



TOMORROW INTERNATIONAL HOLDINGS LIMITED
(Incorporated in Bermuda with limited liability)

INTERIM REPORT

2001

**INTERIM RESULTS**

The Board of Directors (the "Directors") of Tomorrow International Holdings Limited (the "Company") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2001 with comparative figures for the previous corresponding period as follows:

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

		Six months ended 30 June	
	Notes	2001 HK\$'000 (unaudited)	2000 HK\$'000 (unaudited)
Turnover	3	259,018	305,101
Cost of sales		(213,641)	(234,098)
Gross profit		45,377	71,003
Other revenue		5,799	5,008
Distribution costs		(5,166)	(6,419)
Administrative expenses		(41,938)	(37,034)
Other operating expenses		(4,926)	—
Profit/(loss) from operating activities	4	(854)	32,558
Finance costs		(442)	(1,966)
Profit/(loss) before tax		(1,296)	30,592
Tax	5	(676)	(2,398)
Profit/(loss) before minority interests		(1,972)	28,194
Minority interests		3,149	(17)
Net profit attributable to shareholders		1,177	28,177
Earnings per share	6		
Basic		0.14 cents	4.53 cents
Diluted		N/A	N/A

**CONDENSED CONSOLIDATED STATEMENT OF RECOGNISED GAINS AND LOSSES**

	Six months ended	
	30 June	
	2001	2000
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Exchange differences on translation of the financial statements of foreign subsidiaries	(1)	901
Net gain/(loss) not recognised in the profit and loss account	(1)	901
Net profit for the period	1,177	28,177
Total recognised gains and losses	1,176	29,078



CONDENSED CONSOLIDATED BALANCE SHEET

	As at 30 June 2001 HK\$'000 (unaudited)	As at 31 December 2000 HK\$'000 (audited)
NON-CURRENT ASSETS		
Fixed assets	136,788	135,800
Prepaid rental	5,219	5,588
Rental deposits	397	397
Deferred product development costs	4,378	4,131
	146,782	145,916
CURRENT ASSETS		
Cash and bank balances	32,142	36,181
Time deposits	80,452	108,406
Accounts receivable	57,486	64,309
Bills receivable	—	3,440
Loans receivable	98,203	44,000
Interest receivables on loans	1,268	1,572
Prepayments, deposits and other receivables	18,912	26,751
Short term investments	5,105	35,500
Properties held for sale	19,802	19,802
Inventories	71,823	81,483
	385,193	421,444
CURRENT LIABILITIES		
Bank borrowings	421	6,105
Accounts payable	71,268	99,065
Bills payable	—	1,049
Accrued liabilities and other payables	15,883	26,158
Tax payable	14,742	14,297
	102,314	146,674



		As at 30 June 2001 HK\$'000 (unaudited)	As at 31 December 2000 HK\$'000 (audited)
NET CURRENT ASSETS		282,879	274,770
TOTAL ASSETS LESS CURRENT LIABILITIES		429,661	420,686
NON-CURRENT LIABILITY			
Deferred tax		833	1,433
MINORITY INTERESTS		39,028	42,177
		389,800	377,076
CAPITAL AND RESERVES			
Share capital	10	89,423	82,523
Reserves	11	300,377	294,553
		389,800	377,076

**CONDENSED CONSOLIDATED CASH FLOW STATEMENT**

	Six months ended 30 June 2001 HK\$'000 (unaudited)
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	(29,462)
Net cash inflow from returns on investments and servicing of finance	2,367
Tax	(449)
Net cash outflow from investing activities	(10,313)
NET CASH OUTFLOW BEFORE FINANCING ACTIVITIES	(37,857)
Net cash inflow from financing activities	11,548
DECREASE IN CASH AND CASH EQUIVALENTS	(26,309)
Cash and cash equivalents at beginning of year	138,483
Effect of foreign exchange rate changes, net	(1)
CASH AND CASH EQUIVALENTS AT END OF PERIOD	112,173
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS	
Cash and bank balances	32,142
Time deposits	80,452
Trust receipt loans	(421)
	112,173



Notes:

1. Basis of preparation

Advantage has been taken of the exemption provided by paragraph 37.3 of Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited from the requirement to include comparative figures for the first cash flow statement included in interim financial statements relating to accounting periods ending on or after 1 July 2000. Save as disclosed above, the condensed consolidated interim financial statements have been prepared in accordance with Hong Kong Statement of Standard Accounting Practice No. 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants. The accounting policies and basis of preparation used in the preparation of the interim financial statements are consistent with those followed in the Group's annual financial statements for the year ended 31 December 2000.

