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T O P S E A R C H

**Topsearch International (Holdings) Limited**

**至卓國際（控股）有限公司\***

*(Incorporated in Bermuda with limited liability)*

\* For identification purposes only

Annual Report

**2002**

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## CORPORATE INFORMATION AND FINANCIAL CALENDAR

### EXECUTIVE DIRECTORS

Mr. Cheok Ho Fung (*Chairman*)  
Mr. Ng Chi Shing  
Mr. Kwok Chi Kwong, Danny  
Mr. Wong Shui Hing

### AUDITORS

Ernst & Young  
*Certified Public Accountants*  
15/F, Hutchison House  
10 Harcourt Road  
Central, Hong Kong

### REGISTERED OFFICE

Cedar House, 41 Cedar Avenue  
Hamilton HM12, Bermuda

### COMPANY SECRETARY

Mr. Chan Ngai Chi

### COMPANY WEBSITE

[www.topsearch.com.hk](http://www.topsearch.com.hk)

### PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Reid Management Limited  
4/F, Windsor Place  
22 Queen Street  
Hamilton, HM 11  
Bermuda

### HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tengis Limited  
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

Credit Lyonnais (Hong Kong Branch)  
27/F, Two Pacific Place  
88 Queensway, Hong Kong

### FINANCIAL CALENDAR

Half year results  
Announced on 18 September 2002

Full year results  
Announced on 11 April 2003

Register of Members  
To be closed from 12 May to 15 May 2003

Annual General Meeting  
To be held on 15 May 2003

Dividends  
Interim : Nil  
Final : 1.5 Hong Kong cents per share  
payable on 29 May 2003

## 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.

According to a well-established industry-wide survey, in 2001 the Group was ranked 13th (2000: 15th) amongst PCB companies in the Asia Pacific region (excluding Japan), and 39th (2000: 52nd) in the world, based on revenue generated over the years.

The Group was also included in the "Asia Pacific Technology Fast 500" by Deloitte Touche Tohmatsu (DTT), in recognition of its impressive growth in turnover in the past three years. The Group was one of the only nine Hong Kong companies listed in the 2002 program. This was the first time that the program has included the Asia Pacific region; companies in technology/media/telecommunication industry from 13 places, including China, Hong Kong, Japan, Singapore and Taiwan were ranked according to their turnover growth in the three years to June 2002.

## CHAIRMAN'S STATEMENT

### FINANCIAL PERFORMANCE

For the year ended 31 December 2002, the Group's turnover decreased by 9.4% to HK\$1,041 million. Operating profit was HK\$69 million, as compared to HK\$148 million in 2001. Profits attributable to shareholders amounted to HK\$48 million, as compared to HK\$110 million in 2001. Basic earnings per share were 8.4 Hong Kong cents, as compared to 23.0 Hong Kong cents in 2001.

### DIVIDENDS

The Board of Directors (the "Board" or "Directors") has proposed a final dividend of 1.5 Hong Kong cents per share for the financial year ended 31 December 2002. 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 15 May 2003.

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 2002, products from some customers required additional treatment in certain production processes, which created output imbalance in the different operational processes. Because of this, the Group was not able to reach its projected monthly production output of an average of 1.5 million sq. ft. during the second half of fiscal year 2002. The monthly output remained at its average of 1.2 to 1.3 million sq. ft. for the second half of the fiscal year 2002.

Coupled with this process imbalance, the continuing price erosion during the year turned out to be serious. This is mainly due to the over capacity of the PCB industry. The average loading for the PCB industry worldwide, as estimated by NT Information Ltd, was only around 71% in 2002. In fact, for many medium to large sized PCB manufacturers, the average loading during 2002 could be less than 60%. The Group was able to out-perform the market with its loading running around 80% in the second half of fiscal year 2002. According to a survey conducted by Prismark, an electronics industry consulting firm, a total of seven U.S. PCB manufacturers with around 20 locations shut down during fiscal year 2002 and the permanent capacity loss may be as high as 30,000,000 sq. ft. per year. The worldwide over-capacity would of course be even higher if there were no such shut downs in the U.S., and in some parts of Europe as well. According to estimates by NT Information Ltd released in 2003, in 2002, the U.S. was estimated

## CHAIRMAN'S STATEMENT

to sustain negative growth of 30% whilst Western Europe was estimated to suffer negative growth of 25%. However, China was estimated to enjoy a positive growth of 17% though this does not mean that China is immune from further price erosion. World production saw negative growth of 4% to 7% in 2002. As a result, the weighted average price of the Group's PCB products dropped by 12% in fiscal year 2002.

However, despite the drop in the sales amount, the Group managed to expand output volume, in terms of square footage, by approximately 3% as compared to the previous year, thanks to the efforts of its strong marketing team and the support of key customers who are looking for a reliable source to support their new production facilities in China. As a result of the decrease in costs of raw materials and with effective cost controls, the overall cost of sales decreased by approximately 4% in 2002. The gross profit ratio decreased to 23.2% in 2002 from 27.5% in 2001.

The growth in sales of multi-layered boards in 2002 has been working well in line with the Group's business strategy for the year. The output volume and sales of multi-layered boards (six layers and above) increased by 51.3% and 23.2% respectively in 2002 against 2001. During the year, the Group observed a significant change in the geographical location of sales. Some of the Group's customers shifted their production bases from North America and Europe to South East Asia. This factor, together with the growth of sales from customers in South East Asia, contributed to the increased proportion of sales in South East Asia from 31.9% to 43.0%, while those from North America and Europe dropped from 25.1% to 17.7% and from 6.4% to 5.8% respectively as compared to the prior year. One of the Group's customers, who is headquartered in Hong Kong, delegated its procurement function to its group companies in South East Asia. As such, sales to customers in Greater China (ie. China, Hong Kong and Taiwan) decreased slightly from 36.5% to 33.5%. Within Greater China, sales to local customers in China (excluding foreign invested production plants ) rose from HK\$15,000 in 2001 to HK\$10,000,000 in 2002 due to strong marketing efforts such as the opening of the Shanghai office and the setting up of a new marketing team in Shenzhen.

Overall, the Management is disappointed with the results achieved by the Group during fiscal year 2002. The Management has taken steps to further reduce costs including reducing its world-wide staff head count at the end of November 2002. Facing on-going competition in the PCB industry in the year 2003, the Management and all staff have taken measures to overcome the difficulties by adopting and rigidly adhering to various improvement programs with the aim of returning to, or even exceeding, previous earning levels. More information of these programs can be found in the "Prospects" section.

## RECOGNITION

Although the current business environment is difficult for technology-related industries, the Group can improve its comparative position in the PCB industry as well as the technology industry in a wider sense.

## CHAIRMAN'S STATEMENT

According to a well-established industry survey, in 2001 the Group was ranked 13th (2000: 15th) amongst PCB companies in the Asia Pacific region (excluding Japan), and 39th (2000: 52nd) in the world, based on revenue generated over the years.

Furthermore, the Group was also recognized as a fast growing company in the Asia Pacific region. In 2002, the Group was included in the "Asia Pacific Technology Fast 500" by Deloitte Touche Tohmatsu (DTT), in recognition of its impressive growth in turnover in the past three years. The Group was the one of the only nine Hong Kong companies listed in the 2002 program. This was the first time that the program has included the Asia Pacific region; companies in technology/media/telecommunication industry from 13 places, including China, Hong Kong, Japan, Singapore and Taiwan were ranked according to their turnover growth in the three years to June 2002.

### PROSPECTS

An average of 73% to 75% of its total turnover relates to PC and PC-related industry. Although there is high demand for PCB products in the PC and PC-related markets, competition within this industry is intensifying and the relevant technologies are subject to rapid changes. Therefore, the Group is diversifying to alleviate the pain brought about by the over-capacity in the PC-related PCB market which has resulted in strong price erosion. Because of the continuous investment in very advanced equipment and the recruitment of more experienced and talented engineers in the last few years, the Group will be able to gradually transform its product mix from the most competitive PCB products (such as 4 layers mother-boards) to other niche products such as special materials including high Tg, Getek, Rogers and Halogen-free materials. The Group is also entering into the supply of higher layers for back panels, blind-buried-vias PCBs for the application of notebooks, PDA, servers and the supply of HDI microvias PCBs for hand-phones. On average, these products can command a higher profit margin than that of PC-related PCBs. All these products will go into mass-volume production once the new plant is ready in early third quarter, 2003. Additionally, production capacity is expected to increase to 1.5 million sq. ft. subsequent to the commencement operations of the new plant. The capability to launch all these high-end and high-margin products forms the basis of the Group's confidence that it will return to its previous earning levels.

