



# Tomorrow International Holdings Limited

(incorporated in Bermuda with limited liability)

(Stock Code: 0760)

## 2005 Annual Results Announcement

The Board of Directors (the “Board”) of Tomorrow International Holdings Limited (the “Company”) is pleased to announce the audited consolidated results of the Company, its subsidiaries and associates (the “Group”) for the year ended 31 December 2005, together with comparative figures for the previous corresponding year as follows:

### CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2005

	Notes	2005 HK\$'000	2004 HK\$'000 (restated)
TURNOVER	4	553,871	691,136
Cost of sales		(473,975)	(599,715)
Gross profit		79,896	91,421
Other revenue	5	26,196	14,089
Negative goodwill recognised as income		–	13,062
(Loss)/Gain on disposal of properties held for sale		(143)	3,900
Gain on disposal of interest in Swank		42,244	8,458
Gain on disposal of investment properties		2,715	–
Reversal of previous revaluation deficits of leasehold buildings, net		5,270	3,346
Write back of over-provision against properties held for sale		200	3,150
Gain on disposal of interests in associates		–	10,900
Net loss arising from fair value change of investment properties		(490)	–
Distribution costs		(18,359)	(24,050)
Administrative expenses		(94,712)	(102,958)
Other operating expenses		(2,822)	(720)
PROFIT FROM OPERATING ACTIVITIES	6	39,995	20,598
Impairment loss on loan receivable		(45,000)	–
Share of profits less losses of associates		1,997	2,791
(LOSS)/PROFIT BEFORE TAXATION		(3,008)	23,389
TAXATION	7	(1,520)	(452)
(LOSS)/PROFIT FOR THE YEAR		(4,528)	22,937
ATTRIBUTABLE TO :			
Equity holders of the Company		4,779	28,695
Minority interests		(9,307)	(5,758)
		(4,528)	22,937
EARNINGS PER SHARE FOR PROFIT ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE COMPANY	8		
Basic		1.67 cents	10.03 cents
Diluted		N/A	N/A

**CONSOLIDATED BALANCE SHEET**

31 December 2005

	<i>Notes</i>	<b>2005</b> <b>HKS'000</b>	2004 HKS'000 (restated)
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment		103,178	160,971
Leasehold land and land use rights		10,307	10,559
Investment properties		28,750	93,000
Negative goodwill		–	(27,284)
Interests in associates		156,892	37,220
Prepaid rental		1,903	2,640
Deferred product development costs		6,819	5,861
Available-for-sale financial assets		27,364	–
Loan receivable		1,000	2,000
		<u>336,213</u>	<u>284,967</u>
<b>Current assets</b>			
Cash and cash equivalents		396,775	397,724
Properties held for sale		6,200	6,000
Short term investments		–	7,491
Financial assets at fair value through profit or loss		2,465	–
Inventories		67,540	89,410
Accounts receivable	9	62,892	115,889
Bills receivable		–	574
Loans receivable		6,046	1,067
Interest receivable on loans		12	19
Prepayments, deposits and other receivables		52,720	17,624
		<u>594,650</u>	<u>635,798</u>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Accounts payable	10	71,658	92,704
Amount due to associates		–	12,647
Other payables and accruals		40,017	30,423
Tax payable		20,369	20,133
		<u>132,044</u>	<u>155,907</u>
<b>Net current assets</b>		<u>462,606</u>	<u>479,891</u>
<b>Total assets less current liabilities</b>		<u>798,819</u>	<u>764,858</u>
<b>Non-current liabilities</b>			
Provision for long service payments		570	949
Deferred tax liabilities		2,053	3,122
		<u>2,623</u>	<u>4,071</u>
<b>NET ASSETS</b>		<u>796,196</u>	<u>760,787</u>
<b>CAPITAL AND RESERVES</b>			
Share capital		2,861	2,861
Reserves		781,252	736,790
<b>Equity attributable to equity holders of the company</b>		<u>784,113</u>	<u>739,651</u>
Minority interests		12,083	21,136
<b>Total equity</b>		<u>796,196</u>	<u>760,787</u>

