



# Tomorrow International Holdings Limited

(incorporated in Bermuda with limited liability)

(Stock Code: 0760)

## Announcement of 2003 Annual Results

The Board of Directors (the “Board”) of Tomorrow International Holdings Limited (the “Company”) is pleased to announce the audited consolidated results of the Company and its subsidiaries (the “Group”) for the year ended 31 December 2003, together with comparative figures for the previous corresponding year as follows:

### CONSOLIDATED PROFIT AND LOSS ACCOUNT

	<i>Notes</i>	<b>2003</b> <b>HKS'000</b>	2002 <i>HKS'000</i>
TURNOVER	2	<b>722,782</b>	741,077
Cost of sales		<b>(621,877)</b>	(578,723)
Gross profit		<b>100,905</b>	162,354
Other revenue		<b>11,652</b>	13,830
Negative goodwill recognised as income		<b>23,550</b>	24,784
Provision against loans receivable		<b>(20)</b>	(1,480)
Gain on disposal of partial interest in Swank		<b>18,407</b>	3,481
Surplus/(deficit) on revaluation of leasehold land and buildings, net		<b>(1,015)</b>	22
Provision for properties held for sale		<b>(2,967)</b>	(2,200)
Distribution costs		<b>(27,194)</b>	(23,642)
Administrative expenses		<b>(109,870)</b>	(113,632)
Other operating expenses		<b>(10,640)</b>	(2,957)
PROFIT FROM OPERATING ACTIVITIES	3	<b>2,808</b>	60,560
Share of profits less losses of associates		<b>1,727</b>	5,797
PROFIT BEFORE TAX		<b>4,535</b>	66,357
Tax	4	<b>(1,778)</b>	(4,675)
PROFIT BEFORE MINORITY INTERESTS		<b>2,757</b>	61,682
Minority interests		<b>8,941</b>	1,165
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		<b>11,698</b>	62,847
EARNINGS PER SHARE	5		
Basic		<b>4.09 cents</b>	22.30 cents
Diluted		<b>N/A</b>	22.24 cents

Notes :

**1. IMPACT OF REVISED STATEMENT OF STANDARD ACCOUNTING PRACTICE (“SSAP”)**

SSAP 12 (Revised) “Income Taxes” is effective for the first time for the current year’s financial statements.

**2. TURNOVER AND SEGMENT INFORMATION**

Turnover represents the invoiced value of goods sold, net of returns and allowances, the proceeds from sales of listed equity investments and the interest income from the provision of loan financing.

**(a) Business segments**

The following tables present revenue, profit/(loss) and expenditure information for the Group’s business segments.

**Group**

	Electronic products		PCBs		Electronic components and parts		Listed equity investments		Provision of finance		Optical products		Eliminations		Consolidated	
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
	HKS’000	HKS’000	HKS’000	HKS’000	HKS’000	HKS’000	HKS’000	HKS’000	HKS’000	HKS’000	HKS’000	HKS’000	HKS’000	HKS’000	HKS’000	HKS’000
Segment revenue:																
Sales to external customers	398,361	434,371	130,901	96,940	2	138	870	667	412	1,243	192,236	207,718	-	-	722,782	741,077
Inter-segment sales	-	-	11,458	9,932	21,071	38,941	-	-	-	-	-	-	(32,529)	(48,873)	-	-
Other revenue	1,904	1,443	1,412	2,110	25	665	421	779	-	30	3,167	3,487	-	-	6,929	8,514
<b>Total</b>	<b>400,265</b>	<b>435,814</b>	<b>143,771</b>	<b>108,982</b>	<b>21,098</b>	<b>39,744</b>	<b>1,291</b>	<b>1,446</b>	<b>412</b>	<b>1,273</b>	<b>195,403</b>	<b>211,205</b>	<b>(32,529)</b>	<b>(48,873)</b>	<b>729,711</b>	<b>749,591</b>
Segment results	17,027	39,250	(18,342)	(1,302)	673	2,336	(7,297)	(6,960)	(9,177)	(11,448)	(21,673)	8,712	(60)	(51)	(38,849)	30,537
Interest, dividend income and unallocated gains															4,723	5,316
Negative goodwill recognised as income															23,550	24,784
Gain on disposal of partial interest in Swank															18,407	3,481
Unallocated expenses															(5,023)	(3,558)
Profit from operating activities															2,808	60,560
Share of profits less losses of associates															1,727	5,797
Profit before tax															4,535	66,357
Tax:																
Company and subsidiaries															(1,627)	(3,675)
Associates															(151)	(1,000)
Profit before minority interests															2,757	61,682
Minority interests															8,941	1,165
Net profit from ordinary activities attributable to shareholders															11,698	62,847