With increasing globalization, pricing pressure on end products and its components will force more and more multi-national electronics manufacturers to move their production plants to or to source their components from low cost regions. The Group, as a result, estimates a further consolidation in the PCB industry in such high cost regions as North America, Europe and Japan in the coming years. Particularly, PCB manufacturers in less competitive areas will continue to shut down. Meanwhile, the PCB industry in Asia, specifically China and South East Asia, is expected to grow rapidly in future. With well established networks and multi-national customers, particularly their group companies in Greater China and South East Asia, the Group is in an advantageous position to gain from this trend.

## CHAIRMAN'S STATEMENT

In the absence of any further unforeseen circumstances such as a more serious world-wide economic down-turn, the Group remains optimistic in its medium and long term future outlook in view of the situation as described earlier.

### 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, 11 April 2003



## MANAGEMENT DISCUSSION AND ANALYSIS

### REVIEW OF THE FINANCIAL PERFORMANCE

The Group's turnover decreased by 9.4% to HK\$1,041 million from HK\$1,149 million in 2001. Operating profit was HK\$69 million, as compared to HK\$148 million in 2001. Profits attributable to shareholders amounted to HK\$48 million, as compared to HK\$110 million in 2001. Basic earnings per share were 8.4 Hong Kong cents, as compared to 23.0 Hong Kong cents in 2001.

The output level of the Group increased by approximately 3% whereas the average selling price decreased by approximately 12%. The cost of materials decreased by approximately 20% per sq. ft. due to decrease in purchase price of materials but production overheads increased by 8.3% per sq. ft. mainly due to increase in production staff cost and depreciation. The increase in production staff costs was a direct result of enhancements in the Group's labour force, especially in areas such as quality control, research and development and process management. At the same time, the Group's continuous investments in production facilities also resulted in an increase in depreciation. As a result, the overall gross profit margin decreased from 27.5% to 23.2%.

### LIQUIDITY AND FINANCIAL RESOURCES

On 21 June 2002, the Company's shares were listed on the Stock Exchange. The Group raised approximately HK\$198 million, net of related expenses, from the issue of 160 million new ordinary shares in the Company. The listing enlarged the base of shareholders and provided additional funds for the Group's future expansion.

The Group generally finances operations through a combination of internally generated cash flows, shareholders' equity and borrowings from banks.

As at 31 December 2002, the Group had total assets of approximately HK\$1,333 million (31 December 2001: HK\$1,142 million) and interest-bearing borrowings HK\$328 million (31 December 2001: HK\$305 million), representing a gearing ratio, defined as interest-bearing borrowings over total assets, of approximately 24.6% (31 December 2001: 26.7%).

The Group's net current assets of approximately HK\$6 million (31 December 2001: HK\$16 million) consisted of current assets of approximately HK\$492 million (31 December 2001: HK\$433 million) and current liabilities of approximately HK\$486 million (31 December 2001: HK\$417 million), representing a current ratio of approximately 1.01 (31 December 2001: 1.04).

As at 31 December 2002, the Group's current assets consisted of approximately HK\$74.4 million (2001: approximately HK\$58.5 million) held as cash and cash equivalents, of which 69% in HKD, 23% in USD, 4% in RMB and 4% in other currencies including Singapore dollars, New Taiwan dollars, Korean Won and British Pound.

As at 31 December 2002, bank loans, overdrafts and other banking facilities of the Group were secured by:—

- (a) assignment of all trade receivables of a subsidiary and the related trade credit insurance policy;

## MANAGEMENT DISCUSSION AND ANALYSIS

- (b) cross corporate guarantees by subsidiaries;
- (c) mortgage over certain land and buildings of a subsidiary;
- (d) personal guarantee from a director of the Company;
- (e) charge over the construction in progress of the Group; and
- (f) charge over certain land and buildings held by a related company.

Consent has been obtained from the banks for the personal guarantee given by a director of the Company to be released and replaced by a corporate guarantee and/or other security to be provided by the Company and/or other members of the Group.

### INTEREST-BEARING BORROWINGS

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

	2002 HK\$'000	2001 HK\$'000
Amount payable:—		
Within one year	196,192	127,317
In the second year	68,974	76,626
In the third to fifth year, inclusive	62,358	100,284
Beyond five years	—	969
	327,524	305,196
Less: Portion classified as current liabilities	(196,192)	(127,317)
Long term portion	131,332	177,879

USD denominated loans accounted for 3.6% (2001: 1.6%) of the total interest-bearing borrowings while the remaining portion in HKD. All interest-bearing borrowings are charged with floating rates ranging from 0.5% to 2.75% above basic lending rates per annum. The Directors do not recognise a significant seasonality of borrowing requirements during the year ended 31 December 2002.

### FOREIGN EXCHANGE EXPOSURE

Sales of the Group's products are principally denominated in USD and the purchases of materials and expenses are mainly in USD, HKD and RMB. As both HK dollars and RMB are pegged to the USD under the current exchange rate systems in Hong Kong and the PRC, the Group is not exposed to significant risk in exchange rate fluctuations.

## MANAGEMENT DISCUSSION AND ANALYSIS

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 any materials foreign exchange exposure to minimize foreign exchange risk should the need arise.

### NUMBER AND REMUNERATION OF EMPLOYEES

As at 31 December 2002, excluding the associate, the Group employed 4,811 staff, of which 124 were employed in Hong Kong, 4,657 in the PRC and 30 in various overseas marketing offices. For the financial year ended 31 December 2002, total staff costs amounted to 174 million. Under the Group's remuneration policy, employees are rewarded in line with market rate and in compliance with statutory requirements of all jurisdictions where it operates.

The company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants including any employees of the Group. However, no share options have been granted under the share option scheme up to the date of this announcement.

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

### CONTINGENT LIABILITIES

As at 31 December 2002, the Group had no material contingent liabilities not provided for.

### CAPITAL COMMITMENTS

As at 31 December 2002, the Group's capital commitments authorized but not contracted for amounted to HK\$43 million (2001: approximately HK\$157 million) and those contracted but not provided for amounted to HK\$62 million. (2001: approximately HK\$54 million). All of these capital commitments were related to construction of factory building or acquisition of fixed assets.

### 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 2002, the Group had utilized a total of approximately HK\$75 million in construction of new factory building, HK 12 million in acquisition of new equipment, HK\$41 million in reduction of bank loans. The remaining proceeds were placed on short term deposits with licensed banks in Hong Kong. The Directors planned to apply the remaining proceeds in construction of new factory building and acquisition of new equipment.

## MANAGEMENT DISCUSSION AND ANALYSIS

### DIVIDENDS

The Board has proposed a final dividend of 1.5 Hong Kong cents per share for the financial year ended 31 December 2002. 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 15 May 2003.

### CLOSURE OF REGISTER OF MEMBERS

The Register of Members will be closed from Monday, 12 May to Thursday, 15 May 2003, 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 4:00 p.m. on Friday, 9 May 2003.

## REPORT OF THE DIRECTORS

The Directors submit their first annual report together with the audited financial statements of the Company and its subsidiaries for the year ended 31 December 2002.

### 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. The shares of the Company were listed on the Stock Exchange on 21 June 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 2002 are set out in note 16 to the financial statement.

Details of the analysis of the Group's turnover for the year by geographical location is set out in note 5 to the financial statement.

### RESULTS AND APPROPRIATIONS

The results for the year ended 31 December 2002 are set out in the consolidated profit and loss account on page 24.

The Directors recommend the payment of a final dividend of 1.5 Hong Kong cents per ordinary share, totaling HK\$9,600,000, to the shareholders whose names appear on the register of members of the Company at the close of business on 15 May 2003.

### SHARE CAPITAL

At 21 June 2002, the Company issued a total of 160,000,000 ordinary shares of HK\$0.10 each at HK\$1.38 to independent third parties.

Details of the movements in share capital of the Company during the year are set out in note 26 to the financial statement.

## REPORT OF THE DIRECTORS

### RESERVES

Details of the movements in the reserves of the Group and the Company during the year are set out in note 28 to the financial statements.

### DISTRIBUTABLE RESERVES

At 31 December 2002, the distributable reserves of the Company available for distribution as dividends (net of proposed final dividend for the year end 31 December 2002) amounted to HK\$467,645,000, comprising retained earnings of HK\$876,000 and the contributed surplus of HK\$466,769,000 arising from the exchange of shares for the acquisition of subsidiaries as a result of the Group reorganization in preparation for the listing of the Company's shares on the Hong Kong Stock Exchange. 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.

### DONATIONS

Charitable and other donations made by the Group during the year amounted to HK\$1,000,000.

### FIXED ASSETS

Details of the movements in fixed assets of the Group are set out in note 15 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.

## REPORT OF THE DIRECTORS

### PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

The Company's shares were listed on the Main Board of the Stock Exchange on 21 June 2002. Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities since that date.

### 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;
- v. any person or entity that provides research, development or other technological support to the Group or any Invested Entity; and
- 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;
- vii. and 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.