Notes :

## 1. CHANGES IN ACCOUNTING POLICIES

In the current year, the Group has adopted, for the first time, a number of new Hong Kong Financial Reporting Standards (“HKFRSs”), Hong Kong Accounting Standards (“HKASs”) and Interpretations (hereinafter collectively referred to as “new HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) that are relevant to its operations. This includes the following new, revised and renamed standards:

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 12	Income Taxes
HKAS 14	Segment Reporting
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 32	Financial Instruments: Disclosures and Presentation
HKAS 33	Earnings Per Share
HKAS 36	Impairment of Assets
HKAS 37	Provision, Contingent Liabilities and Contingent Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 39	Transition and Initial Recognition of Financial Assets and Financial Liabilities
Amendment	
HKAS 40	Investment Properties
HKAS Int 15	Operating Leases – Incentives
HKFRS 2	Short-based Payments
HKFRS 3	Business Combinations
HKFRS 4	Insurance Contracts

The adoption of new/revised HKASs 1, 2, 7, 8, 10, 12, 14, 16, 18, 19, 21, 23, 24, 27, 33, 37, HKAS Int 15, HKFRSs 2 and 4 did not result in substantial changes to the Group’s accounting policies. In summary:

- HKAS 1 has affected the presentation of minority interest and other disclosures.
- HKASs 2, 7, 8, 10, 12, 14, 16, 18, 19, 23, 27, 33, 37, HKAS Int 15 and HKFRSs 2 and 4 had no material effect on the Group’s policies.
- HKAS 21 had no material effect on the Group’s policy. The functional currency of each of the consolidated entities has been re-evaluation based on the guidance to the revised standard.
- HKAS 24 has affected the identification of related parties and some other related-party disclosures.

### a) HKAS 17 LEASES

The adoption of HKAS 17 has resulted in a change in accounting policy relating to leasehold land. Leasehold land was previously included in leasehold properties which are stated at fair value. In accordance with the provisions of HKAS 17, leasehold properties are split into a lease of land and a lease of building in proportion to the relative fair values of the interests in the land element and the building element of the lease at the inception of the lease. The lease premium for leasehold land is stated at cost and amortised over the period of the lease. HKAS 17 has been applied retrospectively.

Building portion of freehold and leasehold properties was previously stated at fair value. Following the adoption of HKAS 17 where leasehold land is subject to amortisation, the accounting policy on building is changed and buildings are now stated at valuation less accumulated depreciation and impairment. This change in accounting policy has been applied retrospectively.

### b) HKAS 40 INVESTMENT PROPERTIES

In prior years, the Group stated its investment properties at valuation and recorded the increase in valuation in the investment properties revaluation reserve. Decreases in the valuation are first set off against increases on earlier valuations on a portfolio basis and thereafter are expenses in the income statement. Moreover, investment properties held on leases with unexpired period of 20 years or less are depreciated over the remaining period of the lease.

The adoption of HKAS 40 has led to the changes in the fair value of investment properties being recorded in the income statement and the investment properties are no longer subject to depreciation where the unexpired periods of the lease are 20 years or less.

### c) HK(SIC) INT-21 INCOME TAXES - RECOVERY OF REVALUATED NON-DEPRECIATED ASSETS

The adoption of revised HK(SIC) Int-21 has resulted in a change in the accounting policy relating to the deferred taxation of the Group’s investment property. In accordance with the provision of HK(SIC) Int-21, the deferred tax liabilities arising from the revaluation of investment properties is measured on the basis of tax consequences that would follow from recovery of the carrying amount of that asset through use. In prior years, the carrying amount of that asset is expected to be recovered through sale.

