



Tomorrow International Holdings Limited
(Incorporated in Bermuda with limited liability)



2004
Annual Report



Contents

| | |
|---|----|
| Corporate Information | 2 |
| Notice of Annual General Meeting | 3 |
| Chairman's Statement | 7 |
| Management Discussion and Analysis | 10 |
| Biographical Details of Directors and Senior Management | 13 |
| Report of the Directors | 15 |
| Report of the Auditors | 23 |
| Consolidated Income Statement | 25 |
| Consolidated Balance Sheet | 26 |
| Balance Sheet | 28 |
| Consolidated Statement of Changes in Equity | 29 |
| Consolidated Cash Flow Statement | 30 |
| Notes to Financial Statements | 32 |
| Schedule of Investment Properties | 72 |



Corporate Information

DIRECTORS

Executive Directors

YAU Tak Wah, Paul (*Chairman*)

LOUIE Mei Po

WONG Shin Ling, Irene

TAM Wing Kin

TAM Ping Wah

Independent Non-executive Directors

NG Wai Hung

CHEUNG Chung Leung, Richard

WU Wang Li (appointed on 27th September 2004)

COMPANY SECRETARY

MA Wing Kuen, Ricky

AUDITORS

CCIF CPA Limited

LEGAL ADVISERS IN HONG KONG

Vincent T.K. Cheung, Yap & Co.

LEGAL ADVISERS ON BERMUDA LAW

Conyers, Dill & Pearman

REGISTERED OFFICE

Clarendon House

2 Church Street

Hamilton HM11

Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

27th Floor, Henley Building

5 Queen's Road Central

Hong Kong

PRINCIPAL SHARE REGISTRAR

The Bank of Bermuda Limited

6 Front Street

Hamilton HM11

Bermuda

HONG KONG BRANCH SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited

Room 1901-1905

19th Floor

Hopewell Centre

183 Queen's Road East

Hong Kong

PRINCIPAL BANKERS

Credit Suisse

UBS

The Hongkong and Shanghai Banking Corporation Limited

Fubon Bank (Hong Kong) Limited

Industrial and Commercial Bank of China

(Asia) Limited

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN THAT the Annual General Meeting of the Company will be held at Unit 903-906, 9th Floor, Tower 1, Harbour Centre, 1 Hok Cheung Street, Hung Hom, Kowloon, Hong Kong on Monday, 30th May 2005 at 12:00 noon for the following purposes:

1. To receive and consider the audited financial statements and the reports of the directors and auditors for the year ended 31st December, 2004.
2. To re-elect retiring directors and to authorise the board of directors to fix the directors' remuneration.
3. To appoint CCIF CPA Ltd. as auditors and to authorise the board of directors to fix their remuneration.
4. As special business, to consider and, if thought fit, pass with or without amendments, the following resolutions as ordinary resolutions:

(A) **“THAT:**

- (i) subject to sub-paragraph (iii) of this resolution, the exercise by the directors of the Company during the Relevant Period (as hereinafter defined) of all the powers of the Company to allot, issue and deal with additional shares of HK\$0.01 each in the capital of the Company and to make or grant offers, agreements and options which might require the exercise of such powers, be and is hereby generally and unconditionally approved;
- (ii) the approval in sub-paragraph (i) of this resolution shall authorise the directors of the Company during the Relevant Period to make or grant offers, agreements and options which might require the exercise of such powers after the end of the Relevant Period;
- (iii) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) and issued by the directors of the Company pursuant to the approval in sub-paragraph (i) of this resolution, otherwise than pursuant to (a) a Rights Issue (as hereinafter defined); (b) the exercise of rights of subscription or conversion attaching to any warrants issued by the Company or any securities which are convertible into shares of the Company; (c) any share option scheme of the Company; and (d) any scrip dividend or similar arrangement providing for the allotment of shares in the Company in lieu of the whole or part of a dividend on shares in accordance with the Bye-laws of the Company in force from time to time, shall not exceed 20 per cent. of the aggregate nominal amount of the share capital of the Company in issue on the date of the passing of this resolution and the approval granted under (A)(i) and A(ii) shall be limited accordingly; and



Notice of Annual General Meeting

(iv) for the purpose of this resolution:

“Relevant Period” means the period from the date of the passing of this resolution until whichever is the earliest of:

- (a) the conclusion of the next annual general meeting of the Company;
- (b) 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; or
- (c) the revocation or variation of the authority set out in this resolution by an ordinary resolution of the shareholders of the Company in general meeting.

“Rights Issue” means an offer of shares, or offer or issue of warrants, options or other securities giving rights to subscribe for shares of the Company open for a period fixed by the directors of the Company to holders of shares of the Company whose names appear on the register of members on a fixed record date in proportion to their then holdings of such shares (subject to such exclusion or other arrangements as the directors of the Company 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 applicable to the Company).”

(B) **“THAT:**

- (i) subject to sub-paragraph (ii) of this resolution, the exercise by the directors of the Company during the Relevant Period (as hereinafter defined) of all the powers of the Company to repurchase issued shares in the capital of the Company subject to and in accordance with all applicable laws and the Bye-laws of the Company, be and is hereby generally and unconditionally approved;
- (ii) the aggregate nominal amount of shares in the capital of the Company which the Company is authorised to repurchase pursuant to the approval in sub-paragraph (i) of this resolution shall not exceed 10 per cent. of the aggregate nominal amount of the share capital of the Company in issue on the date of the passing of this resolution and the approval granted under paragraph (B)(i) shall be limited accordingly; and

Notice of Annual General Meeting

(iii) for the purpose of this resolution:

“Relevant Period” means the period from the date of the passing of this resolution until whichever is the earliest of:

- (a) the conclusion of the next annual general meeting of the Company;
- (b) 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; or
- (c) the revocation or variation of the authority set out in this resolution by an ordinary resolution of the shareholders of the Company in general meeting.”

(C) “**THAT** the general mandate granted to the directors to exercise the powers of the Company to allot, issue and otherwise deal with shares of the Company pursuant to resolution numbered 4(A) above be and is hereby extended by the addition to the aggregate nominal amount of the share capital of the Company which may be allotted by the directors pursuant to such general mandate an amount representing the aggregate nominal amount of the share capital of the Company repurchased by the Company under the authority granted pursuant to resolution numbered 4(B) above.”

5. To transact any other business of the Company.

By Order of the Board
Yau Tak Wah, Paul
Chairman

Hong Kong, 28 April 2005



Notice of Annual General Meeting

Registered office:

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Principal place of Business:

27th Floor
Henley Building
5 Queen's Road Central
Hong Kong

Notes:

1. Any member of the Company entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and vote on his behalf. A proxy need not be a member of the Company.
2. To be valid, a form of 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 head office and principal place of business of the Company at 27th Floor, Henley Building, 5 Queen's Road Central, Hong Kong not less than 48 hours before the time appointed for holding the meeting or any adjournment thereof.
3. With reference to Resolution 4(B) above, the explanatory statement containing the information relating to the repurchase of shares, as required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, will be despatched to shareholders in due course.

The Board of Directors (the "Board") of Tomorrow International Holdings Limited (the "Company") is pleased to announce the 2004 audited annual results of the Company, its subsidiaries and associates, collectively the Group, for the year ended 31 December 2004.

RESULTS

The Group's profit attributable to shareholders for the year was HK\$30.5 million (2003: HK\$11.7 million), an increase of 160.7% from the previous year. Earnings per share amounted to HK\$10.67 cents, compared with HK\$4.09 cents in the previous year. At 31 December 2004, the Group's net cash position amounted to HK\$397.7 million (2003: HK\$456.6 million), representing 53.8% of the shareholders fund of HK\$739.2 million (2003: 1HK\$698.2 million).

The Board does not recommend the payment of any final dividend (2003: Nil).

BUSINESS REVIEW

In 2004, the confidence of the Hong Kong economy gained a full recover after the SARS had been over. It benefited the local retails and property markets together with the service industries at large. However, the manufacturing and export businesses in Hong Kong had continuously confronted with keen competition from the exporters in other Asian countries including Mainland China. The economic condition in the US and the European market was also another major factor. In view of the weakened US dollar currency and the rising oil prices, the consumption power in the American market had been suppressed. On the other hand, the economy in European countries was still stagnated in spite of the strong Euro currency. For the year ended 31 December 2004, the total turnover of the Group's electronic business slightly decreased by 5.4 % to HK\$500.6 million (2003: HK\$529.3 million).

The turnover of the Electronic Products Division moderately decreased by 1.7% to HK\$391.6 million (2003: HK\$398.4 million) on a year-on-year basis. It was mainly due to the unsatisfactory business performance in both the US and European market during the year under review. Price competition in these markets was persistent and it did not show any improvement yet. Nevertheless, the new business in the production of lithium rechargeable battery parts had been growing rapidly and performed satisfactorily in the year of 2004. It had already provided a profit contribution to the Group. On the other hand, in order to remain competitive in the market, the Group had exercised stringent cost controls which substantially reduced the operating costs. Although it recorded a decrease in turnover, the segmental profits contributed by the Electronic Products Division remained approximately the same when compared with last year.

Market competition and quality issues continually hindered the development of printed circuit board ("PCB") business. The turnover for the manufacture and sale of PCB decreased by over 16.7% to HK\$109.0 million (2003: HK\$130.9 million) and it suffered an operating loss of HK\$18.3 million (2003: loss HK\$18.3 million) for the year under review.



Chairman's Statement

Regarding the manufacture and sale of optical products, Swank International Manufacturing Company Limited ("Swank") recorded a turnover of HK\$174.9 million (2003: HK\$192.2 million), representing a decrease of 9% compared with last year. Sales orders for the current year were HK\$176.2 million, versus last year of HK\$195.8 million. The gross profit margin decreased from 12.4% last year to 10.4% this year.

In 2004, with a more active stock market, turnover derived from trading of listed equity investments increased to HK\$15.5 million (2003: HK\$0.9 million).

As low interest rate in Hong Kong prevailed, the loan interest income from provision of loan financing for 2004 amounted to HK\$0.1 million (2003: HK\$0.4 million).

In 2003, the Group entered into a sale and purchase agreement with SW Kingsway Capital Holdings Limited and its subsidiaries ("SW Kingsway Group"), whereby the Group sold approximately 593.7 million shares of Swank to SW Kingsway Group, representing approximately 19.0% of the issued share capital of Swank, at a total consideration of approximately HK\$16.0 million. The transaction gave rise to a total gain of approximately HK\$16.0 million, of which approximately HK\$8.5 million was booked in year 2004 and the remaining gain was booked in year 2003.

Following years of decline, the local property market revived at a fast pace during the year under review. To seize this opportunity, the Group invested in luxury residential properties. By end of 2004, the Group recorded a valuation surplus of HK\$9.7 million in respect of its investment properties. This has been accounted for as a reserve movement.

FUTURE PLANS

In the year ahead, the interest rate hikes and the high oil prices will be the main obstacles on the economic growth of the global economy. A sign of rising inflation has recently been found in the US and European countries. Nevertheless, with a growth momentum in the US economy and the strong Euro which has strengthened the consumers' purchasing power in Europe, an expectation of a recovery in the consumer market is still optimistic.

Research and development is always our strength and target. The process of product upgrade and diversification has been going on without a pause. The Group has placed more emphasis on the wireless applications and radio-frequency products which are believed to be the prevailing trend in the consumer electronics market. With newly developed product lines, it empowers the Group to reach a more sophisticated market of lesser price sensitivity and competition. On the other hand, the Group is open to any opportunity in business co-operation or partnership with well-known electronic enterprises in the industry. It enables the Group to enter new product markets and to enhance its production capability.



Chairman's Statement

Optical industry continues to be a growing industry and eyewear has basically shifted from its basic functions of eye protection and vision correction to become more fashionable products. To cope with the shortening product life cycles and the increasing fashion elements in products, we will put in more resources in the samples production as well as the research and development department so as to give more quality and fashionable choices to our customers by introducing more new design concepts, new material and new technology. We also tend to restructure each single sizable production line into a number of smaller production lines in order to increase the production flexibility. Coupled with certain production flow changes as suggested by some renowned Japanese consultants, we will be able to capture the growing market opportunities with improved operational efficiency. On the other hand, various cost-saving measures have proven to be effective in 2004 and will continue in 2005. We remain optimistic about the future of our optical division.

With a pick-up in Hong Kong's property market, the Group is expected to share a satisfactory return upon appreciation in value of those properties. In fact, some of the luxury residential properties have been disposed or agreed to be disposed with a gain.

The management team is seeking to maximize the advantages afforded by our strong financial position, while maintaining strict cost controls. While searching for investment opportunities to increase our potential for earnings growth, we will continue to focus on our core business.

On behalf of the Board
Yau Tak Wah, Paul
Chairman

Hong Kong, 22 April 2005

Management Discussion and Analysis

FINANCIAL REVIEW

In 2004, Hong Kong economy has enjoyed a remarkable economic recovery, the Group's total net assets increased by HK\$41 million compared with last year. Details of variance are summarised as followed:

Details of the variances are summarised as follows:

| | Increase/(Decrease) in the Group's total net assets HK\$ million |
|---|---|
| Property, plant and equipment | (16.4) |
| Investment properties | 93.0 |
| Negative goodwill | 13.1 |
| Interests in associates | 1.6 |
| Prepaid rental | (0.7) |
| Rental deposits | (0.4) |
| Deferred product development costs | 1.1 |
| Properties held for sale | 0.3 |
| Short term investments | 7.5 |
| Inventories | 11.5 |
| Accounts receivable, bills receivable, prepayments, deposits and other receivables | (38.9) |
| Loans receivable and interest receivable on loans | (9.2) |
| Cash and bank balances and time deposits | (58.9) |
| Accounts payable, other payables and accrual | 33.8 |
| Amount due to associates | 0.1 |
| Taxation (including tax payable and deferred tax liabilities) | 1.2 |
| Provision for long service payments | 0.3 |
| Minority interests | 2.0 |
| Net increase in Group's total net assets | <u>41.0</u> |

As at 31 December 2004, the Group's properties in both Hong Kong and the Mainland China were revaluated by a professional valuer in accordance with the open market values. A revaluation surplus of approximately HK\$0.4 million, HK\$9.7 million and HK\$8.0 million have been credited to property revaluation reserve, investment property reserve and profit and loss account respectively.