## REPORT OF THE DIRECTORS

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 on 21 June 2002. 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.

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 shareholders 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.



## REPORT OF THE DIRECTORS

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.

## SUBSIDIARIES AND ASSOCIATED COMPANY

Details of the Company's principal subsidiaries and associated company at 31 December 2002 are set out in notes 16 and 17 to the financial statements.

## MAJOR CUSTOMERS AND SUPPLIERS

For the financial year ended 31 December 2002, the sales of products to the largest and the five largest customers amounted to approximately 14% (2001: 24%) and 51% (2001: 59%) of turnover respectively.

For the financial year ended 31 December 2002, the purchases of materials from the largest and the five largest suppliers amounted to approximately 15% (2001: 18%) and 56% (2001: 55%) 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 2002.

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 2002.

## REPORT OF THE DIRECTORS

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 2002.

### CONNECTED TRANSACTIONS

Details of the Group's connected transactions 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

#### Independent non-executive directors:

Mr. Ng Kwok Ying, Alvin (appointed on 3 April 2002)  
Mr. Tang Yok Lam, Andy (appointed on 3 April 2002)

In accordance with the Company's Bye-laws, Mr. Ng Chi Shing and Mr. Wong Shui Hing will retire by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

### BIOGRAPHICAL DETAILS OF DIRECTORS

#### Executive Directors

**Mr. Cheok Ho Fung**, aged 51, 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 16 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.

## REPORT OF THE DIRECTORS

**Mr. Ng Chi Shing**, aged 42, 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 16 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 43, 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 49, 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.

### Independent non-executive director

**Mr. Ng Kwok Ying, Alvin**, aged 55, 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 54, is an independent non-executive Director. Mr. Tang has had 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 Shandong ITIC Consulting Co., Ltd., a sino-US joint venture with Shandong International Trust & Investment Corp. in Jinan, the PRC. The company provides various investment banking and strategic advisory services to leading Chinese groups, 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.

## REPORT OF THE DIRECTORS

### 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. Whong 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.

### DIRECTORS' INTERESTS IN SHARES

As at 31 December 2002, the interests of the Directors in the share capital of the Company or its associated corporations, as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance"), were as follows:—

#### (a) The Company

Name of director	Notes	Nature of interest	Number of ordinary shares held
Mr. Cheok Ho Fung	(i)	Corporate	432,000,000
Mr. Cheok Ho Fung	(ii)	Personal	48,000,000
			480,000,000

Notes:—

- (i) 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 51% jointly by Mr. Cheok Ho Fung and his wife.
- (ii) These shares are owned by Mr. Cheok Ho Fung.

## REPORT OF THE DIRECTORS

### (b) Associated Corporation — Inni International Inc.

Name of director		Nature of interest	Number of ordinary shares held
Mr. Cheok Ho Fung		Personal	12,250
Mr. Cheok Ho Fung	<i>Note</i>	Family	12,750
			25,000

*Note:* These 12,750 shares are jointly owned by Mr. Cheok Ho Fung and his wife.

### (c) Subsidiary — Topsearch Industries (Holdings) Limited

Name of director	Notes	Nature of interest	Number of non-voting deferred shares held
Mr. Cheok Ho Fung	(i)	Personal	2,000,100
Mr. Cheok Ho Fung	(i) and (ii)	Family and Corporate	17,999,900
			20,000,000

*Notes:—*

- (i) These shares are non-voting deferred shares.
- (ii) 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 51% jointly by Mr. Cheok Ho Fung and his wife.

Saved as disclosed above, none of the Directors or their associates had any interest in the issued share capital of the Company or any of its associated corporations, as defined in the SDI Ordinance.

## REPORT OF THE DIRECTORS

### SUBSTANTIAL SHAREHOLDERS

As at 31 December 2002, the register of substantial shareholders maintained under Section 16(1) of the SDI Ordinance shows the following interest of 10% or more of the share capital of the Company:

Name of shareholders	Notes	Number of ordinary shares held	Percentage of issued share capital
Inni International Inc.	(i)	432,000,000	67.5%
Mr. Cheok Ho Fung	(ii)	480,000,000	75.0%
Mrs. Cheok Chu Wai Min	(ii)	480,000,000	75.0%

Notes:—

- (i) The above interests in the name of Inni International Inc. was also disclosed as interest of Mr. Cheok Ho Fung in the above section headed "Directors' Interests in Shares".
- (ii) Mrs. Cheok Chu Wai Min is the spouse of Mr. Cheok Ho Fung. 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 Mrs. Cheok Chu Wai Min. The shareholdings stated against Mr. Cheok Ho Fung and Mrs. Cheok Chu Wai Min above represented the same block of shares, which were also included as interests of Mr. Cheok Ho Fung in the above section headed "Directors' Interests in Shares".

Saved as disclosed above, no person, other than a director of the Company, whose interest is set out above, had registered an interest in the issued share capital of the Company that was required to be recorded under Section 16(1) of the SDI Ordinance.

### 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 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.

## REPORT OF THE DIRECTORS

### CODE OF BEST PRACTICE

In the opinion of the Directors, the Company complied with the Code of Best Practice (the "Code") as set out in Appendix 14 of the Listing Rules, since the listing of the share of the Company in the Stock Exchange on 21 June 2002, except that the independent non-executive directors of the Company are not appointed for specific terms as required by paragraph 7 of the Code, but are subject to retirement by rotation and are eligible for re-election at the annual general meeting 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, 11 April 2003

## 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 24 to 60 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 statements and to report our opinion to you.

### 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 2002 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

11 April 2003



## CONSOLIDATED PROFIT AND LOSS ACCOUNT

Year ended 31 December 2002

	Notes	2002 HK\$'000	2001 HK\$'000
TURNOVER	6	<b>1,041,298</b>	1,149,143
Cost of sales		<b>(799,639)</b>	(833,538)
Gross profit		<b>241,659</b>	315,605
Other revenue	6	<b>5,345</b>	6,939
Selling and distribution costs		<b>(73,875)</b>	(78,479)
Administrative expenses		<b>(99,397)</b>	(93,737)
Other operating expenses		<b>(4,879)</b>	(2,765)
PROFIT FROM OPERATING ACTIVITIES	7	<b>68,853</b>	147,563
Finance costs	8	<b>(11,089)</b>	(18,557)
PROFIT BEFORE TAX		<b>57,764</b>	129,006
Tax	11	<b>(9,927)</b>	(18,753)
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	12, 28	<b>47,837</b>	110,253
DIVIDENDS — Proposed final	13	<b>9,600</b>	98,000
EARNINGS PER SHARE	14		
Basic		<b>8.4 cents</b>	23.0 cents
Diluted		<b>N/A</b>	N/A

## CONSOLIDATED BALANCE SHEET

31 December 2002

	Notes	2002 HK\$'000	2001 HK\$'000
NON-CURRENT ASSETS			
Fixed assets	15	835,706	703,506
Interest in an associate	17	336	287
Rental and utility deposits		3,494	3,240
Prepaid rental, long term portion		1,823	1,998
		841,359	709,031
CURRENT ASSETS			
Inventories	18	114,160	96,001
Trade receivables	19	264,611	245,095
Prepayments, deposits and other receivables		38,782	33,590
Cash and cash equivalents	20	74,388	58,463
		491,941	433,149
CURRENT LIABILITIES			
Trade payables	21	231,897	229,523
Tax payable		4,764	6,472
Other payables and accruals		52,696	53,406
Interest-bearing bank and other borrowings	22	196,192	127,317
		485,549	416,718
NET CURRENT ASSETS		6,392	16,431
TOTAL ASSETS LESS CURRENT LIABILITIES		847,751	725,462
NON-CURRENT LIABILITIES			
Interest-bearing bank loans, secured	23	81,187	105,415
Finance lease payables	24	50,145	72,464
Deferred tax	25	36,012	34,512
		167,344	212,391
		680,407	513,071
CAPITAL AND RESERVES			
Issued capital	26	64,000	1,000
Reserves	28	606,807	414,071
Proposed final dividend		9,600	98,000
		680,407	513,071

**Cheok Ho Fung**  
Director

**Wong Shui Hing**  
Director

## CONSOLIDATED SUMMARY STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2002

	<i>Notes</i>	<b>2002 HK\$'000</b>	2001 HK\$'000
Total equity at 1 January		<b>513,071</b>	402,833
Issue of shares, including share premium		<b>220,800</b>	—
Share issue expenses	28	<b>(23,057)</b>	—
Surplus on revaluation	15, 28	<b>19,739</b>	—
Exchange realignment on translation of the financial statements of foreign entities	28	<b>17</b>	(15)
Net gains and losses not recognised in the profit and loss account		<b>19,756</b>	(15)
Net profit for the year	28	<b>47,837</b>	110,253
2001 final dividend paid		<b>(98,000)</b>	—
Total equity at 31 December		<b>680,407</b>	513,071

## CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 2002

	Notes	2002 HK\$'000	2001 HK\$'000 (Restated)
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>			
Profit before tax		<b>57,764</b>	129,006
Adjustments for:			
Depreciation	7	<b>119,896</b>	98,871
Foreign exchange differences		<b>17</b>	(15)
Loss on disposal of fixed assets	7	<b>655</b>	2,774
Interest income	6	<b>(438)</b>	(317)
Interest expense	8	<b>11,089</b>	18,557
Write-back for obsolete inventories	7	<b>(1,330)</b>	(4,000)
Operating profit before working capital changes		<b>187,653</b>	244,876
Increase in rental and utility deposits		<b>(254)</b>	(305)
Decrease in prepaid rental, long term portion		<b>175</b>	175
Decrease/(increase) in inventories		<b>(16,829)</b>	44,089
Decrease/(increase) in trade receivables		<b>(19,516)</b>	3,382
Increase in prepayments, deposits and other receivables		<b>(5,192)</b>	(14,775)
Decrease in amount due from a director		<b>—</b>	358
Increase in amount due from an associate		<b>(49)</b>	(187)
Decrease in amount due from related companies		<b>—</b>	118
Increase/(decrease) in trade payables		<b>2,374</b>	(62,850)
Decrease in other payables and accruals		<b>(710)</b>	(2,395)
Movements in balances with subsidiaries not consolidated		<b>—</b>	727
Decrease in investments in subsidiaries not consolidated		<b>—</b>	253
Cash generated from operations		<b>147,652</b>	213,466
Interest received		<b>438</b>	317
Interest paid		<b>(7,536)</b>	(6,766)
Interest element on finance lease rental payments		<b>(7,423)</b>	(11,791)
Hong Kong profits tax paid		<b>(5,464)</b>	(15,488)
PRC taxes paid, net		<b>(4,671)</b>	(8,167)
Dividends paid	13	<b>(98,000)</b>	(30,000)
Net cash inflow from operating activities — page 28		<b>24,996</b>	141,571

## CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 2002

	Notes	2002 HK\$'000	2001 HK\$'000 (Restated)
Net cash inflow from operating activities — page 27		24,996	141,571
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of fixed assets		(170,066)	(144,975)
Proceeds from disposal of fixed assets		91	2,776
Net cash outflow from investing activities		(169,975)	(142,199)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of share capital	26	220,800	—
Share issue expenses		(23,057)	—
New bank loans		81,226	101,300
Repayment of bank loans		(19,010)	(15,557)
Increase/(decrease) in trust receipt loans		(17,756)	9,186
Capital element of finance lease rental payments		(81,257)	(70,875)
Net cash inflow from financing activities		160,946	24,054
NET INCREASE IN CASH AND CASH EQUIVALENTS		15,967	23,426
Cash and cash equivalents at beginning of year		58,421	34,995
CASH AND CASH EQUIVALENTS AT END OF YEAR		74,388	58,421
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	19	54,329	58,463
Short term deposits	19	20,059	—
Bank overdrafts, secured	23	—	(42)
		74,388	58,421

## BALANCE SHEET

31 December 2002

	<i>Notes</i>	<b>2002 HK\$'000</b>
NON-CURRENT ASSETS		
Interests in subsidiaries	16	<b>644,916</b>
CURRENT ASSETS		
Prepayments, deposits and other receivables		<b>262</b>
Dividend receivable		<b>11,000</b>
Cash and cash equivalents	20	<b>20,066</b>
		<b>31,328</b>
CURRENT LIABILITIES		
Other payables and accruals		<b>256</b>
NET CURRENT ASSETS		<b>31,072</b>
		<b>675,988</b>
CAPITAL AND RESERVES		
Issued capital	26	<b>64,000</b>
Reserves	28	<b>602,388</b>
Proposed final dividend		<b>9,600</b>
		<b>675,988</b>

**Cheok Ho Fung**  
Director

**Wong Shui Hing**  
Director

## NOTES TO FINANCIAL STATEMENTS

31 December 2002

### 1. GROUP REORGANISATION

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"), the Company became the holding company of the companies now comprising the Group on 29 May 2002 (the "Group Reorganisation"). This was accomplished by the Company acquiring the entire issued share capital of Topsearch Industries (BVI) Limited ("Topsearch Industries (BVI)"), the then holding company of the other subsidiaries as set out in note 16 to the financial statements, in consideration of and in exchange for the allotment and issue of ordinary shares in the Company, credited as fully paid, to the former shareholders of Topsearch Industries (BVI), and the existing ordinary shares credited as fully paid at par.

Further details of the Group Reorganisation are set out in note 26 to the financial statements and in the Company's prospectus dated 11 June 2002.

No transactions were entered by the Company during the period from 12 May 1998 (date of incorporation) to 31 December 2001. Accordingly, the Company did not record any profits or losses, or cash flows during the period ended 31 December 2001.

### 2. CORPORATE INFORMATION

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.

The principal activity of the Company is investment holding. Details of the Company's subsidiaries are set out in note 16 to the financial statements. There were no significant changes in the nature of the subsidiaries' principal activities during the year.

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

### 3. IMPACT OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE ("SSAPs")

The following new and revised SSAPs are effective for the first time for the current year's financial statements.

- |                      |                                      |
|----------------------|--------------------------------------|
| • SSAP 1 (Revised):  | Presentation of Financial Statements |
| • SSAP 11 (Revised): | Foreign Currency Translation         |
| • SSAP 15 (Revised): | Cash Flow Statements                 |
| • SSAP 34:           | Employee Benefits                    |

## NOTES TO FINANCIAL STATEMENTS

31 December 2002

### 3. IMPACT OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE ("SSAPs") *(Continued)*

These SSAPs prescribe 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 those SSAPs which have had a significant effect on these financial statements, are summarised as follows:

SSAP 1 (Revised) prescribes the basis for the presentation of financial statements and sets out guidelines for their structure and minimum requirements for the content thereof. The principal impact of the revision to this SSAP is that a consolidated summary statement of changes in equity is now presented on page 26 of the financial statements in place of the consolidated statement of recognised gains and losses that was previously required.

SSAP 11 (Revised) prescribes the basis for the translation of foreign currency transactions and financial statements. The principal impact of the revision of this SSAP on the consolidated financial statements is that the profit and loss accounts of overseas subsidiaries are now translated to Hong Kong dollars at weighted average exchange rates for the year, whereas previously they were translated at the exchange rates at the balance sheet date. The adoption of the revised SSAP 11 has had no material effect on the financial statements.

SSAP 15 (Revised) prescribes the revised format for the cash flow statement. The principal impact of the revision of this SSAP is that the consolidated cash flow statement now presents cash flows under three headings, cash flows from operating, investing and financing activities, rather than the five headings previously required. In addition, cash flows from overseas subsidiaries arising during the year are now translated to Hong Kong dollars at the exchange rates at the dates of the transactions, or at an approximation thereto, whereas previously they were translated at the exchange rates at the balance sheet date, and the definition of cash equivalents for the purpose of the cash flow statement has been revised. The consolidated cash flow statement for the current year and comparative figures have been presented in accordance with the revised SSAP. Further details of these changes are included in the accounting policies for "Cash and cash equivalents" and "Foreign currencies" in notes 4 and 29(a) to the financial statements.

SSAP 34 prescribes the recognition and measurement criteria to apply to employee benefits, together with the required disclosures in respect thereof. The adoption of this SSAP has resulted in no change to the previously adopted accounting treatments for employee benefits, except that additional disclosures are now required in respect of the Company's share option scheme, as detailed in note 27 to the financial statements. These share option scheme disclosures are similar to those required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), which are now included in the notes to the financial statements as a consequence of the SSAP.



## NOTES TO FINANCIAL STATEMENTS

31 December 2002

### 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### **Basis of preparation and consolidation**

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.

The consolidated financial statements have been prepared using the merger basis of accounting as a result of the Group Reorganisation. Under this basis, the Company has been treated as the holding company of its subsidiaries for the two years 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 each of the two years ended 31 December 2002 include the results and cash flows of the Company and its subsidiaries with effect from 1 January 2001 or since their respective dates of incorporation/establishment, where this is a shorter period. The comparative consolidated balance sheet as at 31 December 2001 has been prepared on the basis 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 the associate has not equity accounted for by the Group because the amounts are not significant.

The results of associates are therefore included in the Group's profit and loss account to the extent of dividends received and receivable. The Group's interest in associate is treated as long term assets and is stated at cost less any impairment losses.

## NOTES TO FINANCIAL STATEMENTS

31 December 2002

### 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### **Negative goodwill**

Negative goodwill arising on the acquisition of subsidiaries and associates 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 associates, 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.