**d) HKAS 32 FINANCIAL INSTRUMENTS: DISCLOSURE AND PRESENTATION AND HKAS 39 FINANCIAL INSTRUMENTS: RECOGNITION AND MEASUREMENT**

HKAS 32 and HKAS 39 establish principles for disclosure, presentation, recognition and measurement of financial instruments, including non-derivative financial assets, non-derivative financial liabilities and derivative instruments for hedging activities.

Under HKAS 39, financial assets are classified as “financial assets at fair value through profit or loss”, “available-for-sale financial assets”, “loans and receivables”, or “held-to-maturity financial assets”. “Financial assets at fair value through profit or loss” and “available-for-sale financial assets” are carried at fair value, with changes in fair values recognised in profit or loss and equity respectively. Available-for-sale equity investments that do not have quoted market prices in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments are measured at cost less impairment after initial recognition. “Loans and receivables” and “held-to-maturity financial assets” are measured at amortised cost using the effective interest method after initial recognition.

**e) HKFRS 3 BUSINESS COMBINATIONS; HKAS 36 IMPAIRMENT OF ASSETS AND HKAS 38 INTANGIBLE ASSETS**

The adoption has resulted in a change in accounting policy for goodwill. Goodwill was previously amortised on a straight-line basis over a period not exceeding 20 years, and assessed for impairment at each balance sheet date.

Under HKFRS 3, goodwill is no longer amortised. Instead, it is tested for impairment annually, or more frequently, if events or changes in circumstances indicate a possible impairment. Any excess of fair value of assets and liabilities acquired over cost is recognised immediately as income under HKFRS 3. However, HKFRS 3 requires, if an entity previously recognised goodwill as a deduction from equity, it shall not recognise that goodwill in profit and loss account when it disposes of all or part of the business to which that goodwill relates or when a cash-generating unit to which the goodwill relates becomes impaired. There is no transitional arrangement for goodwill which has previously been eliminated against reserves as a matter of accounting policy.

HKFRS 3 is applied prospectively from 1 January 2005. Under the transitional provision of HKFRS 3, the Group has to cease amortisation of goodwill from 1 January 2005, and the negative goodwill previously recognised has to be derecognised as at 1 January 2005, with a corresponding adjustment to the opening retained earnings.

**f) NEW STANDARDS OR INTERPRETATIONS THAT HAVE BEEN ISSUED BUT ARE NOT YET EFFECTIVE**

The Group has not early adopted the following standards or interpretations that have been issued but are not yet effective. The adoption of such standards and interpretations will not result in substantial changes to the Group’s accounting policies.

HKAS 1 (Amendment)	Capital Disclosures
HKAS 19 (Amendment)	Employee Benefits - Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 39 (Amendment)	The Fair Value Option
HKAS 39 & HKFRS 4 (Amendment)	Financial Instrument’s” Recognition and Measurement and Insurance Contracts - Financial Guarantee Contracts
HKFRS 7	Financial Instruments - Disclosures

**2. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES**

a) Effect on the consolidated income statement for the year ended 31 December 2005 and 2004:

	Effect of adopting					Total HK\$'000
	HKAS 17 HK\$'000	HKAS 40 HK\$'000	HK (SIC) Int-21 HK\$'000	HKASs 32/39 HK\$'000	HKFRS 3 HK\$'000	
<b>Year ended 31 December 2005</b>						
Increase in depreciation of property, plant and equipment	(418)	–	–	–	–	(418)
Decrease in amortisation of leasehold land and land use rights	97	–	–	–	–	97
Decrease in negative goodwill recognised as income	–	–	–	–	(13,062)	(13,062)
Decrease in reversal of previous revaluation deficits of leasehold buildings, net	(6)	–	–	–	–	(6)
Increase in loss arising from fair value change of investment properties	–	(490)	–	–	–	(490)
Increase in deferred taxation in relation to fair value gains of investment properties	–	–	(620)	–	–	(620)
Decrease in deferred taxation in relation to disposal of investment properties	–	–	1,689	–	–	1,689
Decrease in profit for the year	<u>(327)</u>	<u>(490)</u>	<u>1,069</u>	<u>–</u>	<u>(13,062)</u>	<u>(12,810)</u>
Attributable to:						
Equity holders of the Company	(327)	(490)	1,069	–	(12,954)	(12,702)
Minority interests	–	–	–	–	(108)	(108)
	<u>(327)</u>	<u>(490)</u>	<u>1,069</u>	<u>–</u>	<u>(13,062)</u>	<u>(12,810)</u>