**(b) Geographical segments**

The following tables present revenue information for the Group’s geographical segments.

**Group**

	Europe		North America		Hong Kong		Japan		Others		Eliminations		Consolidated	
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
	HKS’000	HKS’000	HKS’000	HKS’000	HKS’000	HKS’000	HKS’000	HKS’000	HKS’000	HKS’000	HKS’000	HKS’000	HKS’000	HKS’000
Segment revenue:														
Sales to external customers	100,032	115,013	231,592	264,964	197,090	162,434	150,401	142,741	43,667	55,925	-	-	722,782	741,077

**3. PROFIT FROM OPERATING ACTIVITIES**

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

	2003	2002
	<i>HKS'000</i>	<i>HKS'000</i>
Cost of inventories sold	621,192	578,121
Depreciation of fixed assets	34,836	32,312
Amortisation of prepaid rental	737	737
Amortisation of deferred product development costs	1,189	1,110
Provision against inventories	12,397	134
Interest income on bank deposits	(3,621)	(5,444)
	<u>          </u>	<u>          </u>

**4. TAX**

	<b>Group</b>	
	2003	2002
	<i>HKS'000</i>	<i>HKS'000</i>
The People's Republic of China (the "PRC"):		
Hong Kong:		
Current year provision	1,524	3,690
Under/(over) provision in prior year	80	(228)
Mainland China	23	213
	<u>          </u>	<u>          </u>
Share of tax attributable to associates	1,627	3,675
	<u>          </u>	<u>          </u>
Tax charge for the year	1,778	4,675
	<u>          </u>	<u>          </u>

Hong Kong profits tax has been provided at the rate of 17.5% (2002: 16%) on the estimated assessable profits arising in Hong Kong during the year. The PRC tax is provided at the applicable enterprise income tax law of the PRC.

**5. EARNINGS PER SHARE**

The calculation of basic earnings per share is based on the net profit attributable to shareholders for the year of HK\$11,698,000 (2002: HK\$62,847,000) and the weighted average of 286,068,644 (2002: 281,874,672 as restated) ordinary shares in issue during the year.

A diluted earnings per share for the year ended 31 December 2003 had not been disclosed as no diluting events existed during the year. For the year ended 31 December 2002, the calculation of diluted earning per share was based on the net profit attributable to shareholders for that year of HK\$62,847,000 and the weighted average of 282,551,036 ordinary shares in issue during that year as adjusted for the capital reorganisation which took effect on 30 June 2003.

The comparative basic and diluted earnings per share was adjusted to reflect the capital reorganisation which took effect on 30 June 2003.

**FINAL DIVIDEND**

The Board of Directors does not recommend the payment of any final dividend (2002: Nil).

**BUSINESS REVIEW**

In the year of 2003, the world economy got on a roller-coaster with an exciting journey. The economic condition reached the trough during the first quarter at the time of the Iraq war and finally exhibited an encouraging recovery. Fuelled by the outbreak of the Severe Acute Respiratory Syndrome ("SARS"), the Hong Kong economy inevitably confronted with a difficult time during the first half of the year under review. However, in consequence of the Iraq war passing off and the encouraging support from the Chinese Government through a number of economic recovery measures, the local economy has been regaining a recovery by the end of the year.