SSAP 30 "Business combinations" was adopted as at 1 January 2001. Prior to that date, 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 SSAP 30 that permitted such negative goodwill to remain credited to the capital reserve. Negative goodwill on acquisitions subsequent to 1 January 2001 is treated according to the SSAP 30 negative goodwill accounting policy above.

On disposal of subsidiaries and associates, 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 2002

### 4. 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.

In prior years, the Group's land and buildings were stated at cost less accumulated depreciation and any impairment losses. Following the listing of the Company's share on the Stock Exchange during the year, the Group's land and buildings are stated at valuation less accumulated depreciation and any impairment losses which, in the opinion of the directors, are more appropriate in reflecting the fair value of the assets. The change has been made on a prospective basis and has the effect of decreasing the profit from operating activities of the Group for the year ended 31 December 2002 by HK\$808,000.

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 charge to the profit and loss account. Any subsequent revaluation surplus is credited to 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 valuation is transferred to retained profits as a movement in reserves.

## NOTES TO FINANCIAL STATEMENTS

31 December 2002

### 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### **Fixed assets and depreciation** *(Continued)*

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

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.

#### **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 applicable under the operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

#### **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 and comprises 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.

## NOTES TO FINANCIAL STATEMENTS

31 December 2002

### 4. 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.

#### **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.

#### **Deferred tax**

Deferred tax is provided, using the liability method, on all significant timing differences to the extent it is probable that the liability will crystallise in the foreseeable future. A deferred tax asset is not recognised until its realisation is assured beyond reasonable doubt.

#### **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 income, when the relevant services are rendered;
- (c) royalty income, on an accrual basis in accordance with the 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 2002

### 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### **Dividends**

Final dividends proposed by the directors are classified as a separate allocation of retained profits within 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 to Hong Kong dollars using the net investment method. The profit and loss accounts of overseas subsidiaries are translated to Hong Kong dollars at the weighted average exchange rates for the year, and their balance sheets are translated to Hong Kong dollars at the exchange rates 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 to Hong Kong dollars at the exchange rates 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.

Prior to the adoption of the revised SSAPs 11 and 15 during the year, as explained in note 3 to the financial statements, the profit and loss accounts and the cash flows of overseas subsidiaries were translated to Hong Kong dollars at the exchange rates at the balance sheet date. The adoption of the revised SSAP 11 has had no material effect on the financial statements, while the adoption of the revised SSAP 15 has resulted in changes to the layout of the consolidated cash flow statement, further details of which are included in note 29(a) to the financial statements.

## NOTES TO FINANCIAL STATEMENTS

31 December 2002

### 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### **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 services payments to employees, as it is not considered probable that the situation will result in a material future outflow of resources from the Group.

##### ***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.

##### **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 ("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 retirement benefits scheme, the Group's employer contributions vest fully with the employees when contributed into the scheme.

Employees of the subsidiary in the Peoples' Republic of China (the "PRC") are members of the Central Pension Scheme operated by the Chinese government. The subsidiary is required to contribute a certain percentage of its covered payroll 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 2002

### 5. SEGMENT INFORMATION

Segment information is required by SSAP 26 "Segment reporting" to be presented by way of two segment formats: (i) on a primary segment reporting basis, which for the Group is determined by business segment; and (ii) on a secondary segment reporting basis, where for the Group is determined to be by geographical segment.

The manufacture and sale of printed circuit boards is the only major business segment of the Group. Accordingly, no further business segment information is provided.

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:

	<b>2002</b> <b>HK\$'000</b>	2001 HK\$'000
Taiwan	<b>160,446</b>	130,857
North America	<b>184,503</b>	288,556
Asia, excluding the PRC and Taiwan	<b>448,079</b>	366,877
Europe	<b>60,052</b>	74,117
The PRC, including Hong Kong	<b>188,218</b>	288,736
	<b>1,041,298</b>	1,149,143

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

### 6. TURNOVER AND OTHER REVENUE

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

An analysis of turnover and other revenue is as follows:

	<b>2002</b> <b>HK\$'000</b>	2001 HK\$'000
<b>Turnover</b>		
Sales of goods	<b>1,041,298</b>	1,149,143
<b>Other revenue</b>		
Tooling income	<b>4,215</b>	4,371
Interest income	<b>438</b>	317
Royalty income	<b>391</b>	—
Others	<b>301</b>	2,251
	<b>5,345</b>	6,939



## NOTES TO FINANCIAL STATEMENTS

31 December 2002

### 7. PROFIT FROM OPERATING ACTIVITIES

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

	<b>2002</b> <b>HK\$'000</b>	2001 <i>HK\$'000</i>
Depreciation	<b>119,896</b>	98,871
Minimum lease payments under operating lease rentals on land and buildings	<b>11,455</b>	10,406
Auditors' remuneration	<b>1,024</b>	983
Staff costs, excluding directors' remuneration ( <i>note 9</i> ):		
Wages and salaries	<b>158,250</b>	132,855
Retirement scheme contributions	<b>8,017</b>	9,637
Less: Forfeited contributions	<b>(481)</b>	(228)
	<b>165,786</b>	142,264
Exchange losses — net	<b>838</b>	1,110
Loss on disposal of fixed assets	<b>655</b>	2,774
Write-back for obsolete inventories	<b>(1,330)</b>	(4,000)

### 8. FINANCE COSTS

	<b>Group</b>	
	<b>2002</b> <b>HK\$'000</b>	2001 <i>HK\$'000</i>
Interest expense on:		
Bank loans and overdrafts wholly repayable within five years	<b>7,536</b>	5,831
Bank loans repayable beyond five years	<b>—</b>	935
Finance leases	<b>7,423</b>	11,791
Total Interest	<b>14,959</b>	18,557
Less: Interest capitalised	<b>(3,870)</b>	—
	<b>11,089</b>	18,557

## NOTES TO FINANCIAL STATEMENTS

31 December 2002

### 9. DIRECTORS' REMUNERATION

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

	<b>Group</b>	
	<b>2002</b> <b>HK\$'000</b>	2001 HK\$'000
Fees	<b>120</b>	—
Other emoluments:		
Basic salaries, other allowances and benefits in kind	<b>7,677</b>	8,200
Retirement scheme contributions	<b>662</b>	756
	<b>8,459</b>	8,956

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 (2001: Nil).

Rental expenses amounting to HK\$1,380,000 (2001: HK\$1,380,000) in respect of a director's accommodation have been included under directors' other emoluments above (note 33).

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

	<b>Number of directors</b>	
	<b>2002</b>	2001
Nil to HK\$1,000,000	<b>3</b>	1
HK\$1,000,001 to HK\$1,500,000	<b>2</b>	2
HK\$4,500,001 to HK\$5,000,000	<b>1</b>	—
HK\$5,000,001 to HK\$5,500,000	<b>—</b>	1
	<b>6</b>	4

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

## NOTES TO FINANCIAL STATEMENTS

31 December 2002

### 10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included four (2001: four) directors, details of whose remuneration are set out in note 9 above. The remuneration of the remaining one (2001: one) highest paid, non-director individual is analysed as below and fell within the following band:

	<b>Group</b>	
	<b>2002</b> <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Salary, other allowances and benefits in kind	<b>1,152</b>	1,050
Retirement scheme contributions	<b>107</b>	90
	<b>1,259</b>	1,140

	<b>Number of employees</b>	
	<b>2002</b>	2001
HK\$1,000,001 to HK\$1,500,000	<b>1</b>	1

### 11. TAX

Hong Kong profits tax has been provided at the rate of 16% (2001: 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.

	<b>2002</b> <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Group:		
Hong Kong	<b>2,400</b>	4,200
Elsewhere	<b>5,800</b>	8,900
Underprovision in prior years	<b>227</b>	753
Deferred ( <i>note 25</i> )	<b>1,500</b>	4,900
Tax charge for the year	<b>9,927</b>	18,753

## NOTES TO FINANCIAL STATEMENTS

31 December 2002

### 12. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net profit from ordinary activities attributable to shareholders for the year ended 31 December 2002 dealt with in the financial statements of the Company is HK\$10,476,000.

### 13. DIVIDENDS

	<b>2002</b> <b>HK\$'000</b>	2001 <i>HK\$'000</i>
Proposed final dividend	<b>9,600</b>	98,000

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

No dividend has been paid or declared by the Company since the date of its incorporation. The final dividend proposed for the year ended 31 December 2001 was paid by a subsidiary of the Company to its then shareholders prior to the Group Reorganisation as set out in note 1 to the financial statements.

### 14. 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\$47,837,000 (2001: HK\$110,253,000) and the weighted average of 567,955,800 (2001: 480,000,000) ordinary shares in issue during the year.

