134,829	1,550,701
At valuation	64,000	—	—	—	—	—	—	64,000
	64,000	188,562	179,143	963,054	75,160	9,953	134,829	1,614,701
Accumulated depreciation:								
At beginning of year	3,175	94,745	—	270,158	39,589	5,417	118,726	531,810
Provided during the year	5,021	20,702	—	78,471	9,315	1,073	14,430	129,012
Disposals	—	—	—	(1,010)	(685)	—	—	(1,695)
Written back on revaluation	(8,196)	—	—	—	—	—	—	(8,196)
Exchange realignment	—	—	—	—	12	—	—	12
At 31 December 2003	—	115,447	—	347,619	48,231	6,490	133,156	650,943
Net book value:								
At 31 December 2003	64,000	73,115	179,143	615,435	26,929	3,463	1,673	963,758
At 31 December 2002	60,925	76,427	116,683	544,372	31,618	3,599	2,082	835,706

Notes to Financial Statements

31 December 2003

14. Fixed Assets (Continued)

The Group's land and buildings are situated in the PRC and are held under lease terms of 30 to 50 years.

The net book value of assets held under finance leases included in the total amount of plant and machinery at 31 December 2003 amounted to HK\$238,144,000 (2002: HK\$210,774,000). The depreciation charge for the year in respect of all such assets held under finance leases amounted to HK\$27,508,000 (2002: HK\$28,294,000). These fixed assets were pledged to the respective banks as a security of the finance lease facilities granted to the Group.

Certain land and buildings of the Group with a net book value of HK\$24,222,000 (2002: HK\$28,531,000) and the construction in progress have been pledged to a bank to secure long term bank loans granted to the Group (note 21).

The Group's land and buildings were revalued at 31 December 2003 by DTZ Debenham Tie Leung Limited, independent professionally qualified valuers, at an aggregate open market value of HK\$64,000,000 (2002: HK\$64,100,000) based on their existing use. A resulting revaluation surplus of HK\$8,096,000 (2002: HK\$19,739,000) has been credited to the revaluation reserve (note 27).

The carrying amount of construction in progress included capitalised interest of HK\$7,746,000 (2002: HK\$3,870,000).

Had there been no revaluation of the Group's land and buildings, the carrying amount of cost less accumulated depreciation at 31 December 2003 would have been approximately HK\$38,444,000 (2002: HK\$41,994,000).

15. Interests in Subsidiaries

	Company	
	2003	2002
	HK\$'000	HK\$'000
Unlisted shares, at cost	467,769	467,769
Due from subsidiaries	226,850	177,147
	694,619	644,916

The amounts due from subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

Notes to Financial Statements

31 December 2003

15. Interests in Subsidiaries (Continued)

Particulars of the subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company	Principal activities
Directly held				
Topsearch Industries (BVI)*	British Virgin Islands	Ordinary US\$50,000	100	Investment holding
Indirectly held				
Topsearch Industries (Holdings) Limited	Hong Kong	Ordinary HK\$1,000 Deferred non-voting** HK\$20,000,000	100	Investment holding
Topsearch Printed Circuits (HK) Limited	Hong Kong	Ordinary HK\$10,000,000	100	Investment holding and sale of printed circuit boards
Topsearch Printed Circuits Macao Commercial Offshore Company Limited#	Macau	Ordinary MOP100,000	100	Sale of printed circuit boards
Topsearch Printed Circuits (Shenzhen) Ltd.@	PRC	Registered paid-up capital US\$32,000,000	100	Manufacturing of printed circuit boards
Topsearch Marketing (S) Pte Ltd.*	Singapore	Ordinary shares S\$1,000	100	Provision of marketing services

