



# Tomorrow International Holdings Limited

## 明日國際集團有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code : 0760)

### 2006 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 2006, together with comparative figures for the previous corresponding year as follows:

#### CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2006

	Notes	2006 HK\$'000	2005 HK\$'000
TURNOVER	3	514,396	553,871
Cost of sales		<u>(443,124)</u>	<u>(473,975)</u>
Gross profit		71,272	79,896
Other revenue	4	31,069	26,196
Gain/ (Loss) on disposal of properties held for sale		5	(143)
Gain on disposal of controlling interest in Swank		—	42,244
Gain on disposal of a subsidiary		557	—
Gain on disposal of investment properties		—	2,715
Reversal of previous revaluation deficits of leasehold buildings, net		—	5,270
Write back of over-provision against properties held for sale		—	200
Net loss arising from fair value change of investment properties		(889)	(490)
Distribution costs		(13,086)	(18,359)
Administrative expenses		(98,334)	(94,712)
Other operating expenses		<u>(13)</u>	<u>(2,822)</u>
(LOSS)/ PROFIT FROM OPERATING ACTIVITIES	5	(9,419)	39,995
Impairment loss on loan receivable		(1,500)	(45,000)
Share of (loss)/profits from results of associates		<u>(5,525)</u>	<u>1,997</u>

LOSS BEFORE TAXATION		(16,444)	(3,008)
TAXATION	6	(2,965)	(1,520)
		<u>(19,409)</u>	<u>(4,528)</u>
LOSS FOR THE YEAR		<u>(19,409)</u>	<u>(4,528)</u>
ATTRIBUTABLE TO :			
Equity holders of the Company		(16,225)	4,779
Minority interests		(3,184)	(9,307)
		<u>(19,409)</u>	<u>(4,528)</u>
(LOSS)/EARNINGS PER SHARE	7		
FOR (LOSS)/PROFIT ATTRIBUTABLE			
TO THE EQUITY HOLDERS			
OF THE COMPANY			
Basic		<u>(9.8) cents</u>	<u>5.1 cents</u>
Diluted		<u>N/A</u>	<u>N/A</u>

## CONSOLIDATED BALANCE SHEET

31 December 2006

	Notes	2006 HK\$'000	2005 HK\$'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment		94,704	103,178
Leasehold land and land use rights		10,057	10,307
Investment properties		18,542	28,750
Interests in associates		151,367	156,892
Prepaid rental		1,166	1,903
Deferred product development costs		8,387	6,819
Available-for-sale financial assets		33,612	27,364
Loans receivable		562	1,000
		<u>318,397</u>	<u>336,213</u>

<b>Current assets</b>			
Properties held for sale		5,439	6,200
Financial assets at fair value through profit or loss		13,217	2,465
Inventories		64,559	67,540
Accounts receivable	8	35,039	62,892
Bills receivable		978	—
Loans receivable		7,876	6,046
Interest receivable on loans		28	12
Prepayments, deposits and other receivables		26,933	52,720
Cash and cash equivalents		619,730	396,775
		<u>773,799</u>	<u>594,650</u>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Accounts payable	9	82,899	71,658
Other payables and accruals		31,068	40,017
Tax payable		21,667	20,369
		<u>135,634</u>	<u>132,044</u>
<b>Net current assets</b>		<u>638,165</u>	<u>462,606</u>
<b>Total assets less current liabilities</b>		<b>956,562</b>	<b>798,819</b>
<b>Non-current liabilities</b>			
Provision for long service payments		570	570
Deferred tax liabilities		1,319	2,053
		<u>1,889</u>	<u>2,623</u>
<b>NET ASSETS</b>		<u><b>954,673</b></u>	<u><b>796,196</b></u>
<b>CAPITAL AND RESERVES</b>			
Share capital		8,991	2,861
Reserves		936,783	781,252
<b>Equity attributable to equity holders of the Company</b>		<u>945,774</u>	<u>784,113</u>
Minority interests		8,899	12,083
<b>Total equity</b>		<u><b>954,673</b></u>	<u><b>796,196</b></u>

## **1. SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies used in preparation of the financial statements are consistent with those adopted in the annual financial statements for the year ended 31 December 2005 except for the adoption of certain new standards and amendments of Hong Kong Financial Reporting Standards which were issued and became effective during the year ended 31 December 2006.

The adoption of such standards or amendments does not result in substantial changes to the Group's accounting policies and has no significant effect on the results reported for the year ended 31 December 2006.

The Group has not applied any new standards or interpretation that is not yet effective for the current accounting year, and is in the process of assessing their impact on future accounting periods.