The comparative number of shares used to calculate the earnings per share for the year ended 31 December 2001 represents the pro forma issued share capital of the Company, comprising 1,000,000 shares issued nil paid on incorporation of the Company, 9,000,000 shares issued for the acquisition of the entire issued share capital of Topsearch Industries (BVI) and the capitalisation issue of 470,000,000 shares as further described in note 26 to the financial statements. The weighted average number of shares used to calculate the earnings per share for the year ended 31 December 2002 includes the additional 160,000,000 shares issued upon the listing of the Company's shares on the Stock Exchange on 21 June 2002.

No diluted earnings per share amounts for the two years ended 31 December 2002 have been calculated as no diluting events existed during these years.

## NOTES TO FINANCIAL STATEMENTS

31 December 2002

### 15. 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	60,245	151,890	41,709	783,357	66,780	7,640	109,205	1,220,826
Additions	—	19,879	74,974	102,915	8,634	1,571	25,130	233,103
Surplus on revaluation	3,855	—	—	—	—	—	—	3,855
Disposals	—	(597)	—	(71,742)	(4,207)	(195)	(13,527)	(90,268)
<b>At 31 December 2002</b>	<b>64,100</b>	<b>171,172</b>	<b>116,683</b>	<b>814,530</b>	<b>71,207</b>	<b>9,016</b>	<b>120,808</b>	<b>1,367,516</b>
Analysis of cost or valuation:								
At cost	—	171,172	116,683	814,530	71,207	9,016	120,808	1,303,416
At valuation	64,100	—	—	—	—	—	—	64,100
	64,100	171,172	116,683	814,530	71,207	9,016	120,808	1,367,516
Accumulated depreciation and impairment:								
At beginning of year	14,700	75,292	—	281,752	34,732	4,370	106,474	517,320
Provided during the year	4,359	20,050	—	59,593	9,021	1,094	25,779	119,896
Disposals	—	(597)	—	(71,187)	(4,164)	(47)	(13,527)	(89,522)
Written back on revaluation	(15,884)	—	—	—	—	—	—	(15,884)
<b>At 31 December 2002</b>	<b>3,175</b>	<b>94,745</b>	<b>—</b>	<b>270,158</b>	<b>39,589</b>	<b>5,417</b>	<b>118,726</b>	<b>531,810</b>
Net book value:								
<b>At 31 December 2002</b>	<b>60,925</b>	<b>76,427</b>	<b>116,683</b>	<b>544,372</b>	<b>31,618</b>	<b>3,599</b>	<b>2,082</b>	<b>835,706</b>
At 31 December 2001	45,545	76,598	41,709	501,605	32,048	3,270	2,731	703,506

## NOTES TO FINANCIAL STATEMENTS

31 December 2002

### 15. 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 2002 amounted to HK\$210,774,000 (2001: HK\$265,684,000). The depreciation charge for the year in respect of all such assets held under finance leases amounted to HK\$28,294,000 (2001: HK\$22,174,000).

Certain land and buildings of the Group with a net book value of HK\$28,531,000 (2001: HK\$31,010,000) and the construction in progress have been pledged to a bank to secure long term bank loans granted to the Group (note 23).

The Group's land and buildings were revalued at 30 April 2002 by DTZ Debenham Tie Leung Limited, independent professional valuers, at an aggregate open market value of HK\$64,100,000 based on their existing use. A resulting revaluation surplus of HK\$19,739,000 has been credited to the revaluation reserve (note 28).

The directors are of the opinion that the carrying value of land and buildings had no material difference to their market value as at the balance sheet date.

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

### 16. INTERESTS IN SUBSIDIARIES

	<b>Company</b>
	<b>2002</b>
	<b>HK\$'000</b>
Unlisted shares, at cost	<b>467,769</b>
Due from subsidiaries	<b>177,147</b>
	<b>644,916</b>

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

## NOTES TO FINANCIAL STATEMENTS

31 December 2002

### 16. 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
<b>Directly held</b>				
Topsearch Industries (BVI)*	British Virgin Islands	Ordinary US\$50,000	100	Investment holding
<b>Indirectly held</b>				
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 (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
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

## NOTES TO FINANCIAL STATEMENTS

31 December 2002

### 16. INTERESTS IN SUBSIDIARIES *(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 (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

\* 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\$500,000,000,000,000 has been distributed to each holder of the ordinary shares.

# Newly established during the year.

@ Registered as foreign-investment enterprise.

## Registered as wholly-owned foreign enterprise.



## NOTES TO FINANCIAL STATEMENTS

31 December 2002

### 17. INTEREST IN AN ASSOCIATE

	<b>Group</b>	
	<b>2002</b>	2001
	<b>HK\$'000</b>	HK\$'000
Unlisted shares, at cost	<b>100</b>	100
Due from an associate	<b>236</b>	187
	<b>336</b>	287

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

Particulars of the associate are as follows:

<b>Company</b>	<b>Business structure</b>	<b>Place of incorporation and operations</b>	<b>Percentage of ownership interest attributable to the Group</b>	<b>Principal activities</b>
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 2002

### 18. INVENTORIES

	<b>Group</b>	
	<b>2002</b>	2001
	<b>HK\$'000</b>	HK\$'000
Raw materials	<b>51,469</b>	52,302
Work in progress	<b>34,781</b>	21,930
Finished goods	<b>35,363</b>	30,552
	<b>121,613</b>	104,784
Less: Provision	<b>(7,453)</b>	(8,783)
	<b>114,160</b>	96,001

No inventory was carried at net realisable value as at 31 December 2002 (2001: Nil).

### 19. 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 sales of goods, is as follows:

	<b>Group</b>	
	<b>2002</b>	2001
	<b>HK\$'000</b>	HK\$'000
Current — 30 days	<b>172,228</b>	212,134
31 — 60 days	<b>24,391</b>	13,310
61 — 90 days	<b>23,697</b>	6,138
91 — 120 days	<b>44,295</b>	13,513
	<b>264,611</b>	245,095

## NOTES TO FINANCIAL STATEMENTS

31 December 2002

### 20. CASH AND CASH EQUIVALENTS

	<b>Group</b>		<b>Company</b>
	<b>2002</b> <i>HK\$'000</i>	2001 <i>HK\$'000</i>	<b>2002</b> <i>HK\$'000</i>
Cash and bank balances	<b>54,329</b>	—	<b>7</b>
Short term deposits	<b>20,059</b>	58,463	<b>20,059</b>
	<b>74,388</b>	58,463	<b>20,066</b>

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK\$2,753,000 (2001: HK\$5,424,000). 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.

### 21. 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:

	<b>Group</b>	
	<b>2002</b> <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Current — 30 days	<b>148,388</b>	174,939
31 — 60 days	<b>46,399</b>	40,283
61 — 90 days	<b>25,416</b>	13,484
91 — 120 days	<b>11,694</b>	817
	<b>231,897</b>	229,523

### 22. INTEREST-BEARING BANK AND OTHER BORROWINGS

	<b>Group</b>	
	<b>2002</b> <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Bank overdrafts, trust receipt loans, short term bank loans and current portion of long term bank loans, secured ( <i>note 23</i> )	<b>122,809</b>	54,163
Current portion of finance lease payables ( <i>note 24</i> )	<b>73,383</b>	73,154
	<b>196,192</b>	127,317

## NOTES TO FINANCIAL STATEMENTS

31 December 2002

### 23. INTEREST-BEARING BANK LOANS AND OVERDRAFTS

	<b>Group</b>	
	<b>2002</b>	2001
	<b>HK\$'000</b>	HK\$'000
Bank overdrafts, secured	—	42
Trust receipt loans, secured	<b>17,366</b>	35,122
Bank loans, secured	<b>186,630</b>	124,414
	<b>203,996</b>	159,578
Bank overdrafts, trust receipt loans and short term bank loans repayable within one year or on demand	<b>98,592</b>	40,164
Bank loans, secured and repayable		
Within one year	<b>24,217</b>	13,999
In the second year	<b>34,438</b>	24,210
In the third to fifth years, inclusive	<b>46,749</b>	80,236
Beyond five years	—	969
	<b>105,404</b>	119,414
	<b>203,996</b>	159,578
Portion classified as current liabilities ( <i>note 22</i> )	<b>(122,809)</b>	(54,163)
Long term portion	<b>81,187</b>	105,415

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

- (i) the assignment of all trade receivables of a subsidiary and the related trade credit insurance policy;
- (ii) cross-corporate guarantees by the Company and a subsidiary;
- (iii) a personal guarantee from a director of the Company;
- (iv) a charge over certain land and buildings held by a related company;
- (v) a charge over the construction in progress of the Group (*note 15*); and
- (vi) a mortgage over certain land and buildings of the Group (*note 15*).

Consent has been obtained from the banks for the personal guarantee given by a director of the Company to be released and replaced by a corporate guarantee and/or other security to be provided by the Company and/or other members of the Group.