Notes to Financial Statements

31 December 2003

15. Interests in Subsidiaries (Continued)

Particulars of the subsidiaries are as follows: (Continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company	Principal activities
Topsearch Marketing (U.K.) Limited*	United Kingdom	Ordinary shares £2	100	Provision of marketing services
TPS Marketing (M) Sdn. Bhd.*	Malaysia	Ordinary shares RM2	100	Provision of marketing services
Topsearch Marketing (USA) Inc.*	USA	Ordinary shares US\$1,000	100	Provision of marketing services
Topsearch Marketing (Taiwan) Limited*	Taiwan	Ordinary shares NT1,000,000	100	Provision of marketing services
Topsearch Printed Circuits Korea Co., Ltd.*	Republic of Korea	Ordinary shares WON50,000,000	100	Provision of marketing services
可立身物業管理(深圳) 有限公司* [@]	PRC	Registered paid-up capital HK\$1,000,000	100	Provision of property management services
至卓飛高線路板(曲江) 有限公司* ^{@#}	PRC	Registered capital US\$20,000,000	100	Manufacturing of printed circuit boards

Notes to Financial Statements

31 December 2003

15. Interests in Subsidiaries (Continued)

Particulars of the subsidiaries are as follows: (Continued)

- * Not audited by Ernst & Young Hong Kong or other Ernst & Young International member firms.
- ** The non-voting deferred shares carry no rights to dividends, no rights to attend or vote at general meetings and no rights to receive any surplus assets in a return of capital in a winding-up unless a sum of HK\$500,000,000,000 has been distributed to each holder of the ordinary shares.
- # Newly established during the year.
- @ Registered as a wholly-owned foreign enterprise.

16. Interest in an Associate

	Group	
	2003	2002
	HK\$'000	HK\$'000
Unlisted shares, at cost	100	100
Due from an associate	194	236
	294	336

The amount due from an associate is unsecured, interest-free and has no fixed terms of repayment.

Particulars of the associate are as follows:

Company	Business structure	Place of incorporation and operations	Percentage of ownership interest attributable to the Group	Principal activities
Topsearch PCB Marketing (Thailand) Co., Ltd.*	Corporate	Thailand	49	Provision of marketing services

- * Not audited by Ernst & Young Hong Kong or other Ernst & Young International member firms.

The operating results of the associate have not been equity accounted for by the Group because the amounts were not significant. Accordingly, the Group's interest in the associate is stated at cost at the balance sheet date.

Notes to Financial Statements

31 December 2003

17. Inventories

	Group	
	2003	2002
	HK\$'000	HK\$'000
Raw materials	69,376	51,469
Work in progress	36,632	34,781
Finished goods	36,876	35,363
	142,884	121,613
Less: Provision	(7,352)	(7,453)
	135,532	114,160

No inventory was carried at net realisable value as at 31 December 2003 (2002: Nil).

18. Trade Receivables

Credit is offered to customers following a financial assessment by the Group. Periodic reviews of 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.

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:

	Group	
	2003	2002
	HK\$'000	HK\$'000
Current — 30 days	261,843	163,104
31 — 60 days	30,396	24,387
61 — 90 days	4,926	23,613
Over 90 days	24,139	44,147
	321,304	255,251

Notes to Financial Statements

31 December 2003

19. Cash and Cash Equivalents

	Group		Company	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cash and bank balances	58,195	54,329	441	7
Short term deposits	15,620	20,059	—	20,059
	73,815	74,388	441	20,066

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK\$8,972,000 (2002: HK\$2,753,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

20. 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:

	Group	
	2003	2002
	HK\$'000	HK\$'000
Current — 30 days	170,757	148,388
31 — 60 days	56,560	46,399
61 — 90 days	33,034	25,416
Over 90 days	21,233	11,694
	281,584	231,897

Notes to Financial Statements

31 December 2003

21. Interest-Bearing Bank Loans

	Group	
	2003	2002
	HK\$'000	HK\$'000
Trust receipt loans, secured	34,931	17,366
Bank loans, secured	262,418	177,270
	297,349	194,636
Trust receipt loans and short term bank loans repayable within one year or on demand	117,696	89,232
Trust receipt loans repayable in the second year	835	—
	118,531	89,232
Bank loans, secured and repayable:		
Within one year	74,814	24,217
In the second year	84,109	34,438
In the third to fifth years, inclusive	19,895	46,749
	178,818	105,404
	297,349	194,636
Portion classified as current liabilities	(192,510)	(113,449)
Long term portion	104,839	81,187

The bank loans and other banking facilities of the Group are secured by:

- (i) cross-corporate guarantees by the Company and its subsidiary;
- (ii) a mortgage over certain land and buildings of the Group (note 14); and
- (iii) a letter of undertaking over the construction in progress of the Group (note 14).