With an optimistic view in the future of property market especially in luxury residential property, the Group invested in luxury residential properties in 2004.

During the year, a total of HK\$13.1 million negative goodwill was recognised as income, including that arising from the disposal of 312,486,000 Swank's shares in January 2004.

Management Discussion and Analysis

A tighter control was exercised on the trade receivables that successfully reduced the receivable balances throughout the year under review. On the other hand, the accounts payable dropped by a similar amount because a balancing position was considered necessary. In addition, a shorter credit period might induce more attractive price on material purchases.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2004, cash and bank balances (including time deposits) maintained by the Group were HK\$397.7 million (2003: HK\$456.6 million), representing a decrease of HK\$58.9 million compared with the position as at 31 December 2003. On the other hand, the Group has available banking facilities of HK\$28.3 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 19.5% as at 31 December 2004, comparing with 23.7% as at 31 December 2003.

Most of the business transactions conducted by the Group were nominated in Hong Kong Dollars, United States Dollars and Renminbi. As at 31 December 2004, there were no outstanding forward contracts in foreign currency committed by the Group that might involve it in significant foreign exchange risks and exposures.

CORPORATE TRANSACTIONS

On 20 January 2005, China Time Investment Holdings Limited (the “Offeror”) entered into a sale and purchase agreement (the “S&P Agreement”), amongst others, with Probest Holdings Inc. (“Probest”), a subsidiary of the Company and subsidiaries of SW Kingsway Group, pursuant to which the Offeror conditionally agreed, inter alia, to acquire 1,437,396,440 and 437,521,205 shares of Swank, representing approximately 46% and 14% of the existing issued share capital of Swank from Probest and SW Kingsway Group respectively for total consideration of approximately HK\$56 million (i.e. equivalent to HK\$0.03 per share).

Subject to completion of the S&P Agreement (the “Completion”), the Offeror will be obliged under Rule 26 of the Takeovers Code to make a mandatory cash offer to acquire all the issued shares of Swank (other than those already owned by the Offeror and parties acting in concert with it).

On 20 January 2005, Swank, Probest and Profitown Investment Corporation (“Profitown”) also entered into a conditional loan restructuring agreement (the “Loan Restructuring Agreement”). Pursuant to the terms of the Loan Restructuring Agreement, subject to Completion taking place, Profitown will issue a new promissory note in favour of Probest, in consideration of Probest waiving portion of the outstanding loan due and owing by Swank to Probest under the existing promissory note and releasing Swank from all future obligations and liabilities under the existing promissory note and Swank will also execute a guarantee to guarantee Profitown’s obligations in respect of interest payment under the new promissory note.



Management Discussion and Analysis

On Completion, Swank, Probest, Profitown and the Company will enter into a shareholders agreement, the principal terms of which will include unanimous board approval on material issues regarding Profitown, a put option exercisable by Swank in respect of its shares in Profitown and an indemnity by Probest in favour of Profitown in the event of deficit in the net tangible asset value of Profitown during the 30-month period from the completion date. On Completion, Probest and the Company will also execute a deed in favour of the Offeror. Under certain events, Probest will indemnify the Offeror.

For details of the above transactions, please refer to the announcement dated 18 April 2005.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2004, the Group employed approximately 4,720 employees, with about 4,590 in the Mainland China and about 130 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.

Biographical Details of Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. YAU Tak Wah, Paul – Chairman, aged 49, is the founder of the Group and is primarily responsible for corporate strategic planning. He holds a bachelor of science degree in mechanical engineering and has more than 20 years' experience in the electronics industry. Before he established the Group, Mr. Yau worked as design engineer in a renowned US electronics company operating in Hong Kong where he gained invaluable experience in production design and established close business relationships with various electronics manufacturers in Hong Kong.

Ms. LOUIE Mei Po – Director, aged 37, is responsible for business investment and development of the Group. Ms. Louie holds a master's degree in Business Administration and a bachelor's degree in Social Science from the Chinese University of Hong Kong. Prior to joining the Group, Ms. Louie was the executive director of two listed companies in Hong Kong specialising in mortgage loan financing, property investment and development. She has over ten years' experience in business investment and development. She joined the Group in February 2000.

Ms. WONG Shin Ling, Irene – Director, aged 44, is responsible for management and administration of the Group. Ms. Wong has over 12 years of experience in the field of property development and management. Prior to joining the Group, she was an executive director of two listed companies in Hong Kong specialising in mortgage loan financing, property investment and development. She joined the Group in February 2000.

Mr. TAM Wing Kin – Director, aged 39, is responsible for finance of the Group. He is a member of The Chartered Institute of Management Accountants, The Association of Chartered Certified Accountants and The Hong Kong Institute of Certified Public Accountants. He is also a Certified Public Accountant (Practising). Prior to joining the Group, he worked for an international accountancy firm and two listed companies in Hong Kong. He has over 15 years of experience in accounting field. He joined the Group in February 2000.

Mr. TAM Ping Wah – Director, aged 49, has more than 20 years' experience in electronics business. Being a graduate from Simon Fraser University in Canada in 1979, Mr. Tam first worked at a leading electronics company operating in Hong Kong as regional marketing manager and obtained extensive exposure to the North American and European markets. He joined the Group in 1983 and is responsible for the manufacturing and sales operations of the Group's Electronic Products Division.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. NG Wai Hung – Director, aged 41, is a practicing solicitor and a partner in Iu, Lai & Li, a Hong Kong firm of solicitors and notaries. Mr. Ng has extensive experience in the area of securities law, corporate law and commercial law in Hong Kong and has been involved in initial public offerings of securities in Hong Kong as well as corporate restructuring, mergers and acquisitions and takeovers of listed companies. He frequently advises multinational and Hong Kong corporations on private equity investments, joint ventures as well as regulatory compliance. He joined the Group in March 2000.



Biographical Details of Directors and Senior Management

INDEPENDENT NON-EXECUTIVE DIRECTORS (continued)

Mr. CHEUNG Chung Leung, Richard – Director, aged 51, has over 20 years of experience as an architect and real estate investment adviser. He is also the Executive Chairman of China SMS Limited. He graduated from the University of Hong Kong with degrees of Bachelor of Arts (Architectural Studies) and Bachelor in Architecture. He is a member of the Hong Kong Institute of Architects and a Registered Architect pursuant to the Architects Registration Ordinance. He joined the Group in March 2000.

Mr. WU Wang Li – Director, aged 30, has over 8 years of experience in the auditing and accounting profession and consulting services. He is a director of GK Asia Capital Limited and is admitted to the status of Certified Practising Accountant of CPA Australia. He is also an independent non-executive director of Swank International Manufacturing Company Limited. He joined the Group in September 2004.

SENIOR MANAGEMENT

Mr. MA Wing Kuen, Ricky, aged 45, is the group financial controller and company secretary, responsible for financial, accounting and corporate secretarial functions. He is a fellow member of the Association of Chartered Certified Accountants and an associate member of the Hong Kong Institute of Certified Public Accountants. Prior to joining the Group in 1995, he had accumulated more than 12 years' relevant experience in working with an international accounting firm, a major merchant bank and also holding senior financial positions in various trading and manufacturing companies in Hong Kong.

Mr. HUI Wing Ki, aged 60, is the operation director of the Group's Electronic Products Division, responsible for manufacturing and engineering functions. He has over 30 years' experience in the electronics industry. Prior to joining the Group in 1996, he was one of the founders in an electronic company listed in Hong Kong.

Mr. YEUNG Kam Tong, aged 51, is the director and general manager of E-Top PCB Limited and is responsible for the overall PCB operations of the Group. He holds a bachelor degree in chemical engineering. Prior to joining the Group in 1991, he worked for several PCB manufacturers at management level and had over 13 years' operation and management experience in PCB business.

Mr. Paul NG, aged 50, is the senior marketing manager responsible for the Group's sales and marketing activities relating to electronic products. He has over 20 years' experience in sales and marketing. He joined the Group in 1988.

Mr. LEUNG Hung Tat, aged 39, is the general manager, responsible for the manufacturing operations of the Group's Electronic Products Division. Prior to joining the Group in 1995, he worked as Quality Manager with an electronic manufacturer listed in Hong Kong for 5 years.

Mr. FONG Wing Hon, aged 39, is the R & D manager, responsible for the Group's product design and development and technical support. He holds a bachelor degree in electronic engineering and has over 10 years' experience in production engineering. He joined the Group in 1996.



Report of the Directors

The directors herein present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2004.

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, 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.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2004 and the state of affairs of the Company and of the Group at that date are set out in the financial statements on pages 25 to 71.

The directors do not recommend the payment of any dividend in respect of the year.

Report of the Directors

SUMMARY FINANCIAL INFORMATION

A summary of the results of the Group for the last five financial reporting years and of its assets, liabilities, and minority interests at the respective financial reporting year end dates, as extracted from the published audited financial statements of the Group, is set out below.

| | Year ended 31 December | | | | |
|---|------------------------|------------------|------------------|------------------|------------------|
| | 2004 HK\$'000 | 2003 HK\$'000 | 2002 HK\$'000 | 2001 HK\$'000 | 2000 HK\$'000 |
| RESULTS | | | | | |
| TURNOVER | 691,136 | 722,782 | 741,077 | 544,174 | 659,807 |
| PROFIT AFTER FINANCE COSTS | 22,414 | 2,808 | 60,560 | 28,462 | 36,943 |
| Share of profits less losses of associates | 2,791 | 1,727 | 5,797 | - | - |
| PROFIT BEFORE TAXATION | 25,205 | 4,535 | 66,357 | 28,462 | 36,943 |
| TAXATION | (452) | (1,778) | (4,675) | (3,079) | (5,424) |
| PROFIT BEFORE MINORITY INTERESTS | 24,753 | 2,757 | 61,682 | 25,383 | 31,519 |
| Minority interests | 5,758 | 8,941 | 1,165 | 5,734 | 976 |
| NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS | 30,511 | 11,698 | 62,847 | 31,117 | 32,495 |

SUMMARY FINANCIAL INFORMATION (CONTINUED)

| | Year ended 31 December | | | | |
|---|------------------------|------------------|------------------|------------------|------------------|
| | 2004 HK\$'000 | 2003 HK\$'000 | 2002 HK\$'000 | 2001 HK\$'000 | 2000 HK\$'000 |
| ASSETS, LIABILITIES AND MINORITY INTERESTS | | | | | |
| PROPERTY, PLANT AND EQUIPMENT | 169,411 | 185,769 | 201,955 | 138,811 | 135,800 |
| INVESTMENT PROPERTIES | 93,000 | - | - | - | - |
| NEGATIVE GOODWILL | (27,284) | (40,346) | (58,671) | - | - |
| INTERESTS IN ASSOCIATES | 37,220 | 35,581 | 30,894 | - | - |
| PREPAID RENTAL | 2,640 | 3,377 | 4,114 | 4,851 | 5,588 |
| RENTAL DEPOSITS | - | 388 | 972 | 517 | 397 |
| DEFERRED PRODUCT DEVELOPMENT COSTS | 5,861 | 4,783 | 4,195 | 4,459 | 4,131 |
| LOANS RECEIVABLE | 2,000 | - | - | - | - |
| CURRENT ASSETS | 635,798 | 725,510 | 676,241 | 575,477 | 421,444 |
| TOTAL ASSETS | 918,646 | 915,062 | 859,700 | 724,115 | 567,360 |
| CURRENT LIABILITIES | 155,907 | 191,046 | 136,492 | 87,647 | 146,674 |
| PROVISION FOR LONG SERVICE PAYMENTS | 949 | 1,243 | 1,465 | - | - |
| DEFERRED TAX | 1,433 | 1,433 | 1,433 | 1,433 | 1,433 |
| TOTAL LIABILITIES | 158,289 | 193,722 | 139,390 | 89,080 | 148,107 |
| MINORITY INTERESTS | 21,136 | 23,125 | 32,233 | 36,443 | 42,177 |
| NET ASSETS | 739,221 | 698,215 | 688,077 | 598,592 | 377,076 |

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Company and the Group during the year are set out in note 13 to the financial statements.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital and share options during the year, together with the reasons therefor, are set out in notes 28 and 29 to the financial statements.

There are no provisions for pre-emptive rights under the Company's bye-laws or the laws of Bermuda which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.



Report of the Directors

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 30 to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

At 31 December 2004, the Company's reserves available for cash distribution and/or distribution in specie, calculated in accordance with the Companies Act 1981 of Bermuda (as amended), amounted to HK\$404,309,000. In addition, the Company's share premium account, in the amount of HK\$200,556,000 may be distributed in the form of fully paid bonus shares.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for 37% of the total sales for the year and sales to the largest customer included therein amounted to 14% of the total sales. Purchases from the Group's five largest suppliers accounted for 24% of the total purchases for the year and purchases from the largest supplier included therein amounted to 12% of the total purchases.