## NOTES TO FINANCIAL STATEMENTS

31 December 2002

### 24. 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 2002, the total future minimum lease payments under finance leases and their present values were as follows:

	Minimum lease payments	Minimum lease payments	Present value of minimum lease payments	Present value of minimum lease payments
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Amounts payable:				
Within one year	78,561	82,230	76,566	79,280
In the second year	35,958	55,518	33,123	49,396
In the third to fifth years, inclusive	15,989	20,835	13,839	16,942
Total minimum finance lease payments	130,508	158,583	123,528	145,618
Future finance charges	(6,980)	(12,965)		
Total net finance lease payables	123,528	145,618		
Portion classified as current liabilities (note 22)	(73,383)	(73,154)		
Long term portion	50,145	72,464		

## NOTES TO FINANCIAL STATEMENTS

31 December 2002

### 25. DEFERRED TAX

Deferred tax has been provided using the liability method at the rate of 16% (2001: 16%) on timing differences.

	<b>Group</b>	
	<b>2002</b> <b>HK\$'000</b>	2001 <i>HK\$'000</i>
Balance at beginning of year	<b>34,512</b>	29,612
Charge for the year ( <i>note 11</i> )	<b>1,500</b>	4,900
At 31 December	<b>36,012</b>	34,512

The components of the deferred tax liabilities principally comprised accelerated capital allowances. The Group did not have any significant unprovided deferred tax liability as at the balance sheet date (2001: Nil).

### 26. SHARE CAPITAL

	<b>Company</b>
	<b>2002</b> <b>HK\$'000</b>
<i>Authorised:</i>	
2,000,000,000 ordinary shares of HK\$0.10 each	<b>200,000</b>
<i>Issued and fully paid:</i>	
640,000,000 ordinary shares of HK\$0.10 each	<b>64,000</b>

The following changes in the Company's authorised and issued share capital took place during the period from 12 May 1998 (date of incorporation) to 31 December 2002:

- (i) At the date of incorporation of the Company, its authorised share capital was HK\$100,000 divided into 1,000,000 ordinary shares of HK\$0.10 each, all of which were issued and allotted nil paid on 13 March 2001.
- (ii) On 29 May 2002, the authorised share capital of the Company was increased to HK\$1,000,000 by the creation of a further 9,000,000 ordinary shares of HK\$0.10 each, ranking *pari passu* with the existing share capital of the Company.

## NOTES TO FINANCIAL STATEMENTS

31 December 2002

### 26. SHARE CAPITAL *(Continued)*

- (iii) On 29 May 2002, as part of the Group Reorganisation, the Company issued an aggregate of 9,000,000 ordinary shares of HK\$0.10 each credited as fully paid. 1,000,000 shares issued and allotted nil paid on 13 March 2001 were also credited as fully paid by the appropriation of HK\$100,000 from the Company's contributed surplus account in consideration for the acquisition of the entire issued share capital of Topsearch Industries (BVI).
- (iv) On 30 May 2002, the authorised share capital of the Company was further increased from HK\$1,000,000 to HK\$200,000,000 by the creation of a further 1,990,000,000 ordinary shares of HK\$0.10 each, ranking *pari passu* with the existing share capital of the Company.
- (v) On 30 May 2002, a total of 470,000,000 ordinary shares of HK\$0.10 each were allotted and issued as fully paid at par to holders of the ordinary shares whose names appeared on the register of members of the Company at that date, in proportion to their respective shareholdings, by way of the capitalisation of the sum of HK\$47,000,000 standing to the credit of the share premium account of the Company, conditional on the share premium account being credited as a result of the issue of new ordinary shares to the public on 21 June 2002 as detailed in (vi) below.
- (vi) On 21 June 2002, a total of 160,000,000 ordinary shares of HK\$0.10 each were issued at HK\$1.38 each (the "New Issue") to the public pursuant to the prospectus issued by the Company on 11 June 2002 for a total cash consideration, before the related issuance expenses, of HK\$220,800,000.

A summary of the above movements in the issued share capital of the Company is as follows:

	Notes	Number of shares issued HK\$ '000	Share capital HK\$ '000
Shares allotted and issued nil paid on incorporation	(i)	1,000	—
Shares issued as consideration for the acquisition of the entire issued share capital of Topsearch Industries (BVI) pursuant to the Group Reorganisation	(iii)	9,000	900
Application of contributed surplus to pay up nil paid shares issued on incorporation	(iii)	—	100
Capitalisation issue credited as fully paid conditional on the share premium account of the Company being credited as a result of the New Issue	(v)	470,000	—
Pro forma issued share capital at 31 December 2001		480,000	1,000
New issue on public listing	(vi)	160,000	16,000
Capitalisation of the share premium account	(v)	—	47,000
<b>At 31 December 2002</b>		<b>640,000</b>	<b>64,000</b>

## NOTES TO FINANCIAL STATEMENTS

31 December 2002

### 27. SHARE OPTION SCHEMES

SSAP 34 was adopted during the year, as explained in note 3 and under the heading "Employee benefits" in note 4 to the financial statements. As a result, these detailed disclosures relating to the Company's share option scheme are included in the notes to the financial statements.

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 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.

### 28. RESERVES

#### Group

	Share premium account HK\$'000	Contributed surplus HK\$'000	Property revaluation reserve HK\$'000	Exchange fluctuation reserve HK\$'000	Statutory reserve fund HK\$'000	Capital reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
1 January 2001	—	19,000	—	—	—	4,064	378,769	401,833
Exchange realignment on translation of the financial statements of foreign entities	—	—	—	(15)	—	—	—	(15)
Net profit for the year	—	—	—	—	—	—	110,253	110,253
2001 final dividend proposed	—	—	—	—	—	—	(98,000)	(98,000)
Transfer to statutory reserve fund	—	—	—	—	12,000	—	(12,000)	—
At 31 December 2001 and 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	—	—	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	—	—	—	—	—	—	(9,600)	(9,600)
Transfer to statutory reserve fund	—	—	—	—	3,300	—	(3,300)	—
<b>At 31 December 2002</b>	<b>134,743</b>	<b>19,000</b>	<b>19,739</b>	<b>2</b>	<b>15,300</b>	<b>4,064</b>	<b>413,959</b>	<b>606,807</b>



## NOTES TO FINANCIAL STATEMENTS

31 December 2002

### 28. 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 (note 26), over the nominal value of the Company's shares issued in exchange therefore, net of HK\$100,000 being 1,000,000 shares issued nil paid upon the incorporation of the Company (note 26).

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 for the increase in paid-up capital of the PRC subsidiary.

The amount of negative goodwill arising from the acquisition of subsidiaries prior to 1 January 2001 remains credited to the capital reserve.

#### Company

	Share premium HK\$'000	Contributed surplus HK\$'000	Retained profits HK\$'000	Total 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	—	—	10,476	10,476
2002 final dividend proposed	—	—	(9,600)	(9,600)
<b>At 31 December 2002</b>	<b>134,743</b>	<b>466,769</b>	<b>876</b>	<b>602,388</b>

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 (see note 26), net of HK\$100,000 being 1,000,000 shares issued nil paid upon 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 of the Company can be distributed in the form of fully paid bonus shares.

## NOTES TO FINANCIAL STATEMENTS

31 December 2002

### 29. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

#### (a) Changes to the layout of the consolidated cash flow statement

SSAP 15 (Revised) was adopted during the current year, as detailed in note 3 to the financial statements, which has resulted in a change to the layout of the consolidated cash flow statement. The consolidated cash flow statement is now presented under three headings: cash flows from operating activities, investing activities and financing activities. Previously five headings were used, comprising the three headings listed above, together with cash flows from returns on investments and servicing of finance and from taxes paid. The significant reclassifications resulting from the change in presentation are that taxes and dividends paid are now included in cash flows from operating activities. The presentation of the 2001 comparative consolidated cash flow statement has been changed to accord with the new layout.

The method of calculation of certain items in the consolidated cash flow statement has changed under the revised SSAP 15, as explained under the heading "Foreign currencies" in note 4 to the financial statements. Cash flows of overseas subsidiaries are now translated to Hong Kong dollars at the exchange rates 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. Previously the cash flows of overseas subsidiaries were translated to Hong Kong dollars at the exchange rates at the balance sheet date. The revisions to this SSAP have had no material effect on the amounts in financial statements.

#### (b) Major non-cash transactions

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\$59,167,000 (2001: HK\$82,716,000).