	HKAS 17 HK\$ '000	HKAS 40 HK\$ '000	Effect of adopting		HKFRS 3 HK\$ '000	Total HK\$ '000
			HK (SIC) Int-21 HK\$ '000	HKASs 32/39 HK\$ '000		
<b>Year ended 31 December 2004</b>						
Increase in depreciation of property, plant and equipment	(333)	–	–	–	–	(333)
Decrease in amortisation of leasehold land and land use right	14	–	–	–	–	14
Decrease in reversal of previous revaluation deficits of leasehold buildings, net	(1,497)	–	–	–	–	(1,497)
Decrease in profit for the year	<u>(1,816)</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>(1,816)</u>
Attributable to:						
Equity holders of the Company	(1,816)	–	–	–	–	(1,816)
Minority interests	–	–	–	–	–	–
	<u>(1,816)</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>(1,816)</u>

b) Effect on the consolidated balance sheet as at 31 December 2005 and 2004:

	HKAS 17 HK\$ '000	HKAS 40 HK\$ '000	Effect of adopting		HKFRS 3 HK\$ '000	Total HK\$ '000
			HK (SIC) Int-21 HK\$ '000	HKASs 32/39 HK\$ '000		
<b>As at 31 December 2005</b>						
Increase/(decrease) in:						
Assets						
Intangible assets	–	–	–	–	27,284	27,284
Available-for-sale financial asset	–	–	–	15,620	–	15,620
Property, plant and equipment	(418)	–	–	–	–	(418)
Leasehold land and land use rights	97	–	–	–	–	97
Liabilities						
Deferred tax liabilities	–	–	1,069	–	–	1,069
	<u>(321)</u>	<u>–</u>	<u>1,069</u>	<u>15,620</u>	<u>27,284</u>	<u>43,652</u>
Equity						
Properties revaluation reserve	6	–	–	–	–	6
Investment properties reserve	–	(7,473)	–	–	–	(7,473)
Revaluation reserve for available-for-sale financial assets	–	–	–	15,620	–	15,620
Retained earnings	(327)	7,473	1,069	–	27,030	35,245
Minority interests	–	–	–	–	254	254
	<u>(321)</u>	<u>–</u>	<u>1,069</u>	<u>15,620</u>	<u>27,284</u>	<u>43,652</u>
<b>As at 31 December 2004</b>						
Increase/(decrease) in:						
Assets						
Property, plant and equipment	(8,440)	–	–	–	–	(8,440)
Leasehold land and land use rights	10,559	–	–	–	–	10,559
Liabilities						
Deferred tax liabilities	–	–	(1,689)	–	–	(1,689)
	<u>2,119</u>	<u>–</u>	<u>(1,689)</u>	<u>–</u>	<u>–</u>	<u>430</u>
Equity						
Properties revaluation reserve	(375)	–	–	–	–	(375)
Investment properties reserve	–	–	(1,689)	–	–	(1,689)
Retained earnings	2,494	–	–	–	–	2,494
	<u>2,119</u>	<u>–</u>	<u>(1,689)</u>	<u>–</u>	<u>–</u>	<u>430</u>

### 3. PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. During the year, the Group's principal activities consisted of the design, development, manufacture and sale of electronic products, the manufacture and sale of printed circuit boards ("PCBs"), the trading and distribution of electronic components and parts, the trading of listed equity investments, the provision of loan financing and the manufacture and sale of optical products. There were no significant changes in the nature of the Group's principal activities during the year.