As far as the directors are aware, neither the directors, their associates (as defined in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules")) nor those shareholders (which, to the knowledge of the directors, own more than 5% of the Company's issued share capital) had any interest in the Group's five largest customers or suppliers.

DIRECTORS

The directors of the Company during the year were:

Executive directors:

Mr. Yau Tak Wah, Paul (*Chairman*)

Ms. Louie Mei Po

Ms. Wong Shin Ling, Irene

Mr. Tam Wing Kin

Mr. Tam Ping Wah

Independent non-executive directors:

Mr. Ng Wai Hung

Mr. Cheung Chung Leung, Richard

Mr. Wu Wang Li (appointed on 27 September 2004)

In accordance with clause 87 of the Company's Bye-laws, Ms. Wong Shin Ling, Irene and Mr. Cheung Chung Leung, Richard will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 13 to 14 of the Annual Report.

DIRECTORS' SERVICE CONTRACTS

Mr. Wu Wang Li was appointed as an independent non-executive director on 27 September 2004 and has entered into a service contract with the Company for a term of one year and subject to rotation and re-election in accordance with the Bye-laws of the Company. The annual director fee is HK\$120,000.

Apart from the foregoing, no director proposed for re-election at the forthcoming annual general meeting has a service contract which is not determinable by the Company within one year without payment other than statutory compensation.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

At 31 December 2004, the interests of the directors in the share capital of the Company or its associated corporations (within the meaning of part XV of the Securities and Future Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

| Director | Notes | Through controlled corporation | Percentage of the Company's issued share capital |
|-----------------------|-------|--------------------------------|--|
| Mr. Yau Tak Wah, Paul | 1 | 14,847,400 | 5.2 |
| Mr. Tam Ping Wah | 2 | 8,000 | - |

Notes:

1. These shares were held through Pacific Shore Profits Limited, a company beneficially owned by Mr. Yau Tak Wah, Paul.
2. These shares were held through Strong Trend International Limited, a company beneficially owned by Mr. Tam Ping Wah.

Save as disclosed above, none of the directors had registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.



Report of the Directors

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Save as disclosed in the share option scheme disclosures in note 29 to the financial statements, at no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the Company's directors, their respective spouse or minor children, to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

DIRECTORS' INTERESTS IN CONTRACTS

No director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 31 December 2004, the following interest of 5% or more in the issued share capital of the Company was recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

| Name | Notes | Capacity and nature of interest | Number of ordinary shares held | Percentage of the company's issue share capital |
|--------------------------|-------|----------------------------------|--------------------------------|---|
| Winspark Venture Limited | 1 | Directly beneficially owned | 165,835,963 | 58.0 |
| Mr. Yau Tak Wah, Paul | 2,3 | Through a controlled corporation | 14,847,400 | 5.2 |

Notes:

1. The entire issued share capital of Winspark Venture Limited is beneficially owned by Mr. Chan Yuen Ming.
2. These shares were held through Pacific Shore Profits Limited, a company beneficially owned by Mr. Yau Tak Wah, Paul.
3. This shareholding is duplicated in the section headed "Directors' interests and short positions in shares and underlying shares" disclosed above.

Save as disclosed above, no person, other than the directors of the Company, whose interests are set out in the section "Directors' interests and short positions in shares and underlying shares" above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded under Section 336 of the SFO.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

CONNECTED PARTY TRANSACTIONS

Details of the connected party transactions are set out in note 33 to the financial statements.

POST BALANCE SHEET EVENTS

Details of the significant post balance sheet events of the Group are set out in note 34 to the financial statements.

AUDIT COMMITTEE

The Company has an audit committee which was established in accordance with the requirements of the Code of Best Practice, for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls. The audit committee comprises the three independent non-executive directors of the Company. The Group's financial statements for the year ended 31 December 2004 have been reviewed by the audit committee, who are of the opinion that such statements comply with the applicable accounting standards, and legal requirements and that adequate disclosures have been made.

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 two independent non-executive directors of the Company, Mr. Ng Wai Hung and Mr. Cheung Chung Leung, Richard, are not appointed for specific terms as required by paragraph 7 of the Code. Mr. Wu Wang Li, the independent non-executive director of the Company, has entered into a service contract with the Company for a term of one year from 27 September 2004. All independent non-executive directors 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.

CONFIRMATION OF INDEPENDENCE FROM INDEPENDENT NON-EXECUTIVE DIRECTORS

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

PUBLIC FLOAT

As at the date of this report, the Company has maintained the prescribed public float under the Listing Rules, based on the information that is publicly available to the Company and within the knowledge of the Company's directors.



Report of the Directors

AUDITORS

During the year, Ernst & Young resigned as auditors of the Company and its subsidiaries on their own accord. CCIF CPA Limited (formerly known as Charles Chan, Ip & Fung CPA Ltd.) were appointed as the Company's auditors to fill up the casual vacancy.

A resolution for the appointment of CCIF CPA Limited as the auditors of the Company for the ensuing year will be proposed at the forthcoming annual general meeting.

On behalf of the board

Yau Tak Wah, Paul
Chairman

Hong Kong, 22 April 2005

Report of the Auditors



CCIF

CCIF CPA LIMITED

37/F Hennessy Centre
500 Hennessy Road
Causeway Bay Hong Kong

To the Shareholders of
Tomorrow International Holdings Limited
(Incorporated in Bermuda with limited liability)

We have audited the financial statements on pages 25 to 71 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants. An audit includes 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 circumstances of the Company and the Group, 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.



Report of the Auditors

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 2004 and of its profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of Hong Kong Companies Ordinance.

CCIF CPA Limited

Certified Public Accountants

Hong Kong, 22 April 2005

Chan Wai Dune, Charles

Practising Certificate Number P00712

Consolidated Income Statement

Year ended 31 December 2004

| | Notes | 2004 HK\$'000 | 2003 HK\$'000 |
|---|-------|------------------|------------------|
| TURNOVER | 5 | 691,136 | 722,782 |
| Cost of sales | | (599,715) | (621,877) |
| Gross profit | | 91,421 | 100,905 |
| Other revenue | 6 | 14,089 | 11,652 |
| Negative goodwill recognised as income | | 13,062 | 23,550 |
| Gain on disposal of properties held for sale | | 3,900 | - |
| Gain on disposal of partial interest in Swank | | 8,458 | 18,407 |
| Surplus/(deficit) on revaluation of leasehold land and buildings, net | | 4,843 | (1,015) |
| Write back of over-provision/(provision) against properties held for sale | | 3,150 | (2,967) |
| Gain on disposal of interests in associates | | 10,900 | - |
| Provision against loans receivable | | - | (20) |
| Distribution costs | | (24,050) | (27,194) |
| Administrative expenses | | (102,639) | (109,870) |
| Other operating expenses | | (720) | (10,640) |
| PROFIT FROM OPERATING ACTIVITIES | 7 | 22,414 | 2,808 |
| Share of profits less losses of associates | | 2,791 | 1,727 |
| PROFIT BEFORE TAXATION | | 25,205 | 4,535 |
| TAXATION | 10 | (452) | (1,778) |
| PROFIT BEFORE MINORITY INTERESTS | | 24,753 | 2,757 |
| Minority interests | | 5,758 | 8,941 |
| NET PROFIT FROM ORDINARY ACTIVITIES | | | |
| ATTRIBUTABLE TO SHAREHOLDERS | 11 | 30,511 | 11,698 |
| EARNINGS PER SHARE | 12 | | |
| Basic | | 10.67 cents | 4.09 cents |
| Diluted | | N/A | N/A |

The notes on pages 32 to 71 form an integral part of these financial statements.

Consolidated Balance Sheet

31 December 2004

| | Notes | 2004 HK\$'000 | 2003 HK\$'000 |
|--|-------|------------------|------------------|
| ASSETS | | | |
| Non-current assets | | | |
| Property, plant and equipment | 13 | 169,411 | 185,769 |
| Investment properties | 14 | 93,000 | - |
| Negative goodwill | 15 | (27,284) | (40,346) |
| Interests in associates | 17 | 37,220 | 35,581 |
| Prepaid rental | 18 | 2,640 | 3,377 |
| Rental deposits | | - | 388 |
| Deferred product development costs | 19 | 5,861 | 4,783 |
| Loans receivable | 20 | 2,000 | - |
| | | 282,848 | 189,552 |
| Current assets | | | |
| Properties held for sale | 21 | 6,000 | 5,700 |
| Short term investments | 22 | 7,491 | - |
| Inventories | 23 | 89,410 | 77,910 |
| Accounts receivable | 24 | 115,889 | 140,416 |
| Bills receivable | | 574 | 1,881 |
| Loans receivable | 20 | 1,067 | 12,321 |
| Interest receivable on loans | | 19 | 12 |
| Prepayments, deposits and other receivables | | 17,624 | 30,681 |
| Time deposits | | 290,469 | 147,192 |
| Cash and bank balances | | 107,255 | 309,397 |
| | | 635,798 | 725,510 |
| LIABILITIES | | | |
| Current liabilities | | | |
| Accounts payable | 25 | 92,704 | 119,275 |
| Amount due to associates | 17 | 12,647 | 12,781 |
| Other payables and accruals | | 30,423 | 37,622 |
| Tax payable | | 20,133 | 21,368 |
| | | 155,907 | 191,046 |
| Net current assets | | 479,891 | 534,464 |
| Total assets less current liabilities | | 762,739 | 724,016 |
| Non-current liabilities | | | |
| Provision for long service payments | 26 | 949 | 1,243 |
| Deferred tax liabilities | 27 | 1,433 | 1,433 |
| | | 2,382 | 2,676 |
| MINORITY INTERESTS | | 21,136 | 23,125 |
| NET ASSETS | | 739,221 | 698,215 |

Consolidated Balance Sheet

31 December 2004

| | Notes | 2004 HK\$'000 | 2003 HK\$'000 |
|-----------------------------|-------|------------------|------------------|
| CAPITAL AND RESERVES | | | |
| Issued capital | 28 | 2,861 | 2,861 |
| Reserves | 30(a) | 736,360 | 695,354 |
| | | 739,221 | 698,215 |

Approved and authorised for issue by the board of directors on 22 April 2005.

On behalf of the board

Yau Tak Wah, Paul
Director

Louie Mei Po
Director

The notes on pages 32 to 71 form an integral part of these financial statements.

Balance Sheet

31 December 2004

| | Notes | 2004 HK\$'000 | 2003 HK\$'000 |
|--|-------|------------------|------------------|
| ASSETS | | | |
| Non-current assets | | | |
| Property, plant and equipment | 13 | 27 | 56 |
| Interests in subsidiaries | 16 | 331,772 | 298,580 |
| | | 331,799 | 298,636 |
| Current assets | | | |
| Prepayments, deposits and other receivables | | 853 | 708 |
| Tax recoverable | | 14 | 14 |
| Time deposits | | 273,042 | 131,000 |
| Cash and bank balances | | 3,931 | 178,375 |
| | | 277,840 | 310,097 |
| LIABILITIES | | | |
| Current liabilities | | | |
| Other payables and accruals | | 1,606 | 2,228 |
| Net current assets | | 276,234 | 307,869 |
| Total assets less current liabilities | | 608,033 | 606,505 |
| Non-current liabilities | | | |
| Provision for long service payments | 26 | 230 | 240 |
| NET ASSETS | | 607,803 | 606,265 |
| CAPITAL AND RESERVES | | | |
| Issued capital | 28 | 2,861 | 2,861 |
| Reserves | 30(b) | 604,942 | 603,404 |
| | | 607,803 | 606,265 |

Approved and authorised for issue by the board of directors on 22 April 2005.

Yau Tak Wah, Paul
Director

Louie Mei Po
Director

The notes on pages 32 to 71 form an integral part of these financial statements.

Consolidated Statement of Changes in Equity

Year ended 31 December 2004

| | Reserves | | | | | | | | | | |
|--|---------------|---------------|------------------------------|-----------------|---------------------|----------------------------|------------------------------|-----------------------------|------------------|----------------|----------|
| | Share capital | Share premium | Exchange fluctuation reserve | Capital reserve | Contributed surplus | Capital redemption reserve | Property revaluation reserve | Investment property reserve | Retained profits | Total reserves | Total |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| At 1 January 2003 | 286,069 | 200,556 | 1,744 | 801 | - | 77 | 1,290 | - | 197,540 | 402,008 | 688,077 |
| Arising from revaluation of leasehold land and buildings | - | - | - | - | - | - | (1,290) | - | - | (1,290) | (1,290) |
| Exchange realignment | - | - | (437) | - | - | - | - | - | - | (437) | (437) |
| Exchange realignment shared by minority interests | - | - | 167 | - | - | - | - | - | - | 167 | 167 |
| Net gains and losses not recognised in the consolidated income statement | - | - | (270) | - | - | - | - | - | - | (270) | (270) |
| Capital reorganisation | (283,208) | - | - | - | 283,208 | - | - | - | - | 283,208 | - |
| Profit for the year | - | - | - | - | - | - | - | - | 11,698 | 11,698 | 11,698 |
| At 31 December 2003 and 1 January 2004 | 2,861 | 200,556 | 1,474 | 801 | 283,208 | 77 | - | - | 209,238 | 695,354 | 698,215 |
| Arising from revaluation of leasehold land and building | - | - | - | - | - | - | 375 | - | - | 375 | 375 |
| Arising from valuation on investment properties | - | - | - | - | - | - | - | 9,652 | - | 9,652 | 9,652 |
| Exchange realignment | - | - | 499 | - | - | - | - | - | - | 499 | 499 |
| Exchange realignment shared by minority interests | - | - | (31) | - | - | - | - | - | - | (31) | (31) |
| Net gains and losses not recognised in the consolidated income statement | - | - | 468 | - | - | - | - | - | - | 468 | 468 |
| Profit for the year | - | - | - | - | - | - | - | - | 30,511 | 30,511 | 30,511 |
| At 31 December 2004 | 2,861 | 200,556 | 1,942 | 801 | 283,208 | 77 | 375 | 9,652 | 239,749 | 736,360 | 739,221 |
| Issued capital and reserves retained by: | | | | | | | | | | | |
| Company and its subsidiaries | 2,861 | 200,556 | 1,942 | 801 | 283,208 | 77 | 375 | 9,652 | 230,585 | 727,196 | 730,057 |
| Associates | - | - | - | - | - | - | - | - | 9,164 | 9,164 | 9,164 |
| 31 December 2004 | 2,861 | 200,556 | 1,942 | 801 | 283,208 | 77 | 375 | 9,652 | 239,749 | 736,360 | 739,221 |
| Company and its subsidiaries | 2,861 | 200,556 | 1,474 | 801 | 283,208 | 77 | - | - | 202,865 | 688,981 | 691,842 |
| Associates | - | - | - | - | - | - | - | - | 6,373 | 6,373 | 6,373 |
| 31 December 2003 | 2,861 | 200,556 | 1,474 | 801 | 283,208 | 77 | - | - | 209,238 | 695,354 | 698,215 |

The notes on pages 32 to 71 form an integral part of these financial statements.