### 30. 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 2002, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	<b>Group</b>	
	<b>2002</b>	2001
	<b>HK\$'000</b>	<b>HK\$'000</b>
Within one year	<b>10,155</b>	11,533
In the second to fifth years, inclusive	<b>3,728</b>	5,852
	<b>13,883</b>	17,385

## NOTES TO FINANCIAL STATEMENTS

31 December 2002

### 31. COMMITMENTS

In addition to the operating lease commitments detailed in note 30 above, the Group had the following commitments at the balance sheet date:

	<b>Group</b>	
	<b>2002</b> <b>HK\$'000</b>	2001 <i>HK\$'000</i>
<b>(a) Capital commitments</b>		
Authorised, but not contracted for:		
Commitments in respect of construction of the factory building	<b>43,130</b>	156,860
Authorised, and contracted for:		
Commitments in respect of construction of the factory building	<b>55,774</b>	46,071
Commitments in respect of acquisition of fixed assets	<b>6,217</b>	7,854
	<b>61,991</b>	53,925
	<b>105,121</b>	210,785

#### **(b) Other commitments**

At 31 December 2002, the Group had total commitments of HK\$6,509,000 (2001: HK\$7,858,000) to make payments in respect of a technology collaboration agreement with Tsinghua University, the PRC, entered into in April 2001.

## NOTES TO FINANCIAL STATEMENTS

31 December 2002

### 32. CONTINGENT LIABILITIES

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

	<b>Company</b>
	<b>2002</b>
	<b>HK\$'000</b>
Guarantees given to a bank for facilities granted to a subsidiary	<b>413,309</b>
Guarantees given to lessors for finance lease agreements entered with a subsidiary	<b>272,776</b>
	<b>686,085</b>

At 31 December 2002, the bank facilities granted to and finance lease agreements entered with a subsidiary subject to the above guarantee given by the Company were utilised to the extent of approximately HK\$146,835,000 and HK\$89,899,000, respectively.

### 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:

	<b>2002</b>	2001
	<b>HK\$'000</b>	<b>HK\$'000</b>
Rental expenses paid to Keentop Investment Limited ("Keentop") (note)	<b>1,380</b>	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 professional valuer in April 2002. The terms of the tenancy agreement were also disclosed in the Company's prospectus dated 11 June 2002.

## NOTES TO FINANCIAL STATEMENTS

31 December 2002

### 34. COMPARATIVE AMOUNTS

As further explained in note 3 to the financial statements, due to the adoption of certain new and revised SSAPs during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain comparative amounts have been reclassified to conform with the current year's presentation.

### 35. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 11 April 2003.

## FINANCIAL SUMMARY

### RESULTS

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

### ASSETS AND LIABILITIES

	As at 31 December			
	2002 HK\$'000	2001 HK\$'000	2000 HK\$'000	1999 HK\$'000
Total assets	<b>1,333,300</b>	1,142,180	1,032,363	675,461
Total liabilities	<b>652,893</b>	(629,109)	(629,530)	(375,494)
Total net assets	<b>680,407</b>	513,071	402,833	299,967

Notes:—

- (1) 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
- (2) The results for the year ended and the total assets and total liabilities as at 31 December 2002 have been extracted from the audited consolidated financial statements as set out from page 23 to 60 of this report.

## NOTICE OF ANNUAL GENERAL MEETING

**NOTICE IS HEREBY GIVEN** that an Annual General Meeting of the Members of Topsearch International (Holdings) Limited (the "Company") will be held at Harbour Room, Harbour Room Level (3/F), The Ritz-Carlton Hotel, 3 Connaught Road Central, Hong Kong on Thursday, 15 May 2003 at 9:30 a.m. for the following purposes:

1. To receive and consider the Audited Consolidated Financial Statements and the Reports of the Directors and of the Auditors for the year ended 31 December 2002;
2. To declare a final dividend;
3. To elect Directors, to fix the maximum number of Directors, to authorise the Board of Directors to appoint additional Directors up to the maximum number determined and to authorise the Board of Directors to fix Directors' remuneration;
4. To appoint Auditors and to authorise the Board of Directors to fix Auditors' remuneration;
5. To consider as special business and, if thought fit, pass with or without amendments, the following resolution as an ordinary resolution:

**"THAT**

- (a) the exercise by the Directors during the Relevant Period (as defined below) of all the powers of the Company to purchase its shares, subject to and in accordance with the applicable laws, be and is hereby generally and unconditionally approved;
- (b) the total nominal amount of shares of the Company to be purchased pursuant to the approval in paragraph (a) above shall not exceed 10% of the total nominal amount of the share capital of the Company in issue on the date of passing of this resolution and the said approval shall be limited accordingly; and
- (c) for the purpose of this resolution, "Relevant Period" means the period from the passing of this resolution until whichever is the earliest of:
  - (i) the conclusion of the next annual general meeting of the Company;
  - (ii) the revocation or variation of the authority given under this resolution by ordinary resolution passed by the Company's shareholders in general meetings; and
  - (iii) the expiration of the period within which the next annual general meeting of the Company is required by the bye-laws of the Company or any applicable laws to be held."

## NOTICE OF ANNUAL GENERAL MEETING

6. To consider as special business and, if thought fit, pass with or without amendments, the following resolution as an ordinary resolution:

**“THAT**

- (a) the exercise by the Directors of the Company during the Relevant Period (as defined below) of all the powers of the Company to issue, allot and deal with additional shares of the Company and to make or grant offers, agreements and options which would or might require shares to be allotted, issued or dealt with during or after the end of the Relevant Period (as defined below), be and is hereby generally and unconditionally approved, provided that, otherwise than pursuant to (i) a rights issue where shares are offered to shareholders on a fixed record date in proportion to their then holdings of shares (subject to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of any recognised regulatory body or any stock exchange in any territory outside Hong Kong) or (ii) any option scheme or similar arrangement for the time being adopted for the grant or issue to officers and/or employees of the Company and/or any of its subsidiaries and/or any eligible grantee pursuant to the scheme of shares or rights to acquire shares of the Company, or (iii) any scrip dividend scheme or similar arrangement providing for the allotment of shares in lieu of the whole or part of a dividend on shares of the Company in accordance with the bye-laws of the Company, the total nominal amount of additional shares to be issued, allotted, dealt with or agreed conditionally or unconditionally to be issued, allotted or dealt with shall not in total exceed 20% of the total nominal amount of the share capital of the Company in issue on the date of passing of this resolution and the said approval shall be limited accordingly; and
- (b) for the purpose of this resolution, “Relevant Period” means the period from the passing of this resolution until whichever is the earliest of:
- (i) the conclusion of the next annual general meeting of the Company;
  - (ii) the revocation or variation of the authority given under this resolution by ordinary resolution passed by the Company’s shareholders in general meetings; and
  - (iii) the expiration of the period within which the next annual general meeting of the Company is required by the bye-laws of the Company or any applicable laws to be held.”; and



## NOTICE OF ANNUAL GENERAL MEETING

7. To consider as special business and, if thought fit, pass with or without amendments, the following resolution as an ordinary resolution:

**“THAT** conditional upon the passing of the ordinary resolutions numbered 5 and 6 as set out in the notice convening this meeting, the general mandate granted to the Directors of the Company pursuant to the ordinary resolution numbered 6 as set out in the notice convening this meeting to exercise the powers of the Company to allot, issue and deal with the shares of the Company be and is hereby extended by the addition thereto of the total nominal amount of shares of the Company repurchased by the Company pursuant to the exercise by the Directors of the powers of the Company to purchase such shares since the granting of the general mandate referred to in the ordinary resolution numbered 5 as set out in the notice convening this meeting, provided that such amount shall not exceed 10% of the total nominal amount of the share capital of the Company in issue on the date of passing of this resolution.”.

On behalf of the Board

**Cheok Ho Fung**

*Chairman and Chief Executive Officer*

Hong Kong, 11 April 2003

*Notes:*

- (a) The Register of Members of the Company will be closed from Monday, 12 May 2003 to Thursday, 15 May 2003 (both days inclusive), during which period no transfer of shares of the Company will be registered. In order to qualify for entitlement to the proposed final dividend as set out in the Company's announcement of annual results for the year ended 31 December 2002 and for attending this meeting, all transfers of shares of the Company accompanied by the relevant share certificates and the appropriate transfer forms must be lodged with the Company's Share Registrar in Hong Kong, Tengis Limited, at G/F Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong for registration not later than 4:00 p.m. on Friday, 9 May 2003.
- (b) A shareholder of the Company, who is the holder of two or more shares of the Company, entitled to attend and vote at this meeting is entitled to appoint more than one proxy to attend and vote on his behalf. A proxy need not be a shareholder of the Company. If more than one proxy is so appointed, the appointment shall specify the number and class of shares in respect of which each such proxy is so appointed.
- (c) The instrument appointing a proxy and the power of attorney or other authority, if any, under which it is signed, or a certified copy of such power or authority, must be lodged with the Company's Share Registrar in Hong Kong, Tengis Limited, at G/F Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong not less than 48 hours before the time fixed for holding this meeting or any adjournment thereof.