#### 4. 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 table presents 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	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Segment revenue																
Sales to external customers	386,411	391,632	95,777	108,992	-	-	7,343	15,515	296	107	64,045	174,890	-	-	553,872	691,136
Inter-segment sales	-	-	-	4,787	20,066	19,416	-	-	4,439	2,887	-	-	(24,505)	(27,090)	-	-
Other revenue	2,795	3,356	2,963	5,192	-	-	132	469	89	-	10,832	2,800	-	-	16,811	11,817
<b>Total</b>	<b>389,206</b>	<b>394,988</b>	<b>98,740</b>	<b>118,971</b>	<b>20,066</b>	<b>19,416</b>	<b>7,475</b>	<b>15,984</b>	<b>4,824</b>	<b>2,994</b>	<b>74,877</b>	<b>177,690</b>	<b>(24,505)</b>	<b>(27,090)</b>	<b>570,683</b>	<b>702,953</b>
Segment results	18,489	17,288	(19,739)	(18,328)	(223)	683	(3,033)	(3,607)	(4,032)	(5,800)	(2,098)	(5,345)	(4,469)	642	(15,105)	(14,467)
Interest, dividend income and unallocated gains															9,385	2,272
Negative goodwill recognised as income															-	13,062
(Loss) Gain on disposal of properties held for sale															(143)	3,900
Gain on disposal of interest in Swank															42,344	8,458
Gain on disposal of investment properties															2,715	-
Reversal of previous revaluation deficits of leasehold buildings, net															5,270	3,346
Gain on disposal of interests in associates															-	10,900
Write back of over-provision against properties held for sale															200	3,150
Net loss arising from fair value change of investment properties															(490)	-
Unallocated expenses															(4,081)	(10,023)
Profit from operating activities															39,995	20,598
Impairment loss on a loan receivable															(45,000)	-
Share of profits less losses of associates															1,997	2,791
(Loss) Profit before taxation															(3,008)	23,389
Taxation															(1,520)	(452)
(Loss) Profit for the year															(4,528)	22,937

##### (b) Geographical segments

The following table presents revenue information for the Group's geographical segments.

##### Group

	Europe		North America		Hong Kong		Japan		Others		Eliminations		Consolidated	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Segment revenue:														
Sales to external customers	51,357	89,922	130,442	189,345	146,836	183,782	196,340	180,807	28,897	47,280	-	-	553,872	691,136

#### 5. OTHER REVENUE

	2005 HK\$'000	2004 HK\$'000
Bank interest income	9,025	1,575
Gain on deregistration of subsidiaries	2,973	-
Dividend income from listed investments	106	363
Sales of obsolete inventories	558	2,795
Management fee received	256	1,908
Product development income	2,520	2,678
Rental income	137	1,024
Sales of raw materials	1,084	1,778
Other interests earned	7,102	-
Others	2,435	1,968
	<b>26,196</b>	<b>14,089</b>

## 6. PROFIT FROM OPERATING ACTIVITIES

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

	2005 HK\$'000	2004 HK\$'000
Cost of inventories sold	466,424	583,563
Depreciation	26,539	35,347
Amortisation of leasehold land and land use rights	252	252
Amortisation of prepaid rental	737	737
Amortisation of deferred product development costs	1,641	1,421
Provision against inventories	1,190	289
	<u>1,190</u>	<u>289</u>

## 7. TAXATION

Hong Kong profits tax has been provided at the rate of 17.5% (2004: 17.5%) 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.

	2005 HK\$'000	Group 2004 HK\$'000
Current tax		
Hong Kong:		
– Current year provision	1,602	976
– Overprovision in prior year	(393)	(750)
Mainland China	1,380	226
	<u>2,589</u>	<u>452</u>
Deferred tax	(1,069)	–
Total tax charge for the year	<u>1,520</u>	<u>452</u>

## 8. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit attributable to equity holders of the Company for the year of HK\$4,779,000 (2004: HK\$28,695,000) and the weighted average of 286,068,644 (2003: 286,068,644) ordinary shares in issue during the year.