## **2. PRINCIPAL ACTIVITIES**

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

## **3. 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		
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Segment revenue																	
Sales to external customers	353,721	386,411	104,308	95,777	—	—	56,034	7,342	333	296	—	64,045	—	—	514,396	553,871	
Inter-segment sales	—	—	—	—	16,860	20,066	—	—	1,561	4,439	—	—	(18,421)	(24,505)	—	—	
Other revenue	2,094	2,795	5,029	2,963	253	—	—	132	—	89	—	10,832	(253)	—	7,123	16,811	
<b>Total</b>	<b>355,815</b>	<b>389,206</b>	<b>109,337</b>	<b>98,740</b>	<b>17,113</b>	<b>20,066</b>	<b>56,034</b>	<b>7,474</b>	<b>1,894</b>	<b>4,824</b>	<b>—</b>	<b>74,877</b>	<b>(18,674)</b>	<b>(24,505)</b>	<b>521,519</b>	<b>570,682</b>	
Segment results	4,646	18,489	(23,844)	(19,739)	97	(223)	2,227	(3,033)	(5,924)	(4,032)	—	(2,098)	(1,763)	(4,469)	(24,561)	(15,105)	
Interest, dividend income and unallocated gains															23,946	9,385	
Gain on disposal of properties held for sale																5	(143)
Gain on disposal of controlling interest in Swank																—	42,244
Gain on disposal of a subsidiary																557	—
Gain on disposal of investment properties																—	2,715
Reversal of previous revaluation deficits of leasehold buildings, net																—	5,270

Write back of over - provision against properties held for sale												—	200
Net loss arising from fair value change of investment properties												(889)	(490)
Unallocated expenses												<u>(8,477)</u>	<u>(4,081)</u>
(Loss)/Profit from operating activities												(9,419)	39,995
Impairment loss on loan receivable												(1,500)	(45,000)
Share of profits less losses of associates												<u>(5,525)</u>	<u>1,997</u>
Loss before taxation												(16,444)	(3,008)
Taxation												<u>(2,965)</u>	<u>(1,520)</u>
Loss for the year												<u><u>(19,409)</u></u>	<u><u>(4,528)</u></u>

**(b) Geographical segments**

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

	Europe		North America		Hong Kong		Japan		Others		Consolidated		
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Segment revenue:													
Sales to external customers	<u>34,147</u>	<u>51,357</u>	<u>103,186</u>	<u>130,442</u>	<u>179,952</u>	<u>146,836</u>	<u>175,908</u>	<u>196,340</u>	<u>21,203</u>	<u>28,896</u>	<u>514,396</u>	<u>553,871</u>	

#### 4 OTHER REVENUE

	<b>2006</b>	2005
	<b><i>HK\$'000</i></b>	<i>HK\$'000</i>
Bank interest income	<b>21,383</b>	9,025
Gain on deregistration of subsidiaries	—	2,973
Dividend income from listed investments	<b>288</b>	106
Sales of obsolete inventories	<b>78</b>	558
Management fee received	—	256
Product development income	<b>2,160</b>	2,520
Rental income	<b>144</b>	137
Sales of raw materials	<b>1,459</b>	1,084
Other interests earned	<b>16</b>	7,102
Compensation from vendors	<b>2,598</b>	308
Others	<b>2,943</b>	2,127
	<b><u>31,069</u></b>	<u>26,196</u>

#### 5. (LOSS)/PROFIT FROM OPERATING ACTIVITIES

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

	<b>2006</b>	2005
	<b><i>HK\$'000</i></b>	<i>HK\$'000</i>
Cost of inventories sold	<b>397,638</b>	466,424
Depreciation	<b>23,021</b>	26,539
Amortisation of leasehold land and land use rights	<b>250</b>	252
Amortisation of prepaid rental	<b>737</b>	737
Amortisation of deferred product development costs	<b>1,921</b>	1,641
Provision for bad and doubtful debts	<b>6,042</b>	—
	<b><u>6,042</u></b>	<u>—</u>

## 6. TAXATION

Hong Kong profits tax has been provided at the rate of 17.5% (2005: 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.

	<b>Group</b>	
	<b>2006</b>	2005
	<b><i>HK\$'000</i></b>	<i>HK\$'000</i>
Current tax		
Hong Kong:		
— Current year provision	<b>635</b>	1,602
— Under provision in prior year	<b>2,507</b>	—
— Overprovision in prior year	—	(393)
Mainland China	—	1,380
	<b>3,142</b>	2,589
Deferred tax	<b>(177)</b>	(1,069)
Total tax charge for the year	<b><u>2,965</u></b>	<b><u>1,520</u></b>

## 7. (LOSS)/EARNINGS PER SHARE

The calculation of basic loss per share is based on the net loss attributable to equity holders of the Company for the year of HK\$16,225,000 (2005: profit of HK\$4,779,000) and the weighted average of 165,608,961 (2005 as restated: 93,900,769) ordinary shares in issue during the year.