Notes to Financial Statements

31 December 2003

22. Shareholder's Loan

	Group		Company	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Loan from a controlling shareholder, unsecured and repayable:				
In the second year	7,543	—	7,543	—
In the third to fifth years, inclusive	22,500	—	22,500	—
	30,043	—	30,043	—

The shareholder's loan is advanced by Mr. Cheek 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.

Notes to Financial Statements

31 December 2003

23. Finance Lease Payables

The Group leases certain of its plant and machinery for its printed circuit board business. These leases are classified as finance leases and have remaining lease terms ranging from one month to four years.

At 31 December 2003, the total future minimum lease payments under finance leases and their present values were as follows:

	Minimum lease payments 2003 HK\$'000	Minimum lease payments 2002 HK\$'000	Present value of minimum lease payments 2003 HK\$'000	Present value of minimum lease payments 2002 HK\$'000
Amounts payable:				
Within one year	59,354	78,561	58,611	76,566
In the second year	42,445	35,958	41,579	33,123
In the third to fifth years, inclusive	36,387	15,989	34,637	13,839
Total minimum finance lease payments	138,186	130,508	134,827	123,528
Future finance charges	(3,359)	(6,980)		
Total net finance lease payables	134,827	123,528		
Portion classified as current liabilities	(56,671)	(73,383)		
Long term portion	78,156	50,145		

Notes to Financial Statements

31 December 2003

24. Deferred Tax

The movement in deferred tax liabilities during the year is as follows:

Group

		Accelerated tax depreciation	Revaluation of land and buildings	Total
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1 January 2002		34,512	—	34,512
Deferred tax charged to the profit and loss account during the year	10	1,500	—	1,500
At 31 December 2002 and 1 January 2003		36,012	—	36,012
Deferred tax charged to the profit and loss account during the year	10	5,000	—	5,000
Deferred tax debited to equity during the year	27	—	4,200	4,200
		41,012	4,200	45,212

At 31 December 2003, there was no significant unrecognised deferred tax liability (2002: Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries or associate as the Group had no liability to additional tax should such amounts be remitted.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

SSAP 12 (revised) was adopted during the year, as further explained in note 2 to the financial statements. This change in accounting policy has resulted in an increase in the Group's deferred tax liabilities as at 31 December 2003 by HK\$4,200,000 for revaluation of land and buildings. As a consequence, the revaluation reserve has been decreased by HK\$4,200,000, as detailed in the consolidated summary statement of changes in equity and note 27 to the financial statements.

Notes to Financial Statements

31 December 2003

25. Share Capital Shares

	2003	2002
	HK\$'000	HK\$'000
Authorised:		
2,000,000,000 ordinary shares of HK\$0.10 each	200,000	200,000
Issued and fully paid:		
640,000,000 ordinary shares of HK\$0.10 each	64,000	64,000

Share options

Details of the Company's share option scheme are included in note 26 to the financial statements.

26. 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 year or were outstanding at the balance sheet date.

Notes to Financial Statements

31 December 2003

27. Reserves Group

		Share premium account	Contributed surplus	Property revaluation reserve	Exchange fluctuation reserve	Statutory reserve fund	Capital reserve	Retained profits	Total
	Notes	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2002		—	19,000	—	(15)	12,000	4,064	379,022	414,071
Issue of shares		204,800	—	—	—	—	—	—	204,800
Capitalisation issue		(47,000)	—	—	—	—	—	—	(47,000)
Share issue expenses		(23,057)	—	—	—	—	—	—	(23,057)
Surplus on revaluation	14	—	—	19,739	—	—	—	—	19,739
Exchange realignment on translation of the financial statements of foreign entities		—	—	—	17	—	—	—	17
Net profit for the year		—	—	—	—	—	—	47,837	47,837
2002 final dividend proposed	12	—	—	—	—	—	—	(9,600)	(9,600)
Transfer to statutory reserve fund		—	—	—	—	3,300	—	(3,300)	—
At 31 December 2002 and 1 January 2003		134,743	19,000	19,739	2	15,300	4,064	413,959	606,807
Surplus on revaluation	14	—	—	8,096	—	—	—	—	8,096
Exchange realignment on translation of the financial statements of foreign entities		—	—	—	(127)	—	—	—	(127)
Net profit for the year		—	—	—	—	—	—	32,503	32,503
Recognised as deferred tax	24	—	—	(4,200)	—	—	—	—	(4,200)
2003 final dividend proposed	12	—	—	—	—	—	—	(6,528)	(6,528)
Transfer to statutory reserve fund		—	—	—	—	1,730	—	(1,730)	—
At 31 December 2003		134,743	19,000	23,635	(125)	17,030	4,064	438,204	636,551