A diluted earnings per share for the year ended 31 December 2005 and 2004 has not been disclosed as no diluting events existed during these years.

## 9. ACCOUNTS RECEIVABLE

The aged analysis of the Group's accounts receivable is as follows:

	2005 HK\$'000	2004 HK\$'000
Current to three months	48,196	93,523
Four to six months	106	2,597
Seven months to one year	943	14,532
Over one year	19,824	13,533
	<u>69,069</u>	<u>124,185</u>
Provision	(6,177)	(8,296)
Total after provision	<u>62,892</u>	<u>115,889</u>

The normal credit period granted by the Group to customers ranges from 21 days to 120 days.

## 10. ACCOUNTS PAYABLE

The aged analysis of the Group's accounts payable is as follows:

	2005 HK\$'000	2004 HK\$'000
Current to three months	46,809	52,736
Four to six months	12,189	34,148
Seven months to one year	6,629	5,298
Over one year	6,031	522
	<u>71,658</u>	<u>92,704</u>

Accounts payable aged less than four months accounted for 65% (2004: 57%) of the total accounts payable.

## **FINAL DIVIDEND**

The Board does not recommend the payment of any final dividend (2004: Nil).

## **BUSINESS REVIEW**

2005 was a challenging year. During the year, the manufacturing and export businesses faced a chaotic environment of rising interest rates, energy costs and gradual rise in overhead costs in Mainland China, particularly in Pearl River Delta Region.

Turnover of the electronic products division for the year ended 31 December 2005 was HK\$386.4 million (2004: HK\$391.6 million), representing a decrease of HK\$5.2 million or 1.3% from that of last year. It was partly due to fierce market competition leading to a drop in sales volume. Pricing pressure from customers also played its part in bringing down the turnover. However, the business in production of lithium rechargeable battery parts achieved another satisfactory result in 2005 and contributed increasing profit to the Group. Gross profit margin as a whole slightly dropped by 1%. With the implementation of cost saving exercise, selling and administrative expenses dropped by 4.6% to HK\$61.9 million (2004: HK\$64.9 million). The Group remained vigilant in controlling expenses even in tough environment while honouring the commitment to produce high quality products well known to the market buyers.

For the manufacture and sale of printed circuit boards (PCBs), the gross margin of PCBs to certain business sectors had been reduced as these sectors faced their own competition requiring price reduction to maintain their competitiveness. To improve the situation, starting from second quarter of 2005, the Group decided to scale down the business volume with these sectors and directed sales focus to other industrial sectors which can offer higher margin. The slight drop in turnover in this segment mainly reflected start-up effects in developing new customers base under new direction. Segment loss amounted to HK\$19.7 million (2004: loss HK\$18.3 million). The Group will continue to put in capital investment in order to attract high quality customers for better results.

The optical product segment recorded a segment loss of HK\$2.1 million (2004: loss HK\$5.3 million) for the year under review. The business recorded a turnover of HK\$64 million (2004: HK\$174.9 million), representing a decrease of HK\$110.9 million or 63.4% lower than that of last year. As substantial interest in Swank International Manufacturing Company Limited ("Swank") was disposed of on 3 June 2005, only approximately five-month turnover was intended for the year. Fierce market competition also led to the drop in turnover.

During the year, a loan agreement amounting to HK\$50 million was signed between Active Base Limited ("Active Base"), a wholly owned subsidiary of the Company and Moulin Global Eyecare Holdings Limited ("Moulin"). A debenture was also executed by Moulin in favour of Active Base. In or about June 2005, Moulin commenced legal proceedings in the High Court against Active Base claiming that the said loan agreement and debenture were unenforceable. In this regard, ongoing litigations are expected and the Board will make announcement in due course. For prudence sake, a provision of HK\$45 million was made against the loan.

Turnover for trading of listed equity investments amounted to HK\$7.3 million (2004: HK\$15.5 million), with segment loss of HK\$3 million (2004: loss HK\$3.6 million).