Owing to the SARS outbreak and the Iraq war, the export business of the Electronic Products Division deteriorated in the first half of the year. Although the sales orders have gradually been picking up in the last quarter, the turnover of the Electronic Products Division moderately decreased by 8.3% for the year under review. During the year, apart from the manufacture of consumer electronic products, the Group has successfully established new production lines in a new leased factory building in Shenzhen for the manufacture of lithium rechargeable battery parts for Matsushita Group, a well-known Japanese electronic giant. The new factory has become fully operational in the fourth quarter of 2003 and has already achieved a breakeven position by the end of the year. It is an encouraging progress in implementing business diversification program and is in line with the long-term strategy of the Group.

The printed circuit boards ("PCB") business experienced a low time in 2003. As a result of the restructure of the production management organisation during the year, unstable output quality had caused higher-than-normal material consumption that significantly reduced the already thinned profit margin. Although the turnover increased by 35.1% to HK\$130.9 million (2002: HK\$96.9 million), the PCB Division suffered an operating loss of HK\$18.3 million (2002: HK\$1.3 million) for the year ended 31 December 2003.

To adopt a prudent approach, the trading of listed equity securities and the provision of loan financing activities remained inactive.

The SARS outbreak and the Iraq war also hit the business of Swank International Manufacturing Company Limited ("Swank"). Turnover dropped from HK\$207.7 million in year 2002 to HK\$192.2 million in year 2003. Sales orders of the year decreased by HK\$49.5 million to HK\$195.8 million (2002: HK\$245.3 million) resulting in the low utilisation of production capacity. Coupled with the price cutting pressure from certain customers, gross profit margin decreased to 12.4% (2002: 20.2%). Somehow, the adverse impact was partially offset by savings in overhead cost through various cost reduction measures.

#### **FUTURE PLANS**

In the year of 2004, it is believed that the world economy will gradually gather momentum. In particular, a signal of turnaround in the Japanese economy is being uncovered after its over 10 years of economic recession. The export business of the Group is likely to benefit from it.

In view of the widely adoption of wireless application in electronic devices, the Group will dedicate more resources and efforts for in the development of new products with wireless features to cater for the ever-changing consumer market. On the other hand, as most of the international electronics manufacturers have relocated or prepared to relocate their manufacturing bases to the mainland China, it provides ample opportunities for the further development of our OEM business. In addition to the manufacture of consumer electronic products, business diversification within the electronics industry is always on our agenda.

As a key player in the optical industry, the Group aims to widen its customer base by implementing viable business development plans with international brand name customers and by developing new markets, including Asian region. Moreover, the Group will focus on enhancement of production efficiency and on implementation of supply chain management to drive down production and procurement costs so as to improve the profit margin. Adequate investments will be made in these respects if and when appropriate.

With much dedication, the management has been acquiring valuable experiences in searching for and identifying opportunities with promising business potential. Through inorganic growth by acquisition and organic growth by expansion of existing business and development of new business, the management aims at becoming a successful investor on the one hand and a good quality manufacturer in light industry on the other hand.

In view of the long-term growth of the Group, the management believes that enriching human resources through recruiting competent and experienced senior management staff, who would be able to share their expertise and knowledge with the existing management team from time to time is of vital importance. The main objective is to make the operation platform more solid in order to cope with the future expansion. Together with the strong financial position, the Group is well-positioned to act with high flexibility when investment opportunities with good earnings potential arise.

#### **LIQUIDITY AND FINANCIAL RESOURCES**

As at 31 December 2003, cash and bank balances (including time deposits) maintained by the Group were HK\$456.6 million, representing an increase of HK\$134.2 million compared with the position as at 31 December 2002. On the other hand, banking facilities of HK\$178 million are available to the Group. It is believed that the Group has adequate cash resources to meet the normal working capital requirements and all commitments for future development. The gearing of the Group, measured as total debts to total assets, was 23.7% as at 31 December 2003, comparing with 20% as at 31 December 2002.