2. Principal activities

The principal activities of the Group have not changed during the period and 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 and the provision of loan financing.

3. Turnover

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

	Six months ended 30 June	
	2001	2000
	HK\$'000	HK\$'000
Manufacture and sale of electronic products	187,378	205,773
Manufacture and sale of PCBs	40,939	63,985
Trading and distribution of electronic components and parts	819	32,668
Trading of listed equity investments	27,936	—
Provision of loan financing	1,946	2,675
	259,018	305,101



An analysis of the Group's turnover by geographical area of operations is as follows:

	Six months ended 30 June	
	2001	2000
	HK\$'000	HK\$'000
Europe	25,773	24,983
North America	59,142	74,148
The People's Republic of China, including Hong Kong	99,065	135,687
Japan	63,239	58,274
Others	11,799	12,009
	<u>259,018</u>	<u>305,101</u>

An analysis of the contribution to profit/(loss) before tax by principal activity is as follows:

	Six months ended 30 June	
	2001	2000
	HK\$'000	HK\$'000
Manufacture and sale of electronic products	15,467	28,428
Manufacture and sale of PCBs	(7,271)	(2,005)
Trading and distribution of electronic components and parts	149	1,619
Trading of listed equity investments	(6,372)	—
Provision of loan financing	(3,269)	2,550
	<u>(1,296)</u>	<u>30,592</u>

The contribution to profit/(loss) before tax by geographical segment is substantially in line with the overall rate of contribution to turnover and, accordingly, an analysis of profit/(loss) before tax by geographical segment is not presented.

4. Profit/(loss) from operating activities

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

	Six months ended 30 June	
	2001	2000
	HK\$'000	HK\$'000
Depreciation	9,327	8,998
Amortisation of prepaid rental	368	368
Amortisation and write-off of deferred product development costs	458	355
Net loss on disposals of listed equity investments	3,460	—
Net unrealised holding gain on listed equity investments	(881)	—
Provision/(write-back of provision) for inventories	(254)	13,708
Interest income on bank deposits	(2,807)	(2,256)
	<u>(2,807)</u>	<u>(2,256)</u>

**5. Tax**

Hong Kong profits tax has been provided at the rate of 16% (2000: 16%) on the estimated assessable profits arising in Hong Kong during the period.

	Six months ended 30 June	
	2001	2000
	HK\$'000	HK\$'000
Group:		
The People's Republic of China:		
Hong Kong	775	2,398
Mainland China	(99)	—
	676	2,398

6. Earnings per share

The calculation of earnings per share is based on the net profit attributable to shareholders for the period of HK\$1,177,000 (2000: HK\$28,177,000) and the weighted average of 840,858,649 (2000: 621,910,134) ordinary shares in issue during the period. There were no dilutive potential ordinary shares as at 30 June 2001 and 30 June 2000, and accordingly, the diluted earnings per share is not shown.

7. Accounts receivable

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

	As at	
	30 June	31 December
	2001	2000
	HK\$'000	HK\$'000
Current to 3 months	57,796	58,189
4 to 6 months	2,446	8,735
7 months to 1 year	785	534
Over 1 year	5,208	6,093
	66,235	73,551
Provision	(8,749)	(9,242)
	57,486	64,309

The normal credit period granted by the Group to customers ranges from 21 days to 90 days.



8. Bank borrowings

The bank borrowings, which represent trust receipt loans, are repayable within one year. The Group's leasehold land and buildings with carrying amount of HK\$12,807,000 (31 December 2000: HK\$13,000,000) were pledged to secure banking facilities granted to the Group.