Notes to Financial Statements

31 December 2003

27. Reserves (Continued)

Group (Continued)

The contributed surplus of the Group represents the difference between the nominal value of the share capital of the subsidiaries acquired as a result of the Group reorganisation, over the nominal value of the Company's shares issued in exchange therefor, net of HK\$100,000 being 1,000,000 shares issued nil paid upon the incorporation of the Company.

In accordance with the relevant PRC regulations applicable to wholly foreign-owned enterprises, the Company's PRC subsidiary is required to appropriate an amount of not less than 10% of its profits after tax to the statutory reserve fund, which may be used to increase the paid-up capital of the PRC subsidiary.

The amount of negative goodwill arising from the acquisition of subsidiaries prior to 1 January 2002 remains credited to the capital reserve.

Company

		Share premium account	Contributed surplus	Retained profits	Total
	Notes	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Issue of shares		204,800	—	—	204,800
Capitalisation issue		(47,000)	—	—	(47,000)
Share issue expenses		(23,057)	—	—	(23,057)
Reserve arising on the Group reorganisation		—	466,769	—	466,769
Net profit for the year	11	—	—	10,476	10,476
2002 final dividend proposed	12	—	—	(9,600)	(9,600)
At 31 December 2002 and 1 January 2003		134,743	466,769	876	602,388
Net profit for the year	11	—	—	8,465	8,465
2003 final dividend proposed	12	—	—	(6,528)	(6,528)
At 31 December 2003		134,743	466,769	2,813	604,325

Notes to Financial Statements

31 December 2003

27. Reserves (Continued)

Company (Continued)

The contributed surplus of the Company represents the difference between the consolidated net asset value of Topsearch Industries (BVI) on 30 April 2002 when its entire issued share capital was acquired by the Company pursuant to the Group reorganisation, and the nominal amount of the Company's shares issued in consideration for such acquisition, net of HK\$100,000 being 1,000,000 shares issued nil paid upon the incorporation of the Company. Under the Companies Act 1981 (as amended) of Bermuda, the contributed surplus of the Company is distributable to shareholders under certain conditions. In addition, the share premium account of the Company can be distributed in the form of fully paid bonus shares.

28. Note to the Consolidated Cash Flow Statement

Major non-cash transaction

During the year, the Group entered into finance lease arrangements in respect of fixed assets with a total capital value at the inception of the leases of HK\$87,837,000 (2002: HK\$59,167,000).

29. Contingent Liabilities

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

	Group		Company	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Trade debtors factored with recourse	22,688	9,360	—	—
Guarantees given to a bank for facilities granted to a subsidiary	—	—	660,671	413,309
Guarantees given to lessors for finance lease agreements entered with a subsidiary	—	—	181,959	272,776
	22,688	9,360	842,630	686,085

At 31 December 2003, the bank facilities granted to and finance lease agreements entered into by a subsidiary subject to the above guarantee given by the Company were utilised to the extent of approximately HK\$312,889,000 (2002: HK\$146,835,000) and HK\$121,587,000 (2002: HK\$89,899,000), respectively.

Notes to Financial Statements

31 December 2003

30. Pledge of Assets

Details of the Group's bank loans and other bank facilities, which are secured by the assets of the Group, are included in note 21 to the financial statements.

31. Operating Lease Arrangements

The Group leases certain of its office properties under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to two years.