Most of the business transactions conducted by the Group were nominated in Hong Kong Dollars, United States Dollars and Renminbi. As at 31 December 2003, there were no outstanding forward contract in foreign currency committed by the Group that might involve in significant foreign exchange risks and exposures.

#### **CAPITAL STRUCTURE**

During the year, with a view to facilitate raising funds or acquiring assets by way of allotment or placement of shares in future, the Company underwent a capital restructuring exercise whereby the par value of the paid up capital of the issued shares was reduced from HK\$0.10 to HK\$0.001 each by the cancellation of HK\$0.099 paid up capital on each issued share and the Company would then effect a share consolidation, whereby every 10 issued shares of HK\$0.001 each was consolidated into 1 new share of HK\$0.010 each. The capital restructuring became effective on 30 June 2003 and the then issued share capital of the Company comprised 286,068,644 new shares of HK\$0.010 each.

## **CORPORATE MOVE**

On 4 March 2003, the Company, Probest Holdings Inc. (“Probest”), an indirectly wholly owned subsidiary of the Company and Swank International Manufacturing Company Limited (“Swank”) entered into a conditional asset disposal agreement (the “Asset Disposal Agreement”) and a conditional loan restructuring agreement (the “Loan Restructuring Agreement”) to restructure the principal loan of HK\$250 million and the accrued interest due to Probest. Details of the Asset Disposal Agreement and the Loan Restructuring Agreement were set out in the circular to shareholders dated 7 April 2003. Subsequently, these two agreements were terminated on 27 August 2003.

On 3 September 2003, the Company, Probest and Swank entered into a conditional share sale agreement pursuant to which Probest would acquire a 30% equity interest in Profitown Investment Corporation (“Profitown”) and 30% of loan owing by Profitown to Swank at an aggregate consideration of HK\$3 million (the “Share Sale Agreement”). Profitown is a wholly own subsidiary and an intermediate holding company of all the operating subsidiaries and associates companies of Swank. On 3 September 2003, the Company, Probest and Swank also entered into a conditional loan settlement agreement pursuant to which Probest agreed to waive the repayment of the outstanding principal loan of HK\$47 million due from Swank and the accrued loan interest thereon since 1 March 2002 up to the effective date of the loan settlement agreement (the “Loan Settlement Agreement”).

Moreover, Swank also proposed to raise not less than HK\$37.7 million before expenses by way of an open offer on the basis of 13 offer shares at HK\$0.013 each for every existing share of HK\$0.01 each in the issued share capital of Swank held by the shareholders, who had addresses in Hong Kong on the register of members of Swank, as at 16 October 2003, being the date to which entitlements under the open offer would be determined (the “Open Offer”). On 3 September 2003, the Company, Probest and Swank also entered into an underwriting agreement pertaining to the Open Offer. Subsequently, net proceeds from the Open Offer of approximately HK\$37.0 million was used to repay partly the loan due to Probest.

The outstanding principal loan due to Probest from Swank was reduced from HK\$250 million to HK\$163 million which shall be repaid by three instalments in accordance with the terms of the promissory note with maturity date of 1 June 2006. The promissory note is unsecured and bears interest at a rate equivalent to 1% over Hong Kong prime rate per annum. The Share Sale Agreement, the Loan Settlement Agreement and the Open Offer were completed in November 2003.

Upon completion of the Open Offer, the shareholding of the Company in Swank increased to 83.21%. In order to restore the minimum public float requirement of 25% of Swank shares, on 16 December 2003, Probest entered into a placing agreement with Kingsway Financial Services Group Limited (“SW Kingsway Financial”), a wholly owned subsidiary of SW Kingsway Capital Holdings Limited (“SW Kingsway”). Pursuant to the placing agreement, 412,794,000 Swank shares or approximately 13.21% of the then issued share capital of Swank were placed through SW Kingsway Financial to independent investors at a price of HK\$0.0269 per share or with gross proceed of HK\$11.1 million.