A diluted (loss)/earnings per share for the year ended 31 December 2006 and 2005 respectively has not been disclosed as no diluting events existed during both years.

The comparative basic earnings per share amounts have been adjusted to reflect the open offer, the bonus issue and the share consolidation as further detailed in the corporate transactions section of this announcement.

## 8. ACCOUNTS RECEIVABLE

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

	<b>2006</b> <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Current to three months	<b>29,817</b>	48,196
Four to six months	<b>1,454</b>	106
Seven months to one year	<b>848</b>	943
Over one year	<b>15,139</b>	19,824
	<b>47,258</b>	69,069
Provision	<b>(12,219)</b>	(6,177)
Total after provision	<b>35,039</b>	62,892

The normal credit period granted by the Group to customers ranges from 30 days to 120 days.

## 9. ACCOUNTS PAYABLE

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

	<b>2006</b> <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Current to three months	<b>52,751</b>	46,809
Four to six months	<b>8,412</b>	12,189
Seven months to one year	<b>14,156</b>	6,629
Over one year	<b>7,580</b>	6,031
	<b>82,899</b>	71,658

Accounts payable aged less than four months accounted for 64% (2005: 65%) of the total accounts payable

## FINAL DIVIDEND

The Board does not recommend the payment of any final dividend (2005: Nil).

## BUSINESS REVIEW

The result of the Group for the year 2006 was not encouraging. It reported HK\$16.2 million loss attributable to equity holders, compared with profit of HK\$4.8 million in 2005.

Electronic products division still made a profit. Turnover of electronic products division for the year was HK\$353.7 million (2005: HK\$386.4 million), representing a decrease of HK\$32.7 million or 8% to that of last year. Manufacturing business continued to face a hard operating environment of increase in operating cost. Despite continuous effort, the Group could not shift all increase in operating cost to customers, resulting in a drop in net profit margin of the division. For the business of production and sale of lithium rechargeable battery parts, sales dropped by 28%. As a whole, segmental profit was HK\$4.6 million, compared with HK\$18.5 million profit in year 2005.

The PCB manufacturing industry continues to exhibit keen market competition as the trend of the US and European PCB makers to migrate their manufacturing bases to the PRC is expected to continue in the future. However, the turnover of the PCB division for the year was HK\$104.3 million (2005: HK\$95.8 million), representing an increase of 9% comparing with last year. The increase in turnover was the result of our plan of new customer development and the future sales plan will continue to concentrate on expanding business with industrial grade industries e.g. automotive, medical equipments. Facing the continuous increase in raw material costs especially in metals, the PCB division reported a loss of HK\$23.8 million. During the reporting period, management exerted effective cost control measures to trim down the overhead costs and could also successfully transfer part of the costs burden to our customers by increasing the average selling price of multi-layers products.

The local securities market remained robust throughout 2006. Speculation over Renminbi's appreciation and economic growth in China attracted capital inflow to Hong Kong, particularly into China-related shares. Given that, turnover of trading of listed equity investments amounted to HK\$56.0 million (2005: HK\$7.3 million) and the Group managed to make a profit of HK\$2.2 million (2005: loss of HK\$3.0 million).

Loan financing business remained inactive during the year. It reported segmental loss of HK\$5.9 million. Legal case relating to loan to Moulin Eyecare Holdings Limited was still in progress and further update will be published in due course.

## **FUTURE PLANS**

Looking forward, wireless application and radio-frequency product range is our direction for product development. The Board expects this target market will be less price-sensitive and competitive. Moreover, the Group is developing to manufacture products relating to audio/visual market. Products relate to broadcasting tuners (a unique system of digital television broadcasting in Japan) and portable pocket size television. As more stringent environmental regulations will come into effect, the Group believes it would be an opportunity to gradually eliminate competitors which are less-equipped and quality-oriented in producing products which conform with the relevant requirements. Moreover, management will try to shift the increase in operating cost to customers by increasing the selling price of products. Cost-saving measures will continue in year 2007. Barring any unforeseen circumstances, there should be improvement in the performance of the division in coming year.

The Board intends to double up its monthly production capacity in two years in order to fulfil the ever-growing market demand on industrial grade PCB products. With our experienced sales forces and dedicated management teams, we will progressively capture large market shares from the US and Europe market onwards.

The continuously rapid and healthy growth of the Chinese economy has created excellent investment opportunities and a favorable operating environment for us. The Board will focus on investments with core businesses which are PRC based and may allocate appropriate resources in subscribing for initial public offerings shares of companies with sound fundamental and prospect.