At 31 December 2003, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2003	2002
	HK\$'000	HK\$'000
Within one year	8,610	10,155
In the second to fifth years, inclusive	4,235	3,728
	12,845	13,883

32. Commitments

In addition to the operating lease commitments detailed in note 31 above, the Group had the following commitments at the balance sheet date:

	Group	
	2003	2002
	HK\$'000	HK\$'000
(a) Capital commitments		
Authorised, but not contracted for:		
Commitments in respect of construction of a factory building	—	43,130
Authorised, and contracted for:		
Commitments in respect of construction of a factory building	18,095	55,774
Commitments in respect of acquisition of fixed assets	—	6,217
	18,095	61,991
	18,095	105,121

Notes to Financial Statements

31 December 2003

32. Commitments (Continued)

(b) Other commitments

At 31 December 2003, the Group had total commitments of HK\$6,509,000 (2002: HK\$6,509,000) to make payments in respect of a technology collaboration agreement with Tsinghua University, the PRC, entered into in April 2001.

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\$156,000,000 as at balance sheet date.

33. Related Party Transactions

Other than disclosed elsewhere in these financial statements, the Group had the following significant transaction with a related company during the year:

	2003 HK\$'000	2002 HK\$'000
Rental expenses paid to Keentop Investment Limited ("Keentop") (Note)	1,380	1,380

Note: The rental expenses paid to Keentop, which is beneficially owned by Mr. Cheok Ho Fung, a director of the Company, and his spouse, related to the property leased as his residence. The monthly rental expenses of HK\$115,000 were based on tenancy agreement entered into between both parties. Pursuant to a further tenancy agreement entered on 22 May 2002, the monthly rental of HK\$115,000 for the period from 22 May 2002 to 21 May 2005 (with an option to renew for a further term of three years) was based on a market rental valuation provided by an independent professionally qualified valuer in April 2002.

34. Comparative Amounts

Club membership debentures and deposits for fixed assets, amounting to HK\$1,283,000 and HK\$3,197,000, respectively, which were disclosed as "Prepayments, deposits and other receivables" in the consolidated balance sheet as at 31 December 2002, have been reclassified as "Other assets" and "Deposits for fixed assets", respectively. In addition, short term bank loans of HK\$9,360,000, which were related to trade receivables factored as at 31 December 2002, have been offset against trade receivables balance. The contingent liabilities so arising from the factoring have been disclosed in note 29 to the financial statements. In the opinion of the directors, the above reclassifications would produce a more appropriate presentation of the Group's financial position.

35. Approval of the Financial Statements

The financial statements were approved and authorised for issue by the board of directors on 16 April 2004.

Financial Summary

Results

	Year ended 31 December				
	2003 HK\$'000	2002 HK\$'000	2001 HK\$'000	2000 HK\$'000	1999 HK\$'000
Turnover	1,159,339	1,041,298	1,149,143	1,148,529	953,766
Profit before tax	41,203	57,764	129,006	177,201	144,458
Tax	(8,700)	(9,927)	(18,753)	(10,709)	(32,370)
Net profit attributable to shareholders	32,503	47,837	110,253	166,492	112,088

Assets and Liabilities

	As at 31 December				
	2003 HK\$'000	2002 HK\$'000	2001 HK\$'000	2000 HK\$'000	1999 HK\$'000
Total assets	1,557,005	1,323,940	1,142,180	1,032,363	675,461
Total liabilities	(849,926)	(643,533)	(629,109)	(629,530)	(375,494)
Total net assets	707,079	680,407	513,071	402,833	299,967

Notes:

- (i) The results for each of the three years ended 31 December 2001 which were extracted from the Prospectus have been prepared using merger basis of accounting under which the results and total net assets have been prepared on the basis that the Company is treated as the holding company of its subsidiaries for the financial period presented rather from the subsequent date of acquisition of the subsidiaries pursuant to the Group Reorganization on 29 May 2002, or since the respective dates of their incorporation.
- (ii) The results for the year ended and the total assets and total liabilities as at 31 December 2003 and 2002 have been extracted from the audited consolidated financial statements as set out from page 20 to 59 of this report.