Consolidated Cash Flow Statement

Year ended 31 December 2004

| | 2004 HK\$'000 | 2003 HK\$'000 |
|---|------------------|------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Profit before taxation | 25,205 | 4,535 |
| Adjustments for: | | |
| (Surplus)/deficit on revaluation of leasehold land and buildings, net | (4,843) | 1,015 |
| (Write back of provision)/provision against properties held for sale | (3,150) | 2,967 |
| Share of profits less losses of associates | (2,791) | (1,727) |
| Interest income on bank deposits | (1,575) | (3,621) |
| Dividend income from listed investments | (363) | - |
| Negative goodwill recognised as income | (13,062) | (23,550) |
| Gain on disposal of partial interest in Swank | (8,458) | (18,407) |
| Gain on disposal of interests in associates | (10,900) | - |
| (Gain)/loss on disposal of properties held for sales | (3,900) | 240 |
| Depreciation | 35,279 | 34,836 |
| Amortisation of prepaid rental | 737 | 737 |
| Amortisation of deferred product development costs | 1,421 | 1,189 |
| (Write back of provision)/provision against doubtful accounts receivable | (1,090) | 8,021 |
| Provision against inventories | 289 | 12,397 |
| Provision against loans receivable | - | 20 |
| (Gain)/loss on disposal of fixed assets | (21) | 118 |
| Exchange differences | (183) | (437) |
| Operating profit before working capital changes | 12,595 | 18,333 |
| Additions to deferred product development costs | (2,499) | (1,777) |
| Decrease in balances with associates, net | 3,648 | 822 |
| Increase in short-term investments | (7,491) | - |
| Decrease/(increase) in accounts receivable | 25,617 | (43,581) |
| Decrease in bills receivable | 1,307 | 24 |
| Decrease in loans receivable | 9,254 | 98,193 |
| (Increase)/decrease in interest receivable on loans | (7) | 110 |
| Decrease/(increase) in prepayments, deposits and other receivables | 12,417 | (9,006) |
| (Increase)/decrease in inventories | (11,789) | 11,432 |
| (Decrease)/increase in accounts payable | (26,571) | 48,157 |
| (Decrease)/increase in accrued liabilities and other payables | (7,199) | 1,641 |
| Decrease in provision for long service payments | (294) | (222) |
| Cash generated from operations | 8,988 | 124,126 |
| Interest received | 1,575 | 3,621 |
| Hong Kong profits tax paid | (1,631) | (804) |
| Overseas tax paid | (56) | - |
| NET CASH INFLOW FROM OPERATING ACTIVITIES | 8,876 | 126,943 |

Consolidated Cash Flow Statement

Year ended 31 December 2004

| | 2004 HK\$'000 | 2003 HK\$'000 |
|--|------------------|------------------|
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Dividends received from listed investments | 363 | - |
| Purchase of property, plant and equipment | (13,956) | (21,241) |
| Purchase of investment properties | (83,348) | - |
| Purchase of properties held for sales | (9,683) | - |
| Proceeds from disposal of properties held for sale | 16,433 | 4,093 |
| Proceeds from disposal of fixed assets | 274 | 168 |
| Refund of rental deposits | 388 | 584 |
| Proceeds from disposal of partial interest in subsidiaries | 12,088 | 18,407 |
| Dividends received from associates | 5,000 | - |
| Proceeds from disposal of interests in associates | 4,700 | - |
| Proceeds from Swank's issue of shares | - | 5,225 |
| NET CASH (OUTFLOW)/INFLOW FROM INVESTING ACTIVITIES | (67,741) | 7,236 |
| NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS | (58,865) | 134,179 |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR | 456,589 | 322,410 |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | 397,724 | 456,589 |
| ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS | | |
| Cash and bank balances | 107,255 | 309,397 |
| Non-pledged time deposits with original maturity of less than three months when acquired | 290,469 | 147,192 |
| | 397,724 | 456,589 |

The notes on pages 32 to 71 form an integral part of these financial statements.



Notes to the Consolidated Financial Statements

31 December 2004

1. BASIS OF PREPARATION

a) 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.

b) Basis of consolidation

The Group financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2004. The results of the subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any goodwill or capital reserve which was not previously charged or recognised in the consolidated income statement.

Minority interests represent the interests of outside shareholders in the results and net assets of the Company's subsidiaries.

2. RECENTLY ISSUED HONG KONG FINANCIAL REPORTING

Impact of recently issued Hong Kong Financial Reporting Standards ("HKFRSs")

The Hong Kong Institute of Certified Public Accountants has issued a number of new Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards, herein collectively referred to as the new HKFRSs, which are generally effective for accounting periods beginning on or after 1 January 2005. The Group has not early adopted these new HKFRSs in preparing the financial statements for the year ended 31 December 2004. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

Notes to the Consolidated Financial Statements

31 December 2004

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with generally accepted accounting principles in Hong Kong and comply with Statements of Standard Accounting Practice (“SSAP”) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. The financial statements are prepared under the historical cost convention as modified by the revaluation of certain properties. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). A summary of the principal accounting policies adopted by the Group is set out below.

a) Subsidiaries

A subsidiary is a company in which the Group or Company, directly or indirectly, controls more than half of its voting power or issued share capital or controls the composition of its board of directors. Subsidiaries are considered to be controlled if the company has the power, directly or indirectly, to govern the financial and operating policies, so as to obtain benefits from their activities.

Investments in subsidiaries in the balance sheet are stated at cost less provision, if necessary, for any permanent diminution in value. The results of subsidiaries are accounted to the extent of dividends received and receivable.

Intra-group balances and transactions, and any unrealised profits arising from intra-group transactions, are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

b) Joint venture companies

A joint venture company is a company set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture company operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture company’s operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.



Notes to the Consolidated Financial Statements

31 December 2004

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

b) Joint venture companies (continued)

A joint venture company is treated as:

- i) a subsidiary, if the Group has unilateral control, directly or indirectly, over the joint venture company;
- ii) an associate, if the Group does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture company's registered capital and is in a position to exercise significant influence over the joint venture company;
- iii) a jointly-controlled entity, if the Group does not have unilateral control, but has joint control, directly or indirectly, over the joint venture company; and
- iv) a long term investment, if the Group holds, directly or indirectly, less than 20% of the joint venture company's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture company.

c) Associates

An associate is a company in which the Group or the Company has significant influence and which is neither a subsidiary nor a joint venture of the Group or the Company.

The investments in associates are stated at cost less provision, if necessary, for any impairment loss, such provision being determined for each associate individually. The results of associates are accounted for to the extent of dividends received and receivable.

The investments in associates are accounted for in the consolidated balance sheet under the equity method whereby the investments are initially recorded at cost and adjusted thereafter for the post acquisition change in the Group's or the Company's share of net assets of the associates. The results of the associates are accounted for in the consolidated income statement to the extent of the Group's or the Company's share of the associates' results of operation.

d) Goodwill

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

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset and amortised on the straight-line basis over its estimated useful life.

Notes to the Consolidated Financial Statements

31 December 2004

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

d) Goodwill (continued)

On disposal of subsidiaries and associates, the gain or loss on disposal is calculated by reference to the net assets or all liabilities at the date of disposal, including the attributable amount of goodwill which remains unamortised and any relevant reserves, as appropriate. Any attributable goodwill previously eliminated against consolidated reserves at the time of acquisition is written back and included in the calculation of the gain or loss on disposal.

e) Negative goodwill

Negative goodwill arising on acquisitions of controlled subsidiaries, associates and jointly controlled entities represents the excess of the Group's share of the fair value of the identifiable assets and liabilities acquired over the cost of the acquisition. Negative goodwill is accounted for as follows:

- for acquisitions before 1 January 2001, negative goodwill is credited to a capital reserve; and
- for acquisitions on or after 1 January 2001, to the extent that negative goodwill relates to an expectation of future losses and expenses that are identified in the plan of acquisition and can be measured reliably, but which have not yet been recognised, it is recognised in the consolidated income statement when the future losses and expenses are recognised. Any remaining negative goodwill, but not exceeding the fair values of the non-monetary assets acquired, is recognised in the consolidated income statement over the weighted average useful life of those non-monetary assets that are depreciable/amortisable. Negative goodwill in excess of the fair values of the non-monetary assets acquired is recognised immediately in the consolidated income statement.

In respect of any negative goodwill not yet recognised in the consolidated income statement:

- for controlled subsidiaries, such negative goodwill is shown in the consolidated balance sheet as a deduction from assets in the same balance sheet classification as positive goodwill; and
- for associates and jointly controlled entities, such negative goodwill is included in the carrying amount of the interests in associates or jointly controlled entities.

On disposal of a controlled subsidiary, an associate or a jointly controlled entity during the year, any attributable amount of purchased goodwill not previously amortised through the consolidated income statement or which has previously been dealt with as movement on Group reserves is credited to the consolidated income statement.

Notes to the Consolidated Financial Statements

31 December 2004

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f) 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 income statement 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 income statement 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.

g) Property, plant and equipment and depreciation

Property, plant and equipment 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 the assets have been put into operation, such as repairs and maintenance, is normally charged to the income statement 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 assets, the expenditure is capitalised as an additional cost of the assets.

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

| | |
|--|--------------------------------|
| Land held under medium term leases | Over the remaining lease terms |
| Buildings | 4% |
| Leasehold improvements | 5 - 50% |
| Plant and machinery | 6.67 - 20% |
| Furniture, fixtures and office equipment | 10 - 20% |
| Motor vehicles | 20% |

Notes to the Consolidated Financial Statements

31 December 2004

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

g) Property, plant and equipment and depreciation (continued)

Changes in the values of property, plant and equipment resulting from revaluations are dealt with, on an individual asset basis, as movements in the asset revaluation reserve. Deficits arising from revaluation, to the extent they cannot be offset against the revaluation surplus in respect of the same asset, are charged to the income statement. Any subsequent revaluation surplus is credited to the income statement to the extent of the deficit previously charged.

The gain or loss on disposal or retirement of a property, plant and equipment recognised in the income statement is the difference between the net sales proceeds and the carrying amount of the relevant property, plant and equipment. On disposal or retirement, the attributable revaluation surplus not previously dealt with in retained profits is transferred directly to retained profits.

h) Investment properties

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are held for their investment potential with rental income being negotiated at arm's length.

Changes in the value of the investment property is treated as movements in an investment property revaluation reserve, unless the total of this reserve is insufficient to cover a deficit on a portfolio basis, in which case the amount by which the deficit exceeds the total amount in the investment property revaluation reserve is charged to the income statement. Where a deficit has previously been charged to the income statement and a revaluation surplus subsequently arises, this surplus is credited to the income statement to the extent of the deficit previously charged. Upon the disposal of an investment property, the relevant portion of the revaluation reserve realised in respect of previous valuations is released from the investment properties revaluation reserve to the income statement.

Investment properties are stated in the balance sheet at their carrying values. Carrying values represent the valuation less accumulated depreciation of investment properties at time when the properties are reclassified to investment properties. Investment properties are not depreciated except where the unexpired term of the lease is 20 years or less in which case depreciation is provided on the carrying amount over the remaining term of the lease.

i) Research and development costs

All research costs are charged to the income statement as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the projects are clearly defined; the expenditure is separately identifiable and can be measured reliably; there is reasonable certainty that the projects are technically feasible; and the products have commercial value. Product development expenditure which does not meet these criteria is expenses when incurred.



Notes to the Consolidated Financial Statements

31 December 2004

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

i) Research and development costs (continued)

Deferred development costs are stated at cost less any impairment losses and are amortised using the straight-line method over the commercial lives of the underlying products not exceeding seven years, commencing from the date when the products are put into commercial production.

j) Short term investments

Short term investments are investments in equity securities held for trading purposes and are stated at their fair values at the balance sheet date on an individual investment basis. Fair values are determined by reference to quoted market prices net of any discount which is deemed necessary by the directors to reflect the potential impact of the disposal of such shares in the case of substantial shareholdings. The gains or losses arising from changes in the fair value of a security are credited to or charged to the income statement in the period in which they arise.

k) Properties held for sale

Properties held for sale are stated at the lower of carrying amount and net realisable value.

l) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on a weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on the estimated selling prices less any estimated costs to be incurred to completion and disposal.

m) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group or the Company or has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

Notes to the Consolidated Financial Statements

31 December 2004

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

n) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Income tax is recognised in the income statement or in equity if it relates to items that are recognised in the same or a different period, directly in equity.