## CORPORATE TRANSACTIONS

On 8 March 2006, the Company announced, amongst others, an open offer, a bonus issue and a share consolidation. The Company intended to raise approximately HK\$173.4 million, before expenses, to facilitate the continual development and daily operation of the Group whilst allowing the Group to invest in any potential investment projects when such opportunities arise, by issuing 357,585,805 offer shares at a price of HK\$0.485 per offer share by way of an open offer on the basis of 5 offer shares for every 4 existing share held on the record date (the “Open Offer”). The registered holders of fully paid offer shares would be issued 5 bonus shares for every 7 fully paid offer shares (the “Bonus Issue”). Upon completion of the Open Offer and the Bonus Issue, every 4 shares would be consolidated into 1 consolidated shares (the “Share Consolidation”).

The Company received 30 valid applications for 334,859,365 offer shares, representing approximately 93.64% of the total number of 357,585,805 offer shares available for subscription under the Open Offer. As the Open Offer was under-subscribed, being the underwriter of the Open Offer, Winspark Venture Limited (“Winspark”), the major shareholder of the Company, subscribed for the remaining balance of 22,726,440 offer shares. The aggregate shareholding of Winspark in the Company therefore increased from approximately 61.45% to 65.79% immediately following completion of the Open Offer and the Bonus Issue. The Open Offer became unconditional and the Share Consolidation was effective on 20 June 2006 and 21 June 2006 respectively.

The Company is now exploring but has not yet earmarked any suitable investment opportunities. The net proceeds from the Open Offer was deposited in bank as time deposit.

To facilitate the introduction of Pan-China International Holdings Limited (“Pan-China”) as the strategic investor of the Company, Winspark entered into a sale and purchase agreement with Pan-China on 22 September 2006 (the “Sale and Purchase Agreement”) pursuant to which Winspark has agreed to sell 33,700,000 shares of the Company to Pan-China at a total consideration of HK\$151,650,000 with a deferred payment date on the 300th day from the date of the Sale and Purchase Agreement. On the other hand, the Company entered into a conditional option agreement with Winspark (the “Option Agreement”) pursuant to which (1) the Company has agreed to grant to Winspark the first call option under which Winspark has the right but not the obligation to require the Company to issue 33,700,000 shares to Winspark or as it may direct at the subscription price of HK\$4.5 (the “First Call Option”); and (2) Winspark has agreed to grant to the Company the second call option under which the Company has the right but not the obligation to require Winspark to subscribe 33,700,000 shares at the subscription price of HK\$4.5 (the “Second Call Option”). Upon exercise of either the First Call Option or the Second Call Option, the other call option shall automatically lapse and cease to be of any further effect.

However, on 26 February 2007, the Company announced that due to the lapse of the long stop date of the Sale and Purchase Agreement, the Sale and Purchase Agreement has ceased to be of any effect. Accordingly, the Option Agreement was also terminated in accordance with its terms. The Company and Winspark were released from their respective obligations under the Option Agreement.

## **LIQUIDITY AND FINANCIAL RESOURCES**

As at 31 December 2006, cash and bank balances (including time deposits) maintained by the Group were HK\$619.7 million (2005: HK\$396.8 million), representing an increase of HK\$222.9 million compared with the position as at 31 December 2005. 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 12.6% as at 31 December 2006, comparing with 14.5% as at 31 December 2005.

Most of the business transactions conducted by the Group were nominated in Hong Kong Dollars, United States Dollars and Renminbi. As at 31 December 2006, 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 2006, the Group employed approximately 2,584 employees, with about 2,502 in the Mainland China and about 82 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 has been committed to maintaining the high level of corporate governance within the Group in order to enhance the transparency in disclosure of material information. The Board considers such commitment is essential for internal management, financial management and protection of shareholders' interests and believes that maintaining a high standard of corporate governance benefits all shareholders, investors, and its business as a whole. 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 Provision A.2.1**

Under the CG Code, the roles of chairman and chief executive officer should be separate 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 operations 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 Provision A.4.1**

Under the CG Code, non-executive directors should be appointed for a specific term, subject to reelection.

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 2006. 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.

### **CG Code Provision B.1**

Under the CG Code, the issuers should establish a remuneration committee with specific written terms of reference which deal clearly with its authority and duties.

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**

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.

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

An annual report of the Company for the year ended 31 December 2006 containing all the information required by paragraph 45 of Appendix 16 of the Listing Rules will be published on the websites of the Company (<http://www.tihl.com.hk>) and The Stock Exchange of Hong Kong Limited (<http://www.hkex.com.hk>) in due course.

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

Hong Kong, 23 April 2007

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