To seize the rallying sentiments in the Hong Kong property market, the Group disposed of certain investment properties during the year and with a gain of HK\$2.7 million.

## **FUTURE PLANS**

The up-trend of US dollar interest rate and the effect of fluctuation in crude oil price may slow down the overall economy. For electronic product division, the Group has invested more resources in research and development department and purchase and material control department by recruiting high caliber experienced staff to strengthen the area in product development, design of new products and the function of purchase and material consumption. Wireless application and radio-frequency products will remain our major direction for development. The Board believes that the Group can leverage on its industrial expertise and experience as well as its competitive advantages to diversify its product range. With more newly developed products launched, the Group will be better positioned in its target markets with less price sensitivity and competition and be able to embark on a new era in the coming year 2006. The Group will also welcome any opportunity in business co-operation with well-established electronic enterprises in the industry.

For year 2006, the Group expects increasing demand for PCBs on European market. With committed input from staff and newly invested capital expenditure, the Group should be able to capture the opportunity and obtain more high quality sales orders.

With sufficient resources on hand, the Group is constantly looking for quality investment opportunities, while expecting loan financing business not to be active in 2006.

## **CORPORATE TRANSACTIONS**

In January 2005, Probest Holdings Inc. (“Probest”), amongst others, entered into a sale and purchase agreement with China Time Investment Holdings Limited (“China Time”) for the disposal of 1,437,396,440 issued shares of Swank, representing approximately 46.0% of equity interest of Swank, at the consideration of approximately HK\$43.1 million (the “Disposal Agreement”). Probest also entered into a loan restructuring agreement with Profitown Investment Corporation (“Profitown”) and Swank (the “Loan Restructuring Agreement”), pursuant to which Probest agreed to waive the interests, default interests and part of the principal of a promissory note due by Swank, which would be cancelled when conditions of the Loan Restructuring Agreement were fulfilled. Upon completion, Profitown issued a new promissory note to Probest in consideration of which Swank waived the debt due from Profitown. In addition, Swank executed a guarantee in favour of Probest, undertaking to pay Probest all interests and default interests whenever Profitown defaults in payment of the principal of the new promissory note. A deed was also executed by Probest and the Company in favour of China Time in which, under certain circumstances, Probest, together with the Company as a guarantor, will indemnify China Time when the listing status of Swank would be withdrawn. For details, please refer to the circular of the Company dated 10 May 2005.

The completion of the Disposal Agreement took place on 3 June 2005. A shareholder agreement was entered into between Swank and Probest to regulate the management of Profitown Group and a new promissory note amounting to approximately HK\$112.3 million was issued by Profitown in favour of Probest.

On 8 March 2006, the Company announced and proposed to raise approximately HK\$173.4 million, before expenses, by issuing 357,585,805 offer shares at a price of HK\$0.485 per offer share by way of the open offer, on the basis of an assured entitlement of 5 offer shares for every 4 existing shares held on the record date and payable in full on acceptance. The registered holders of fully-paid offer shares will be issued 5 bonus shares for every 7 fully-paid offer shares. In order to facilitate the open offer by enabling the Company to allot and issue the bonus shares, which will only be issued to registered holders of the fully-paid offer shares, the Board proposed the amendment of the bye-laws of the Company to allow a distribution to shareholders on a non pro-rata basis. The Board further proposed the share consolidation, upon completion of the open offer and the bonus issue, involving a consolidation of every 4 existing shares into one consolidated share. For details, please refer to the announcement of the Company dated 8 March 2006. A circular, among others, in relation to the open offer, the bonus issue and the share consolidation will be despatched to shareholders of the Company as soon as possible.

## **LIQUIDITY AND FINANCIAL RESOURCES**

As at 31 December 2005, cash and bank balances (including time deposits) maintained by the Group were HK\$396.8 million (2004: HK\$397.7 million), representing a slight decrease of HK\$0.9 million compared with the position as at 31 December 2004. On the other hand, the Group has available banking facilities of HK\$15.3 million. 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 14.5% as at 31 December 2005, comparing with 17.4% as at 31 December 2004.