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

Deferred tax liabilities are recognised for all taxable temporary differences:

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

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

- except where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

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



Notes to the Consolidated Financial Statements

31 December 2004

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

o) Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Rentals applicable to such operating leases are credited or charged to the income statement on the straight-line basis over the lease terms.

p) Employee benefits

Paid leave carried forward

The Group provides paid annual leave to its employees under their employment contracts on a calendar year basis. Under certain circumstances, such leave which remains untaken as at the balance sheet date is permitted to be carried forward and utilised by the respective employees in the following year. An accrual is made at the balance sheet date for the expected future cost of such paid leave earned during the year by the employees and carried forward.

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 Hong Kong Employment Ordinance.

A provision is recognised in respect of probable future long services payments expected to be made. The provision is based on the best estimate of the probable future payments which has been earned by the employees from their service to the Group to the balance sheet date.

Retirement benefits scheme

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basis salaries and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme, except for the Group's employer voluntary contributions, which are refunded to the Group when the employee leaves employment prior to the contributions vesting fully, in accordance with the rules of the MPF Scheme.

Notes to the Consolidated Financial Statements

31 December 2004

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

p) Employee benefits (continued)

Retirement benefits scheme (continued)

The employees of the Group's subsidiaries in the People's Republic of China (the "PRC") are members of the state-sponsored retirement scheme operated by the government of the PRC.

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 income statement 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.

q) 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.

r) Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand, 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 bank balances and time deposits represent assets which are not restricted as to use.



Notes to the Consolidated Financial Statements

31 December 2004

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

s) 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:

- i) 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;
- ii) Interest, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable;
- iii) From the sale of listed equity investments, on the trade day;
- iv) From the sale of properties, when the legally binding sales contract is signed;
- v) Dividends, when the shareholders' right to receive payment has been established; and
- vi) Management fee, when the services are rendered.

t) Translation of 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 consolidated income statement.

On consolidation, the financial statements of overseas subsidiaries and associates are translated into Hong Kong dollars using the net investment method. The income statement of overseas subsidiaries and associates are translated into 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 ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

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

Notes to the Consolidated Financial Statements

31 December 2004

4. SEGMENT INFORMATION

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group's operating business are structured and managed separately, according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other business segments. Summary details of the business segments are as follows:

- a) The electronic products segment consists of the manufacture and sale of electronic products;
- b) The PCBs segment consists of the manufacture and sale of PCBs;
- c) The electronic components and parts segment consists of the trading and distribution of electronic components and parts;
- d) The listed equity investments segment consists of the trading of listed equity investments;
- e) The provision of finance segment consists of the provision of loan financing services; and
- f) The optical products segment consists of the manufacture and sale of optical products.

In determining the Group's geographical segments, revenues 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.

Inter-segment sales and transfers are transacted with reference to the selling prices used for sales made to the third parties at the then prevailing market prices.

Notes to the Consolidated Financial Statements

31 December 2004

4. SEGMENT INFORMATION (CONTINUED)

a) Business segments

The following tables present revenue, profit/(loss) and certain asset, liability 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 | |
|---|---------------------|----------|----------|----------|---------------------------------|----------|---------------------------|----------|----------------------|----------|------------------|----------|--------------|----------|--------------|----------|
| | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 |
| | 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 | 391,632 | 398,361 | 108,992 | 130,901 | - | 2 | 15,515 | 870 | 107 | 412 | 174,890 | 192,236 | - | - | 691,136 | 722,782 |
| Inter-segment sales | - | - | 4,787 | 11,458 | 19,416 | 21,071 | - | - | 2,887 | - | - | - | (27,090) | (32,529) | - | - |
| Other revenue | 3,356 | 1,904 | 5,192 | 1,412 | - | 25 | 469 | 421 | - | - | 2,800 | 3,167 | - | - | 11,817 | 6,929 |
| Total | 394,988 | 400,265 | 118,971 | 143,771 | 19,416 | 21,098 | 15,984 | 1,291 | 2,994 | 412 | 177,690 | 195,403 | (27,090) | (32,529) | 702,953 | 729,711 |
| Segment results | 17,288 | 17,027 | (18,328) | (18,342) | 683 | 673 | (3,607) | (7,297) | (5,800) | (9,177) | (5,345) | (21,673) | 642 | (60) | (14,467) | (38,849) |
| Interest, dividend income and unallocated gains | | | | | | | | | | | | | | | 2,272 | 4,723 |
| Negative goodwill recognized as income | | | | | | | | | | | | | | | 13,062 | 23,550 |
| Gain on disposal of partial interest in Swank | | | | | | | | | | | | | | | 8,458 | 18,407 |
| Gain on disposal of properties held for sale | | | | | | | | | | | | | | | 3,900 | - |
| Write back of over-provision/(provision) against properties held for sale | | | | | | | | | | | | | | | 3,150 | (2,967) |
| Surplus/(deficit) on revaluation of leasehold land and building, net | | | | | | | | | | | | | | | 4,843 | (1,015) |
| Gain on disposal of interests in associates | | | | | | | | | | | | | | | 10,900 | - |
| Unallocated expenses | | | | | | | | | | | | | | | (9,704) | (1,041) |
| Profit from operating activities | | | | | | | | | | | | | | | 22,414 | 2,808 |
| Share of profits less losses of associates | | | | | | | | | | | | | | | 2,791 | 1,727 |
| Profit before taxation | | | | | | | | | | | | | | | 25,205 | 4,535 |
| Taxation | | | | | | | | | | | | | | | | |
| Company and subsidiaries | | | | | | | | | | | | | | | (452) | (1,627) |
| Associates | | | | | | | | | | | | | | | - | (151) |
| Profit before minority interests | | | | | | | | | | | | | | | 24,753 | 2,757 |
| Minority interests | | | | | | | | | | | | | | | 5,758 | 8,941 |
| Net profit from ordinary activities attributable to shareholders | | | | | | | | | | | | | | | 30,511 | 11,698 |

Notes to the Consolidated Financial Statements

31 December 2004

4. SEGMENT INFORMATION (CONTINUED)

a) Business segments (continued)

| Group | Electronic products | | PCBs | | Electronic components and parts | | Listed equity investments | | Provision of finance | | Optical products | | Eliminations | | Consolidated | |
|---|---------------------|----------|----------|----------|---------------------------------|----------|---------------------------|----------|----------------------|----------|------------------|----------|--------------|----------|--------------|----------|
| | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 |
| | 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 assets | 185,093 | 194,155 | 119,469 | 129,691 | 1,222 | 5,202 | 23,884 | 6,675 | 101,612 | 57,953 | 195,056 | 166,971 | (16,641) | (5,518) | 609,695 | 555,129 |
| Interests in associates | - | - | - | - | - | - | - | - | - | - | 37,220 | 35,581 | - | - | 37,220 | 35,581 |
| Unallocated assets | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 271,731 | 324,352 |
| Total | | | | | | | | | | | | | | | 918,646 | 915,062 |
| Segment liabilities | 31,309 | 44,962 | 80,327 | 66,800 | 1,396 | 3,341 | 42 | 96 | 123 | 83 | 41,356 | 56,997 | (16,600) | (5,457) | 137,953 | 166,822 |
| Unallocated liabilities | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 20,336 | 26,900 |
| Total liabilities | | | | | | | | | | | | | | | 158,289 | 193,722 |
| Other segment information | | | | | | | | | | | | | | | | |
| Depreciation and amortisation | 14,303 | 13,100 | 6,724 | 9,760 | 119 | - | - | - | - | - | 13,645 | 10,980 | - | - | 34,791 | 33,840 |
| Unallocated amounts | | | | | | | | | | | | | | | 2,646 | 2,922 |
| | | | | | | | | | | | | | | | 37,437 | 36,762 |
| Capital expenditure | 10,216 | 18,723 | 3,154 | 2,198 | - | - | - | - | - | - | 3,000 | 1,053 | - | - | 16,370 | 21,974 |
| Unallocated amounts | | | | | | | | | | | | | | | 85 | 1,044 |
| | | | | | | | | | | | | | | | 16,455 | 23,018 |
| Provision against loans receivable | - | - | - | - | - | - | - | - | - | 20 | - | - | - | - | - | 20 |
| Write back of over-provision (provision) against properties held for sale | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 3,150 | (2,967) |
| Write back of (over-provision)/provision against doubtful accounts receivable | - | - | (1,090) | 2,947 | - | - | - | - | - | - | - | 5,074 | - | - | (1,090) | 8,021 |
| Provision against inventories/ (write-back of over-provision against inventories) | 291 | (97) | (240) | 5,326 | - | - | - | - | - | - | 238 | 7,168 | - | - | 289 | 12,397 |
| Surplus/(deficit) on revaluation of leasehold land and buildings | 643 | (643) | - | - | - | - | - | - | - | - | - | - | - | - | 643 | (643) |
| Unallocated amounts | | | | | | | | | | | | | | | 4,200 | (372) |
| | | | | | | | | | | | | | | | 4,843 | (1,015) |
| Surplus/(deficit) on property revaluation recognized directly in equity | 375 | (1,290) | - | - | - | - | - | - | - | - | - | - | - | - | 375 | (1,290) |
| Unallocated amounts | | | | | | | | | | | | | | | 9,652 | - |
| | | | | | | | | | | | | | | | 10,027 | (1,290) |

Notes to the Consolidated Financial Statements

31 December 2004

4. SEGMENT INFORMATION (CONTINUED)

b) Geographical segments

The following tables present revenue and certain asset and expenditure information for the Group's geographical segments.

Group

| | Europe | | North America | | Hong Kong | | Japan | | Others | | Eliminations | | Consolidated | |
|-----------------------------|----------|----------|---------------|----------|-----------|----------|----------|----------|----------|----------|--------------|----------|--------------|----------|
| | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 |
| | 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 | 89,922 | 100,032 | 189,345 | 231,592 | 183,782 | 197,090 | 180,807 | 150,401 | 47,280 | 43,667 | - | - | 691,136 | 722,782 |

| | Hong Kong | | Mainland PRC | | Others | | Eliminations | | Consolidated | |
|----------------------------|-----------|----------|--------------|----------|----------|----------|--------------|----------|--------------|----------|
| | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Other segment information: | | | | | | | | | | |
| Segment assets | 675,826 | 577,418 | 193,395 | 254,868 | 12,205 | 47,195 | - | - | 881,426 | 879,481 |
| Interests in associates | (10,165) | (9,376) | 47,224 | 44,796 | 161 | 161 | - | - | 37,220 | 35,581 |
| | | | | | | | | | 918,646 | 915,062 |
| Capital expenditure | 160 | 1,262 | 16,295 | 21,756 | - | - | - | - | 16,455 | 23,018 |

Notes to the Consolidated Financial Statements

31 December 2004

5. TURNOVER

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.

Revenue from the following activities has been included in turnover:

| | 2004 HK\$'000 | 2003 HK\$'000 |
|---|------------------|------------------|
| Manufacture and sale of electronic products | 391,632 | 398,361 |
| Manufacture and sale of PCBs | 108,992 | 130,901 |
| Trading and distribution of electronic components and parts | – | 2 |
| Trading of listed equity investments | 15,515 | 870 |
| Provision of loan financing | 107 | 412 |
| Manufacture and sale of optical products | 174,890 | 192,236 |
| | 691,136 | 722,782 |

6. OTHER REVENUE

| | 2004 HK\$'000 | 2003 HK\$'000 |
|--|------------------|------------------|
| Bank interest income | 1,575 | 3,621 |
| Dividends income from listed investments | 363 | – |
| Sales of obsolete inventories | 2,795 | 889 |
| Management fee received | 1,908 | 2,346 |
| Product development income | 2,678 | 2,709 |
| Rental income | 1,024 | 421 |
| Sales of raw materials | 1,778 | 446 |
| Others | 1,968 | 1,220 |
| | 14,089 | 11,652 |

Notes to the Consolidated Financial Statements

31 December 2004

7. PROFIT FROM OPERATING ACTIVITIES

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

| | 2004 HK\$'000 | 2003 HK\$'000 |
|--|------------------|------------------|
| Cost of inventories | 583,563 | 621,192 |
| Depreciation | 35,279 | 34,836 |
| Amortisation of prepaid rental | 737 | 737 |
| Amortisation of deferred product development costs | 1,421 | 1,189 |
| Minimum lease payments under operating leases: | | |
| Land and buildings | 9,495 | 9,673 |
| Office equipment | 233 | 269 |
| Staff costs (including directors' remuneration - note 8): | | |
| Wages and salaries | 114,775 | 119,856 |
| Pension contributions | 1,818 | 2,261 |
| Less: Forfeited contributions | (562) | (393) |
| | 1,256 | 1,868 |
| | 116,031 | 121,724 |
| Auditors' remuneration: | | |
| Current year provision | 1,370 | 1,930 |
| Prior year underprovision | - | 65 |
| | 1,370 | 1,995 |
| (Write back of provision)/provision against doubtful accounts receivable | (1,090) | 8,021 |
| Provision against inventories | 289 | 12,397 |
| Negative goodwill recognised as income | (13,062) | (23,550) |
| (Gain)/loss on disposal of property, plant and equipment | (21) | 118 |
| (Gain)/loss on disposal of properties held for sales | (3,900) | 240 |
| Exchange losses, net | 1,068 | 276 |
| Net loss/(gain) on disposal of listed equity investments | 88 | (185) |
| Gain on disposal of partial interest in Swank | (8,458) | (18,407) |

The cost of inventories sold includes HK\$102,679,000 (2003: HK\$95,087,000) relating to direct staff costs, provision against inventories, amortisation of prepaid rental, amortisation of deferred product development costs, operating lease rentals of land and buildings and depreciation of the manufacturing activities, which are also included in the respective total amounts disclosed above for each of these types of expenses.