Furthermore, the Group entered into a sale and purchase agreement with Kingsway Lion Spur Technology Limited (“Kingsway Lion Spur”) and Rich Global Investments Limited (“Rich Global”), both are the wholly owned subsidiaries of SW Kingsway, whereby Probest agreed to sell and Kingsway Lion Spur and Rich Global agreed to purchase 593,724,000 Swank shares at a consideration of HK\$0.0269 per Swank share, totaling HK\$16.0 million (the “S&P Agreement”). The transaction gave rise to a total gain of HK\$16.0 million, of which HK\$7.4 million was booked in year 2003 and HK\$8.6 million will be booked in year 2004. Upon completion of the placing agreement and the S&P Agreement, the Group’s shareholding in Swank was reduced from 83.21% to 51%. In addition, the Group granted an option to Rich Global, whereby Rich Global could purchase 50% interest in Probest at a consideration of HK\$15.7 million within a period of 15 months from the date of an option agreement. Certain conditions need to be satisfied before Rich Global could exercise the option. Should the option be exercised by Rich Global, the Group’s effective shareholding in Swank would further be reduced to 25.5%. The Board considered the transactions would eventually benefit the Group mainly in two ways. Firstly, having a strategic investor like SW Kingsway would help Swank obtain external financing and/or strategic investors in future. As the S&P Agreement was just completed in January 2004, this strategic benefit is yet to be realised. Secondly, it was a good opportunity to realise part of the investment to achieve a satisfactory gain resulting in an increase of the net asset value of the Group.

## **EMPLOYEES AND REMUNERATION POLICIES**

As at 31 December 2003, the Group employed approximately 5,350 employees, with more than 5,200 in the Mainland China and about 150 in Hong Kong. All employees are remunerated based on industry practice and in accordance with the prevailing labour law. In Hong Kong, apart from basic salary, staff benefits include medical insurance, performance related bonuses and mandatory provident fund would be provided by the Group.

### **COMPLIANCE WITH THE CODE OF BEST PRACTICE**

In the opinion of the directors, the Company has complied throughout the year with the Code of Best Practice (the “Code”) as set out by The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) in Appendix 14 of the Listing Rules, except that the independent non-executive directors of the Company are not appointed for specific terms as required by paragraph 7 of the Code, but are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the provision of the Company’s bye-laws.

### **PURCHASE, SALE OR REDEMPTION OF SECURITIES**

There was no purchase, sale or redemption of shares or other securities of the Company by the Company or its subsidiaries during the year.

### **DIRECTORS**

The board of directors of the Company comprises of seven directors, of which five are executive directors, namely Mr. Yau Tak Wah, Paul, Ms. Louie Mei Po, Ms Wong Shin Ling, Irene, Mr. Tam Wing Kin and Mr. Tam Ping Wah, and two independent non-executive directors, namely Mr. Ng Wai Hung and Mr. Cheung Chung Leung, Richard.

### **AUDIT COMMITTEE**

The audit committee comprises two independent non-executive directors and reports to the board of directors. The audit committee meets with the Group’s senior management regularly to review the effectiveness of the internal control systems and the interim and annual reports of the Group.

### **PUBLICATION OF ANNUAL REPORT ON THE INTERNET WEBSITE OF THE STOCK EXCHANGE**

All the information required by paragraphs 45(1) to 45(3) of Appendix 16 of the Listing Rules will be published on the Stock Exchange website in due course.

### **ANNUAL GENERAL MEETING**

The annual general meeting of the Company will be held on Tuesday, 8 June 2004 (“the AGM”). For details of the AGM, please refer to the Notice of the AGM which is expected to be published on or about 29 April 2004.

By Order of the Board  
**Yau Tak Wah, Paul**  
*Chairman*

Hong Kong, 26 April, 2004

Please also refer to the published version of this announcement in The Standard dated 27 April 2004.