9. Accounts payable

	As at	
	30 June 2001 HK\$'000	31 December 2000 HK\$'000
Current to 3 months	62,886	97,756
4 to 6 months	5,802	854
7 months to 1 year	1,720	365
Over 1 year	860	90
	<u>71,268</u>	<u>99,065</u>

10. Share capital

	Six months ended 30 June 2001	
	No. of shares (in thousands)	HK\$'000
Authorised:		
Ordinary shares of HK\$0.10 each	<u>5,000,000</u>	<u>500,000</u>
Issued and fully paid:		
At beginning of period	825,229	82,523
Issue of shares upon placing	<u>69,000</u>	<u>6,900</u>
At end of period	<u>894,229</u>	<u>89,423</u>

Pursuant to a placing agreement dated 8 May 2001, Winspark Venture Limited ("Winspark"), the major shareholder of the Company, placed 69 million shares through Kingsway SW Securities Limited to independent investors at a price of HK\$0.17 per share. Moreover, pursuant to a top-up subscription agreement between the Company and Winspark on the same date, Winspark subscribed for 69 million new shares of the Company at a price of HK\$0.17 per share. The net proceeds of approximately HK\$11.6 million from the share placement were used for general working capital of the Group.

**11. Reserves**

	Share Premium HK\$'000	Exchange fluctuation reserve HK\$'000	Capital reserve HK\$'000	Capital redemption reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1 January 2001	189,186	913	801	77	103,576	294,553
Issue of shares	4,830	—	—	—	—	4,830
Share issue expenses	(182)	—	—	—	—	(182)
Exchange adjustments on translation of foreign subsidiaries	—	(1)	—	—	—	(1)
Profit for the period	—	—	—	—	1,177	1,177
At 30 June 2001	193,834	912	801	77	104,753	300,377

12. Post balance sheet events

On 16 July 2001, the Company entered into an exclusivity agreement with The Hongkong and Shanghai Banking Corporation Limited (“HSBC”), the trust agent of Optiset Limited, the major shareholder of Swank International Manufacturing Company Limited (“Swank”), the beneficiaries of the trust being the individual bank creditors of Swank, in relation to, among others, the Company’s proposed acquisition of the entire interests of Optiset Limited (“Optiset”) in Swank. Swank is principally engaged in the manufacture and sale of optical products. The Company has completed the due diligence review on Swank. As at the date of this interim report, no formal agreement has yet been reached.

On 10 August 2001, the Directors announced that the Company proposed to raise about HK\$178.8 million before expenses by issuing not less than 1,788,457,630 new shares by way of Rights Issue at a price of HK\$0.10 per Rights Share. Other than the Excluded Rights Shares that Winspark, the single largest shareholder of the Company which together with parties acting in concert with it holding approximately 23.74% of the existing issued share capital of the Company, has undertaken to subscribe or procure subscribers for, the Rights Issue is fully underwritten by Winspark.

The Directors intends that the funds raised by the Rights Issue of HK\$177.5 million before expenses mainly to finance any possible acquisition of listed or non-listed assets which may or may not be in line with the Group’s existing businesses, to expand and/or to diversify the Group’s existing operations and businesses. The expansion plan may include widening of the Group’s product range, upgrading of technical knowledge and expansion of production capacity of the electronic product business. However, the funds to be raised under the Rights Issue are not currently earmarked for any specific projects or any specific business nor there is any capital commitment on any specific project as on 26 September 2001.



13. Connected party transactions

As at 30 June 2001, the Group has the following connected party transactions:

- (1) A loan of HK\$4,000,000 was granted on 16 October 2000 by a wholly-owned subsidiary of the Group to E-Top PCB Limited ("E-Top"), a 55% owned subsidiary of the Group, for its general working capital. The loan, which was outstanding as at 30 June 2001, was unsecured, bore interest at the one-month Hong Kong dollar time deposit rate and had no fixed terms of repayment.
- (2) The Group had certain banking facilities, with a total limit of HK\$55 million, which were jointly used by E-Top and certain wholly-owned subsidiaries of the Group. These banking facilities were secured by corporate guarantees executed by the Group companies using these facilities and certain leasehold land and buildings of the Group (note 8).