* At 31 December 2004, the Group had no forfeited contributions available to reduce its contributions to the pension scheme in future years (2003: Nil).

Notes to the Consolidated Financial Statements

31 December 2004

8. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and Section 161 of the Hong Kong Companies Ordinance is as follows:

| | 2004 HK\$'000 | 2003 HK\$'000 |
|-----------------------------|------------------|------------------|
| Directors' fees | | |
| Executive | - | - |
| Independent non-executive | 361 | 330 |
| Other emoluments: | | |
| Executive: | | |
| Salaries and other benefits | 7,189 | 8,229 |
| Bonuses | - | - |
| Pension contributions | 295 | 369 |
| Independent non-executive: | | |
| Salaries and other benefits | - | - |
| | 7,845 | 8,928 |

The remuneration of the directors fell within the following bands:

| | Number of directors | |
|-------------------------------|---------------------|----------|
| | 2004 | 2003 |
| Nil - HK\$1,000,000 | 5 | 4 |
| HK\$1,000,001 - HK\$1,500,000 | 1 | 1 |
| HK\$1,500,001 - HK\$3,000,000 | 2 | 2 |
| | 8 | 7 |

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2003: Nil).

Notes to the Consolidated Financial Statements

31 December 2004

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included two (2003: three) directors, details of whose remuneration are set out in note 8 above. The details of the remuneration of the remaining three (2003: two) non-director, highest paid employees for the year are as follows:

| | Group | |
|---|--------------|--------------|
| | 2004 | 2003 |
| | HK\$'000 | HK\$'000 |
| Salaries, allowances and benefits in kind | 3,520 | 3,210 |
| Pension contributions | 103 | 56 |
| | 3,623 | 3,266 |

The remuneration of the non-director, highest paid employees fell within the following bands:

| | Number of employees | |
|-------------------------------|---------------------|----------|
| | 2004 | 2003 |
| Nil - HK\$1,000,000 | 1 | - |
| HK\$1,000,001 - HK\$1,500,000 | 2 | 1 |
| HK\$1,500,001 - HK\$2,000,000 | - | 1 |
| | 3 | 2 |

10. TAXATION

Hong Kong profits tax has been provided at the rate of 17.5% (2003: 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.

| | Group | |
|---|------------|--------------|
| | 2004 | 2003 |
| | HK\$'000 | HK\$'000 |
| The PRC: | | |
| Hong Kong: | | |
| Current year provision | 976 | 1,524 |
| (Over)/under provision in prior years | (750) | 80 |
| Mainland China | 226 | 23 |
| | 452 | 1,627 |
| Share of tax attributable to associates | - | 151 |
| Total tax charge for the year | 452 | 1,778 |

Notes to the Consolidated Financial Statements

31 December 2004

10. TAXATION (CONTINUED)

In accordance with the applicable enterprise income tax law of the PRC, the Group's subsidiaries registered in Mainland China, Dongguan Yifu Circuit Board Factory ("Yifu") and Gaojin Electronics (Shenzhen) Co., Ltd ("Gaojin"), are exempt from income tax for their first two profitable years of operations and are entitled to 50% relief on the income tax that would otherwise be charged for the succeeding three years.

The foregoing tax concession for Yifu has expired. Pursuant to a further tax concession granted in the current year, the income tax rate applicable to 15% for 2004 (2003: 15%). Gaojin began its first profitable year as the year ended 31 December 2002 and entitled to the 50% relief on the income tax. The income tax applicable rate to Gaojin is 15% per annum.

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

| | Group | |
|---|----------|----------|
| | 2004 | 2003 |
| | HK\$'000 | HK\$'000 |
| Profit before tax | 25,205 | 4,535 |
| Tax at the statutory tax rate | 4,411 | 794 |
| Adjustments in respect of current tax of previous years | (750) | 80 |
| Income not subject to taxation | (5,502) | (945) |
| Expenses not deductible for taxation | 2,419 | 2,325 |
| Tax losses utilised from previous years | (759) | (476) |
| Effect of different taxation rates in other countries | 633 | - |
| Tax charge at the Group's effective rate | 452 | 1,778 |

11. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net profit from ordinary activities attributable to shareholders for the year ended 31 December 2004 dealt with in the financial statements of the Company is HK\$1,538,000 (2003: HK\$30,768,000).

12. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit attributable to shareholders for the year of HK\$30,511,000 (2003: HK\$11,698,000) 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 2003 and 2004 have not been disclosed as no diluting events existing during these years.

Notes to the Consolidated Financial Statements

31 December 2004

13. PROPERTY, PLANT AND EQUIPMENT

Group

| | Leasehold land and buildings | Leasehold improve- ments | Plant and machinery | Furniture, fixtures and office equipment | Motor vehicles | Total |
|---|------------------------------------|--------------------------------|---------------------------|---|-------------------|----------|
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Cost or valuation | | | | | | |
| At beginning of year | 34,900 | 45,671 | 181,048 | 48,235 | 3,667 | 313,521 |
| Additions | - | 4,025 | 7,836 | 2,095 | - | 13,956 |
| Disposals | - | (77) | (642) | (179) | (332) | (1,230) |
| Surplus on revaluation | 4,200 | - | - | - | - | 4,200 |
| At 31 December 2004 | 39,100 | 49,619 | 188,242 | 50,151 | 3,335 | 330,447 |
| Accumulated depreciation | | | | | | |
| At beginning of year | - | 19,481 | 86,027 | 19,715 | 2,529 | 127,752 |
| Provided during the year | 1,018 | 5,955 | 19,663 | 8,261 | 382 | 35,279 |
| Disposals | - | (14) | (494) | (174) | (295) | (977) |
| Write-back on revaluation | (1,018) | - | - | - | - | (1,018) |
| At 31 December 2004 | - | 25,422 | 105,196 | 27,802 | 2,616 | 161,036 |
| Net book value | | | | | | |
| At 31 December 2004 | 39,100 | 24,197 | 83,046 | 22,349 | 719 | 169,411 |
| At 31 December 2003 | 34,900 | 26,190 | 95,021 | 28,520 | 1,138 | 185,769 |
| An analysis of cost or valuation | | | | | | |
| At cost | - | 49,619 | 188,242 | 50,151 | 3,335 | 291,347 |
| At 2004 valuation | 39,100 | - | - | - | - | 39,100 |
| | 39,100 | 49,619 | 188,242 | 50,151 | 3,335 | 330,447 |

Notes to the Consolidated Financial Statements

31 December 2004

13. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

| Company | Leasehold improvements HK\$'000 | Furniture and fixtures HK\$'000 | Total HK\$'000 |
|---|---------------------------------------|---------------------------------------|-------------------|
| Cost: | | | |
| At beginning of year and at 31 December 2004 | 13 | 144 | 157 |
| Accumulated depreciation: | | | |
| At beginning of year | 8 | 93 | 101 |
| Provided during the year | 2 | 27 | 29 |
| At 31 December 2004 | 10 | 120 | 130 |
| Net book value: | | | |
| At 31 December 2004 | 3 | 24 | 27 |
| At 31 December 2003 | 5 | 51 | 56 |

The analysis of the Group's leasehold land and buildings at 31 December 2004 is as follows:

| | At valuation HK\$'000 |
|---|--------------------------|
| Medium term leasehold land and buildings situated in Mainland PRC | 24,100 |
| Medium term leasehold land and buildings situated in Hong Kong | 15,000 |
| | 39,100 |

The leasehold land and buildings have been valued on an open market value basis, based on their existing use, by B.I. Appraisals Limited, an independent firm of professional valuers, on 31 December 2004 at HK\$39,100,000. Revaluation surplus of HK\$4,843,000 and HK\$375,000 resulting from these valuations have been credited to the income statement and to the property revaluation reserve, respectively.

Had the Group's land and buildings stated at valuation been carried at cost less accumulated depreciation, they would have been included in the financial statements at approximately HK\$39,830,000 (2003: HK\$40,848,000).

Certain of the Group's leasehold land and buildings were pledged to secure banking facilities granted to the Group. The net book values of the pledged assets included in the total amount of property, plant and equipment at 31 December 2004 amounted to HK\$15,000,000 (2003: HK\$11,200,000).

Notes to the Consolidated Financial Statements

31 December 2004

14. INVESTMENT PROPERTIES

Group

| | 2004 HK\$'000 |
|------------------------|------------------|
| At 1 January 2004 | – |
| Additions | 83,348 |
| Surplus on revaluation | 9,652 |
| At 31 December 2004 | <u>93,000</u> |

Investment properties were valued at their open market value at 31 December 2004 by B.I.Appraisals Limited, an independent firm of professional valuers. These valuations gave rise to a revaluation surplus of HK\$9,652,000 which have been credited to the investment property reserve.

The investment properties are held under long-term lease in Hong Kong.

15. NEGATIVE GOODWILL

The amounts of the negative goodwill recognised in the consolidated balance sheet, arising from the acquisition of Swank International Manufacturing Company Limited (“Swank”) and additional investment in Electronics Tomorrow Manufactory Inc. in 2002, are as follows:

Group

| | HK\$'000 |
|--|---------------|
| Cost | |
| At 1 January 2004 | <u>88,680</u> |
| Accumulated recognition as income | |
| At 1 January 2004 | 48,334 |
| Recognition as income during the year | <u>13,062</u> |
| At 31 December 2004 | <u>61,396</u> |
| Net book value | |
| At 31 December 2004 | <u>27,284</u> |
| At 31 December 2003 | <u>40,346</u> |

Notes to the Consolidated Financial Statements

31 December 2004

16. INTERESTS IN SUBSIDIARIES

| | 2004 HK\$'000 | 2003 HK\$'000 |
|--------------------------------|------------------|------------------|
| Unlisted shares, at cost | 93,316 | 93,316 |
| Due from subsidiaries | 279,862 | 244,045 |
| Due to subsidiaries | (2,778) | (153) |
| | 370,400 | 337,208 |
| Provisions for impairment loss | (38,628) | (38,628) |
| | 331,772 | 298,580 |

The balances with the subsidiaries are unsecured, interest-free and are not repayable within the next twelve months from the balance sheet date.

Particulars of the principal subsidiaries are as follows:

| Name | Place of incorporation/ registration and operations | Nominal value of issued ordinary share capital/ registered share capital | Percentage of equity attributable to the Company | | Principal activities |
|----------------------|---|--|--|------|---|
| | | | 2004 | 2003 | |
| Active Base Limited | Hong Kong | HK\$2 | 100% | 100% | Provision of loan financing |
| Allied Trade Limited | The British Virgin Islands | US\$1 | 100% | - | Investment holding |
| Allied Success Inc. | The British Virgin Islands | US\$10,000 | 88% | - | Investment holding |
| Connion Limited | Hong Kong | HK\$2 | 100% | 100% | Securities investment and property holding |
| E-Top PCB Limited | Hong Kong | HK\$100 | 57% | 65% | Trading of printed circuit boards |

Notes to the Consolidated Financial Statements

31 December 2004

16. INTEREST IN SUBSIDIARIES (CONTINUED)

| Name | Place of incorporation/ registration and operations | Nominal value of issued ordinary share capital/ registered share capital | Percentage of equity attributable to the Company | | Principal activities |
|---|---|--|--|------|--|
| | | | 2004 | 2003 | |
| Eastec Purchasing Limited | The British Virgin Islands/ Japan | US\$1 | 100% | 100% | Trading of electronic components and parts |
| Eastec Technology Limited | Hong Kong | HK\$2 | 100% | 100% | Trading of electronic components and parts |
| Electronics Tomorrow International Limited | The British Virgin Islands | US\$600 | 100% | 100% | Investment holding |
| Electronics Tomorrow Limited | Hong Kong | HK\$500,000 | 100% | 100% | Manufacture and sale of electronic products |
| Electronics Tomorrow Manufactory Inc. | The British Virgin Islands | US\$350 | 57% | 65% | Investment holding |
| Fortune Dynamic Group Corp. ("Fortune Dynamic") | The British Virgin Islands | US\$1 | 100% | 100% | Investment holding |
| Good Order International Inc. | The British Virgin Islands | US\$100 | 100% | 100% | Investment holding |
| Issegon Company Limited | Hong Kong | HK\$300,000 | 100% | 100% | Investment holding |
| Master Base Limited | The British Virgin Islands | US\$1 | 100% | 100% | Investment holding |
| Maxwood Limited | Hong Kong | HK\$2 | 100% | 100% | Securities investment |