Most of the business transactions conducted by the Group were nominated in Hong Kong Dollars, United States Dollars and Renminbi. As at 31 December 2005, there were no outstanding forward contracts in foreign currency committed by the Group that might involve it in significant foreign exchange risks and exposures.

## **EMPLOYEES AND REMUNERATION POLICIES**

As at 31 December 2005, the Group employed approximately 2,772 employees, with about 2,689 in the Mainland China and about 83 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.

## **CORPORATE GOVERNANCE**

The Board is committed to raising the standard of corporate governance within the Group in order to enhance the transparency in disclosure of material information. With effect from 1 January 2005, the Company has applied the principles and complied with the requirements of the Code on Corporate Governance Practices (the “CG Code”) as set out in Appendix 14 of the Rules Governing the Listing of Securities (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited, except for the following deviations.

CG Code A.2.1 stipulated that the role of chairman and chief executive officer should be separated and should not be performed by the same individual.

The Company does not appoint chief executive officer. In view of the existing structure of the Board and the operation of the Group, the Board believes that the present structure of the Board will provide a strong leadership for the Group to implement prompt decisions and to formulate efficient strategies, which is for benefits of the Group. Moreover, the day-to-day operation of the Group's businesses are shared among those executive directors and the management of the Company. Therefore, there should be a clear division of the responsibilities at the board level to ensure a balance of power and authority, so that power is not concentrated in any one individual.

CG Code A.4.1 stipulated that non-executive directors should be appointed for a specific term, subject to re-election and CG Code A.4.2 stipulated that every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

During the period, two independent non-executive directors of the Company, namely Mr. Ng Wai Hung and Mr. Cheung Chung Leung, Richard, are not appointed for any specific fixed term and one independent non-executive director, Mr. Wu Wang Li, is appointed for the term of one year from 27 September 2005.

In accordance with the bye-laws of the Company, at each annual general meeting of the Company one third of the directors shall retire from office by rotation. The Board considers that sufficient measures will be taken to ensure the corporate governance practices of the Company are not less exacting than those in the CG Code A.4.1 and A.4.2.

CG Code B.1 stipulated that a remuneration committee should be established with specific written terms of reference which deal clearly with its authority and duties. A majority of the members of the remuneration committee should be independent non-executive directors.

Currently, there is no remuneration committee in the Board. Meanwhile, the Board conducts an informal assessment of the individual director's contribution. No director decides his or her own remuneration and their remuneration has been relatively stable in the past years. The remuneration committee will be established and the Board will review and formulate its terms of reference in accordance with the CG Code in due course.

#### **MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS**

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules for directors' securities transactions. Having made specific enquiries of all directors of the Company, they have confirmed that they complied with required standard set out in the Model Code throughout the accounting period covered by the Annual Report.

#### **CONFIRMATION OF INDEPENDENCE FROM INDEPENDENT NON-EXECUTIVE DIRECTORS**

The Company has received, from each of the independent non-executive directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the independent non-executive directors are independent.

#### **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**

As at the date of this announcement, the Board comprises of seven directors, of which four are executive directors, namely Mr. Yau Tak Wah, Paul, Ms. Louie Mei Po, Ms Wong Shin Ling, Irene and Mr. Tam Wing Kin and three independent non-executive directors, namely Mr. Ng Wai Hung, Mr. Cheung Chung Leung, Richard and Mr. Wu Wang Li.

#### **AUDIT COMMITTEE**

The audit committee comprises three independent non-executive directors and reports to the Board. 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.

#### **ANNUAL GENERAL MEETING**

The 2006 annual general meeting (the "AGM") of the Company will be held on Tuesday, 30 May 2006 at 10:30 a.m.. For details of the AGM, please refer to the notice of the AGM which will be published and despatched to shareholders in due course.

#### **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.

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

Hong Kong, 13 April, 2006

Please also refer to the published version of this announcement in The Standard.