Notes to the Consolidated Financial Statements

31 December 2004

16. INTEREST IN SUBSIDIARIES (CONTINUED)

| Name | Place of incorporation/ registration and operations | Nominal value of issued ordinary share capital/ registered share capital | Percentage of equity attributable to the Company | | Principal activities |
|--|---|--|--|------|---------------------------------------|
| | | | 2004 | 2003 | |
| Merit Team Limited | Hong Kong | HK\$2 | 100% | - | Property holding |
| Plentiful Light Limited | The British Virgin Islands/ The PRC | US\$100 | 57% | 65% | Manufacture of printer circuit boards |
| Probest Holdings Inc. ("Probest") | The British Virgin Islands | US\$1 | 100% | 100% | Investment holding |
| Dongguan Yifu Circuit Board Factory ("Yifu") (i), (iii) | The PRC | HK\$64,160,000 | 48% | 55% | Manufacture of printed circuit boards |
| Gaojin Electronics (Shenzhen) Company Limited ("Gaojin") (ii) | The PRC | US\$5,000,000 | 100% | 100% | Manufacture of electronic products |
| Dongguan De Bao Optical Company Limited ("De Bao") (iv), (vii) | The PRC | HK\$58,550,910 | 26% | 31% | Manufacture of multi-coating lenses |
| Dongguan Hamwell Glasses Company Limited ("Dongguan Hamwell") (v), (vii) | The PRC | HK\$62,504,800 | 42% | 51% | Manufacture of optical products |
| Global Origin Limited (vii) | Hong Kong | HK\$75,000,000 | 46% | 55% | Investment holding |
| Profit Trend International Limited (iii) | Hong Kong | HK\$1,000,000 | 26% | 31% | Investment holding |

Notes to the Consolidated Financial Statements

31 December 2004

16. INTEREST IN SUBSIDIARIES (CONTINUED)

| Name | Place of incorporation/ registration and operations | Nominal value of issued ordinary share capital/ registered share capital | Percentage of equity attributable to the Company | | Principal activities |
|--|---|--|--|------|---------------------------------------|
| | | | 2004 | 2003 | |
| Prowin Commercial & Industrial Limited (vii) | Hong Kong | HK\$2 | 51% | 61% | Property holding in the PRC |
| Shenzhen Henggang Swank Optical Industrial Company Limited ("Henggang") (iii), (vi) | The PRC | US\$30,000,000 | 41% | 49% | Manufacture of optical products |
| Swank International Manufacturing Company Limited (vii) | Hong Kong | HK\$31,249,000 | 51% | 61% | Investment holding |
| Swank International Optical Company Limited (vii) | Hong Kong | HK\$100,000 | 51% | 61% | Trading of optical products |

Other than Electronics Tomorrow International Limited, Fortune Dynamic and Master Base Limited, which are held directly by the Company, all subsidiaries are held indirectly by the Company.

- (i) Yifu is a Sino-foreign owned joint venture enterprise under the PRC law.
- (ii) Gaojin is registered as a wholly foreign owned enterprise under the PRC law.
- (iii) The Company has the power to cast the majority of votes at meetings of the board of directors of these entities and therefore they are regarded as subsidiaries of the Company.
- (iv) De Bao is registered as a wholly foreign owned enterprise under the PRC law. The registered capital of De Bao is HK\$118,100,000. At the balance sheet date, plant and machinery amounting to HK\$58,550,910 has been contributed by the Group towards meeting the registered capital requirement. The outstanding amount of approximately HK\$59,549,000 was due for contribution on 18 March 1999 in accordance with De Bao's articles of association. The Group has been in discussion with the relevant authorities to modify the original terms of the articles of association, including the amount of total registered capital. Up to the date of this Annual Report, the Group has not yet obtained the approval from the relevant authorities.

Notes to the Consolidated Financial Statements

31 December 2004

16. INTEREST IN SUBSIDIARIES (CONTINUED)

- (v) Dongguan Hamwell is a Sino-foreign owned joint venture enterprise under the PRC law. The registered capital of Dongguan Hamwell is HK\$67,940,000. At the balance sheet date, plant and machinery amounting to approximately HK\$62,505,000 has been contributed by the Group to Dongguan Hamwell, towards meeting the registered capital requirement. The remaining registered capital of HK\$5,435,000 has not yet been contributed by the minority shareholder of Dongguan Hamwell as at 31 December 2004.
- (vi) Henggang is a Sino-foreign owned joint venture enterprise under the PRC law. Subject to the payment of an annual amount of approximately HK\$2,830,000 (2003: HK\$2,830,000) to the joint venture party, the Group is entitled to all of the profits and bears all of the losses of Henggang.
- (vii) On 2 January 2004, the Group disposed of 10% of the interests in Swank through a sale and purchase agreement entered between the Group and an independent third party. Immediately after the completion of the agreement, the Group's equity interests in Swank decreased from 61% to 51% and a net proceeds of HK\$8,406,000 was generated. In addition, on 20 January 2005, the Group entered into an agreement with an independent third party to further dispose of 46% interests in Swank.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year of formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

17. INTERESTS IN ASSOCIATES

| | Group | |
|-------------------------------|---------------|---------------|
| | 2004 | 2003 |
| | HK\$'000 | HK\$'000 |
| Share of net assets | 128,876 | 143,592 |
| Due from associates | 8,467 | 5,005 |
| Provision for impairment loss | (100,123) | (113,016) |
| | 37,220 | 35,581 |

The amounts due from associates are unsecured, interest-free and are not repayable within the next twelve months from the balance sheet date.

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

Notes to the Consolidated Financial Statements

31 December 2004

17. INTERESTS IN ASSOCIATES (CONTINUED)

Particulars of the principal associates are as follows:

| Name | Business structure | Place of incorporation and operations | Percentage of equity attributable to the Group | | Principal activities |
|--|--------------------|---------------------------------------|--|------|---|
| | | | 2004 | 2003 | |
| Dongguan Yueheng Optical Company Limited | Corporate | The PRC | 26% | 31% | Manufacture of optical lenses |
| Dongguan Yueheng Optical (HK) Company Limited | Corporate | Hong Kong | 26% | 31% | Trading of optical products |
| Dongguan Yueheng Optical (BVI) Company Limited | Corporate | The British Virgin Islands | 26% | 31% | Financial servicing and marketing of optical products |

The above table lists the associates of the Group which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other associates would, in the opinion of the directors, result in particulars of excessive length.

18. PREPAID RENTAL

| | Group | |
|----------------------------------|------------------|------------------|
| | 2004 HK\$'000 | 2003 HK\$'000 |
| Cost | | |
| At beginning and end of the year | 10,500 | 10,500 |
| Amortisation | | |
| At beginning of the year | 7,123 | 6,386 |
| Provided during the year | 737 | 737 |
| At end of the year | 7,860 | 7,123 |
| Net book value | | |
| At end of the year | 2,640 | 3,377 |

Notes to the Consolidated Financial Statements

31 December 2004

18. PREPAID RENTAL (CONTINUED)

The prepaid rental represents the capital contribution made by the joint venture partner of Yifu in the form of a right to use the property owned by the joint venture partner within the terms of the joint venture.

The prepaid rental is amortised on a straight-line basis over the underlying initial term of the joint venture of 15 years.

19. DEFERRED PRODUCT DEVELOPMENT COSTS

| | Group | |
|--|------------------|------------------|
| | 2004 HK\$'000 | 2003 HK\$'000 |
| Cost | | |
| At beginning of the year | 19,376 | 17,599 |
| Additions | 2,499 | 1,777 |
| At end of the year | 21,875 | 19,376 |
| Accumulated amortisation and impairment | | |
| At beginning of the year | 14,593 | 13,404 |
| Amortisation provided during the year | 1,421 | 1,189 |
| At end of the year | 16,014 | 14,593 |
| Net book value | | |
| At end of the year | 5,861 | 4,783 |

20. LOANS RECEIVABLE

| | Group | |
|---------------------------|------------------|------------------|
| | 2004 HK\$'000 | 2003 HK\$'000 |
| Secured | 3,000 | 12,254 |
| Unsecured | 67 | 67 |
| | 3,067 | 12,321 |
| Less: Non-current portion | (2,000) | - |
| | 1,067 | 12,321 |

The loans receivable bear interest ranging from 3% to 12% (2003: prime rate to 12%) per annum.

Notes to the Consolidated Financial Statements

31 December 2004

21. PROPERTIES HELD FOR SALE

| | Group | |
|-------------------------------------|--------------|--------------|
| | 2004 | 2003 |
| | HK\$'000 | HK\$'000 |
| At cost | 6,333 | 12,666 |
| Less: Provision for impairment loss | (333) | (6,966) |
| | 6,000 | 5,700 |

The properties held for sale are situated in Hong Kong and are held under medium term leases.

22. SHORT-TERM INVESTMENTS

| | Group | |
|---|----------|----------|
| | 2004 | 2003 |
| | HK\$'000 | HK\$'000 |
| Trading securities | | |
| - Listed equity securities in Hong Kong | 7,491 | - |

23. INVENTORIES

| | Group | |
|------------------|---------------|---------------|
| | 2004 | 2003 |
| | HK\$'000 | HK\$'000 |
| Raw materials | 54,121 | 38,510 |
| Work in progress | 10,168 | 19,982 |
| Finished goods | 25,121 | 19,418 |
| | 89,410 | 77,910 |

As at 31 December 2004, all inventories are stated at cost.

Notes to the Consolidated Financial Statements

31 December 2004

24. ACCOUNTS RECEIVABLE

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

| | 2004 | | 2003 | |
|--------------------------|----------------|------------|----------------|------------|
| | HK\$'000 | Percentage | HK\$'000 | Percentage |
| Current to three months | 93,523 | 75 | 111,448 | 74 |
| Four to six months | 2,597 | 2 | 17,509 | 12 |
| Seven months to one year | 14,532 | 12 | 16,202 | 11 |
| Over one year | 13,533 | 11 | 5,450 | 3 |
| | 124,185 | 100 | 150,609 | 100 |
| Provision | (8,296) | | (10,193) | |
| Total after provision | 115,889 | | 140,416 | |

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

25. ACCOUNTS PAYABLE

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

| | Group | |
|--------------------------|------------------|------------------|
| | 2004 HK\$'000 | 2003 HK\$'000 |
| Current to three months | 52,736 | 94,877 |
| Four to six months | 34,148 | 19,893 |
| Seven months to one year | 5,298 | 3,252 |
| Over one year | 522 | 1,253 |
| | 92,704 | 119,275 |

Accounts payable aged less than four months accounted for 57% (2003: 79.5%) of the total accounts payable.

Notes to the Consolidated Financial Statements

31 December 2004

26. PROVISION FOR LONG SERVICE PAYMENTS

| | Group | | Company | |
|---------------------------------|------------------|------------------|------------------|------------------|
| | 2004 HK\$'000 | 2003 HK\$'000 | 2004 HK\$'000 | 2003 HK\$'000 |
| At beginning of year | 1,243 | 1,465 | 240 | 240 |
| Amount utilised during the year | (294) | (222) | (10) | - |
| At end of year | 949 | 1,243 | 230 | 240 |

The Group provides for the probable future long service payments expected to be made to employees under the Hong Kong Employment Ordinance, as further explained under the heading "Employee benefits" in note 3 to the financial statements. The provision is based on the best estimate of the probable future payments which have been earned by the employees from their service to the Group to the balance sheet date.

27. DEFERRED TAX LIABILITIES

| | Accelerated tax depreciation HK\$'000 |
|---|---|
| At 1 January 2004 and at 31 December 2004 | 1,433 |

The Group has tax losses arising in Hong Kong of approximately HK\$177,890,000 (2003: 150,452,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time.

28. ISSUED CAPITAL

| | 2004 HK\$'000 | 2003 HK\$'000 |
|---|------------------|------------------|
| Authorised: | | |
| 50,000,000,000 (2003: 50,000,000,000) ordinary shares of HK\$0.01 (2003: HK\$0.01) each | 500,000 | 500,000 |
| Issued and fully paid: | | |
| 286,068,644 (2003: 286,068,644) ordinary shares of HK\$0.01 each (2003: HK\$0.01) each | 2,861 | 2,861 |

There was no repurchase of any shares during the year.

29. SHARE OPTION SCHEME

(a) Share option schemes of the company

The company operates a share option scheme (the “Tomorrow 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 Tomorrow Scheme include the Company’s directors, including independent non-executive directors, other employees of the Group, suppliers of goods or services to the Group, customers of the Group, the Company’s shareholders, and any minority shareholder of the Company’s subsidiaries. The Tomorrow Scheme became effective on 29 May 2002 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of unexercised share options currently permitted to be granted under the Tomorrow Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the company in issue at any time. The maximum number of shares issuable under share options to each eligible participant in the Tomorrow Scheme within any 12-month period, is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders’ approval in a general meeting.

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. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the company, or to any of their associates, in excess of 0.1% of the shares of the company in issue at any time or with an aggregate value (based on the price of the company’s shares at the date of the grant) in excess of HK\$5 million, within any 12-month period, are subject to shareholders’ approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 21 days from the date of the offer, upon payment of a nominal consideration of HK\$1 in total by the grantee. An option may be exercised under the Tomorrow Scheme at any time during a period not exceeding five years after the date when the option is granted and expiring on the last date of such period.

The exercise price of the share options is determinable by the directors, but may not be less than the higher of (i) the Stock Exchange closing price of the Company’s shares on the date of the offer of the share options; (ii) the average Stock Exchange closing price of the Company’s shares for the five trading days immediately preceding the date of the offer; and (iii) the nominal value of an ordinary share.

Share options do not confer rights on the holders to dividends or to vote at shareholders’ meetings.

No share options have been granted during the year and no share options outstanding as at the balance sheet date.

Notes to the Consolidated Financial Statements

31 December 2004

29. SHARE OPTION SCHEME (CONTINUED)

(b) Share option schemes of Swank

All details of the Swank Scheme are the same as described under the heading “Share option schemes of the Company”, except for the Swank Scheme became effective on 28 May 2002 and, unless otherwise cancelled or amended, will remain in force for a period of 10 years from that date.

No share options have been granted by Swank during the year. Swank has no share options outstanding as at the balance sheet date.

30. RESERVES

(a) Group

The amounts of the Group’s reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity.

(b) Company

| | Share premium HK\$'000 | Capital redemption reserve HK\$'000 | Contributed surplus HK\$'000 | Retained profits HK\$'000 | Total HK\$'000 |
|-------------------------|------------------------------|--|------------------------------------|---------------------------------|-------------------|
| At 1 January 2003 | 200,556 | 77 | 84,917 | 3,878 | 289,428 |
| Capital | - | - | 283,208 | - | 283,208 |
| Net profit for the year | - | - | - | 30,768 | 30,768 |
| At 31 December 2003 | | | | | |
| and at 1 January 2004 | 200,556 | 77 | 368,125 | 34,646 | 603,404 |
| Net profit for the year | - | - | - | 1,538 | 1,538 |
| At 31 December 2004 | 200,556 | 77 | 368,125 | 36,184 | 604,942 |

Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus of the Company is distributable to shareholders in certain circumstances.

Notes to the Consolidated Financial Statements

31 December 2004

31. CONTINGENT LIABILITIES

| | Company | |
|--|----------|----------|
| | 2004 | 2003 |
| | HK\$'000 | HK\$'000 |
| Guarantees of banking facilities granted to subsidiaries | 28,300 | 22,400 |

The Group had no other significant contingent liabilities at the balance sheet date (2003: Nil).

32. COMMITMENTS

(a) Capital commitments

| | Group | |
|---|----------|----------|
| | 2004 | 2003 |
| | HK\$'000 | HK\$'000 |
| Deferred product development costs: | | |
| Contracted for | - | - |
| Authorised, but not contracted for | 811 | 1,199 |
| | 811 | 1,199 |
| Commitments to contribute to subsidiaries registered in the PRC | 4,618 | 9,638 |

The Company had no significant commitments at the balance sheet date (2003: Nil).

(b) Operating lease commitments

The Group leases certain of its office properties, factory premises, warehouses and office equipment under operating lease arrangements. Leases for office properties, factory premises and warehouses are negotiated for terms ranging from 1 to 15 years, and those office equipment for a term of three years.

Notes to the Consolidated Financial Statements

31 December 2004

32. COMMITMENTS (CONTINUED)

(b) Operating lease commitments (continued)

At 31 December 2004, the Group and the Company had future minimum lease under non-cancellable operating leases falling committed for due as follows:

| | Group | | Company | |
|--|------------------|------------------|------------------|------------------|
| | 2004 HK\$'000 | 2003 HK\$'000 | 2004 HK\$'000 | 2003 HK\$'000 |
| Land and buildings: | | | | |
| Within one year | 10,010 | 9,753 | 1,756 | 2,282 |
| In the second to fifth years, inclusive | 19,258 | 17,640 | 5,127 | - |
| After five years | 3,538 | 6,389 | - | - |
| | 32,806 | 33,782 | 6,883 | 2,282 |
| Office equipment: | | | | |
| Within one year | 210 | 55 | - | - |
| In the second to fifth years, inclusive | 89 | 34 | - | - |
| | 299 | 89 | - | - |
| | 33,105 | 33,871 | 6,883 | 2,282 |

33. CONNECTED AND RELATED PARTY TRANSACTIONS

During the year, the Group had the following connected and related party transactions:

- (i) A loan of HK\$16,000,000 (2003: HK\$7,000,000) was granted by a wholly-owned subsidiary of the Group to E-Top PCB Limited ("E-Top"), a 57% owned subsidiary of the Group, for its general working capital. The loan was unsecured, bore interest at the one-month Hong Kong dollar time deposit rate and had no fixed terms of repayment.
- (ii) In addition, the Group had certain banking facilities, with a total limit of HK\$28.3 million (2003: HK\$22.4 million), which were used by a wholly-owned subsidiary of the Group. These banking facilities were secured by corporate guarantees executed by E-Top and Plentiful, both of which are 57% owned subsidiaries of the Group, and certain wholly-owned subsidiaries of the Group, and certain leasehold land and buildings of the Group (note 13).

Notes to the Consolidated Financial Statements

31 December 2004

33. CONNECTED AND RELATED PARTY TRANSACTIONS (CONTINUED)

- (iii) Probest a wholly-owned subsidiary of the Group issued a promissory note to another subsidiary, Swank in 2003. The promissory note payable is unsecured with maturity date on 1 June 2006 and bearing interest at the rate equivalent to 1% over the prevailing Hong Kong prime rate per annum. During the year, interest income receivable by Probest amounted to HK\$13,567,000 (2003: HK\$15,076,000).
- (iv) In addition to the transactions and balances detailed elsewhere in these financial statements, the Group had the following material transactions with related parties during the year:

| | Notes | 2004 HK\$'000 | 2003 HK\$'000 |
|---------------------------------------|-------|------------------|------------------|
| Sales of products to associates | (i) | 10,224 | 8,390 |
| Purchases of products from associates | (ii) | 14,807 | 12,755 |
| Management fee income from associates | (iii) | 585 | 2,346 |

- (i) The sale to the associates were made according to the published prices, terms and conditions offered to the major third party customers of the Group.
- (ii) The purchases from the associates were made according to the published prices, terms and conditions offered by the associates to their major third party customers.
- (iii) The management fee income was charged according to the management's estimation on costs of office premises and utilities used by the associates.

34. POST BALANCE SHEET EVENTS

Subsequent to the balance sheet date, the Group and the Company have undertaken the following events in relation to further disposal of the interest in Swank:

- (a) On 20 January 2005, a conditional sale and purchase agreement (as amended by the supplemental agreement dated 13 April 2005) ("Share Disposal Agreement") was made between Probest which is a wholly-owned subsidiary of the Company, Rich Global Investments Limited ("Rich Global") and Kingsway Lion Spur Technology Limited ("Kingsway Lion") which are subsidiaries of SW Kingsway Capital Holdings Limited, and an independent third party, China Time Investment Holdings Limited ("China Time"), pursuant to which China Time agreed to acquire from Probest, Rich Global and Kingsway Lion of 1,437,396,440, 156,283,205 and 281,238,000 existing issued shares of Swank International Manufacturing Company Limited ("Swank"), representing approximately 60% of the existing issued share of Swank, at the considerations of HK\$43,121,893, HK\$4,688,496 and HK\$8,437,140, respectively, subject to completion of certain conditions.



Notes to the Consolidated Financial Statements

31 December 2004

34. POST BALANCE SHEET EVENTS (CONTINUED)

- (a) The sale proceed to be receivable by Probest in two instalments will be as follows:
- i) as to HK\$23,121,893 within six months of completion of the Share Disposal agreement; and
 - ii) as to HK\$20,000,000 on the anniversary of completion of the Share Disposal Agreement.

Upon completion of the Share Disposal Agreement, Probest will hold approximately 5% of the existing issued shares of Swank which in turn owns 70% issued capital of Profitown Investment Corporation ("Profitown"). Probest directly holds 30% issued capital of Profitown at the balance sheet date.

- (b) On 20 January 2005, Probest, Swank and Profitown entered into a conditional loan restructuring agreement ("Loan Restructuring Agreement"), pursuant to which Probest conditionally agreed to waive an outstanding principal of the promissory note due by Swank to Probest, over and above the debt (HK\$112,167,732 as of 18 April 2005) due and owing by Profitown to the Swank ("Profitown/Swank Loan"), the interest and the default interest on the debt for the period from 5 November 2003 up to and inclusive of date of the Share Disposal Agreement as referred to (a) above, in the amount of approximately HK\$12,669,995 and any further interest which may be accrued on the debt up to and inclusive of the effective date when the conditions of the Loan Restructuring Agreement are fulfilled.

As part of the Loan Restructuring Agreement and on its effective date when all the stipulated conditions are fulfilled, Profitown will issue and deliver a new promissory note to Probest, in consideration of which Swank undertakes to waive a sum equivalent to the debt (which amounts to HK\$112,167,732 as of 18 April 2005) from Profitown/Swank Loan. In addition, Swank will execute a guarantee in favour of Probest ("Swank Guarantee") that if and whenever Profitown defaults for any reason in payment of the principal sum due under the Promissory Note to be issued to Probest, Swank will upon demand by Probest unconditionally pay and satisfy all the interest which Profitown is liable to pay under the new Promissory Note on and after such default. The obligations of Swank under the Swank Guarantee are unsecured and will cease to be effective if the Put Option, as referred to (c) below, is exercised and the transaction contemplated under the Put Option is completed.

As at 18 April 2004, the principal amount, interests and default interests of the Debt to be waived by Probest amounted to approximately HK\$66 million.

34. POST BALANCE SHEET EVENTS (CONTINUED)

- (c) Both before and immediately after completion of the said Share Disposal Agreement (referred to in note (a) above), Profitown will be held as to 30% by Probest and as to 70% by Swank. On completion of the Share Disposal Agreement, Swank, Probest and the Company, and Profitown will enter into a shareholder agreement to regulate the management of Profitown ("Profitown Shareholders Agreement"). Pursuant to principal terms of the Profitown Shareholders Agreement, Swank will have the right to request Probest or an independent third party procured by Probest to purchase (the "Put Option") all (but not part of only) of its shares, being 70% of all the existing issued shares of Profitown exercisable at any time before the expiry of 30 months from the Completion Date of the Share Disposal Agreement at a price equal to the net tangible asset value of Profitown as at the date of exercise of such put option attributable to such shares and such purchaser will assume all the liabilities due from Swank to any member of the Profitown Group incurred prior to the date of Profitown Shareholders Agreement at nil consideration. If the net tangible asset value of Profitown as determined on the same basis and accounting policies adopted by Profitown in its latest audited accounts shall fall below zero during the 30-month period from the Completion Date, Probest will indemnify Profitown on demand for the deficit in the event that such deficit exceeds the outstanding principal amount of the new promissory note due to Probest and the interest accrued. The Put Option and such indemnity by Probest will cease and Probest shall have no further obligations in respect thereto if (i) the aggregate shareholding of China Time in the Swank falls below 51%; (ii) there is any change to the majority of the board of directors of China Time since the date of and as disclosed in the Share Disposal Agreement; and (iii) Mr. Wang An Kang cease to be the legal and beneficial owner of at least 75% of and in China Time.
- (d) On completion of the Share Disposal Agreement, the Company and its wholly-owned subsidiary, Probest, will execute a deed in favour of China Time ("Tomorrow Group Deed"), pursuant to which, Probest shall indemnify China Time for an amount of HK\$56,247,530 upon demand in case Swank ceases to be listed on the Stock Exchange under certain circumstances as detailed in the joint announcement dated 18 April 2005 made by the Company, Swank and China Time.

Upon completion of the above Share Disposal Agreement and the Loan Restructuring Agreement, the Group will realize a gain of approximately HK\$43 million.

The further details and stipulated conditions for completion, where appropriate, of the said Share Disposal Agreement, Loan Restructuring Agreement, Shareholder Agreement and the Tomorrow Group Deed are set out in the joint announcement dated 18 April 2005 made by the Company, Swank and China Time.

35. PARENT ENTERPRISES

The directors consider Winspark Venture Limited, which is incorporated in the British Virgin Islands, to be its parent enterprise at the balance sheet date.

Schedule of Investment Properties

| Property | Description | Lot Number | Type | Lease Term |
|---|---|---|-------------|---|
| Hong Kong | | | | |
| 1. Flat A on 36th Floor of Tower 4 and Car Parking space No. 49 on Level LG3, Dynasty Court, No. 23 Old Peak Road, Mid-levels, Hong Kong. | The property has a gross floor area of 182.27 sq.m. (excluding the area for the car parking space). | 23/10650th shares of and in The Remaining Portion of Section A of Inland Lot No. 1093, The Remaining Portion of Inland Lot No. 1093, and Inland Lot No. 1218 and the Extension thereto. | Residential | The property is held for a term of 999 years from 3rd October 1887. |
| 2. Flat B on 17th Floor of Tower 5 and Car Parking Space No. 51 on Level LG1, Dynasty Court, No. 23 Old Peak Road, Mid-levels, Hong Kong. | The property has a gross floor area of 184.04 sq.m. (excluding the area for the car parking space). | 23/10650th shares of and in The Remaining Portion of Section A of Inland Lot No. 1093, The Remaining Portion of Inland Lot No. 1093, and Inland Lot No. 1218 and the Extension thereto. | Residential | The property is held for a term of 999 years from 3rd October 1887. |
| 3. Flat A on 25th Floor of Tower 5 and Car Parking Space No. 81 on Level LG3, Dynasty Court, No. 23 Old Peak Road, Mid-levels, Hong Kong. | The property has a gross floor area of 182.27 sq.m. (excluding the area for the car parking space). | 23/10650th shares of and in The Remaining Portion of Section A of Inland Lot No. 1093, The Remaining Portion of Inland Lot No. 1093, and Inland Lot No. 1218 and the Extension thereto. | Residential | The property is held for a term of 999 years from 3rd October 1887. |
| 4. Flat A on 35th Floor of Tower 5 and Car Parking Space No. 18 on Level LG3, Dynasty Court, No. 23 Old Peak Road, Mid-levels, Hong Kong. | The property has a gross floor area of 182.27 sq.m. (excluding the area for the car parking space). | 23/10650th shares of and in The Remaining Portion of Section A of Inland Lot No. 1093, The Remaining Portion of Inland Lot No. 1093, and Inland Lot No. 1218 and the Extension thereto. | Residential | The property is held for a term of 999 years from 3rd October 1887. |