14. Certain comparative amounts have been reclassified to conform with the current period's presentation.

INTERIM DIVIDEND

The directors have resolved that no interim dividend will be declared in respect of the six months ended 30 June 2001 (2000: Nil).

BUSINESS REVIEW

During the first half of the year 2001, most of the consumers in the world were still not confident for the future prospects of the global economy. In particular, the anticipated economic recovery in North America had not yet shown even after a series of interest-rate cuts by the Federal Reserve of the United States. For the six months period ended 30 June 2001, turnover of the Group decreased by over 15% to HK\$259 million compared with the previous period. The profit attributable to shareholders for the period under review amounted to HK\$1.2 million, representing a decrease of 96% over last year.

The unfavourable business environment in the consumer market of North America adversely affected our electronic products business. Total sales to the North American market for the period under review decreased by over 18%. In addition, the unsatisfactory economic condition in Hong Kong also resulted in a drop of over 29% in our local sales turnover. As a result of our continuing marketing efforts and our strength on the product design, the OEM business with Japanese customers were continuously growing and we were also successful to develop certain new markets in Middle East and within the Pacific region. However, in view of the prevailing price competition, it was inevitable for our electronic products business to narrow the profit margin to maintain its competitiveness in the market.



The Group's PCB manufacturing business performed not satisfactory during the first half of the year. Total turnover decreased by 36% over the same period of last year. It was mainly due to the overall recession in the electronic industry around the world. Keen price competition again deteriorated the profit margin and its contribution to the Group.

Since the prospect of electronic components market was still uncertain, the Group's trading and distribution business was nearly dormant during the period under review after its sales offices in the PRC had been closed down in the second half of last year.

The Group's business of trading of listed equity investments and provision of loan financing did not perform well in the first half year. It was mainly due to the sluggish performance of the stock market.

Through a placing of 69 million shares of the Company by Winspark Venture Limited ("Winspark"), the single largest shareholder of the Company, and a top-up subscription of 69 million new shares of the Company from Winspark in May 2001, the Company raised fund of approximately HK\$11.6 million for general working capital purpose.

As at 30 June 2001, cash and bank balances (including time deposits) maintained by the Group were HK\$112.6 million, representing a decrease of HK\$32 million compared with the position as at 31 December 2000. On the other hand, the Group has available banking facilities of HK\$55 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 19.4% as at 30 June 2001, comparing with 26.1% as at 31 December 2000.

The Group employed approximately 2,400 full time employees as at 30 June 2001, with more than 2,300 in the Mainland China and 90 in Hong Kong. All employees are remunerated largely based on industry practice and in accordance with the prevailing labour law.

FUTURE PLANS

Product development is still our strength. The Group will be continuously spending sufficient resources and efforts to develop new electronic products to satisfy the market needs. It is intended to widen the product range for sales and also to enlarge the customer base in future.



To follow the current development in the consumer market, products with radio control features, in particular radio control clocks are still our emphasis. On the other hand, wireless applications like radio frequency and infrared become increasingly popular in consumer electronic products. Our product development strategies will therefore be closely commensurate with the market changes accordingly.

In order to improve the production efficiency and also to enhance our technology in the manufacture of high-end products, the Group is planning to acquire a number of production equipment with advanced technologies for the upgrade of its production capacity and capability as well. In addition, through the technology exchange under OEM projects from well-known Japanese customers, we are able to upgrade our technical knowledge at once.

Due to uncertain economic condition, the demand for loan financing is expected to be on low side and the contribution from trading of listed equity investments is foreseen to be less satisfactory.

As pointed out in note 12 to the accounts, the Directors proposes to raise funds by Rights Issue of HK\$177.5 million before expenses to finance any possible acquisition of listed or non-listed assets which may not be in line with the Group's existing businesses. Currently, the Directors is in negotiation with the major shareholder of Swank International Manufacturing Company Limited ("Swank"), a Hong Kong listed company, in relation to a possible acquisition of its interest in Swank. No formal agreement has yet been reached and the funds to be raised under Rights Issue are not earmarked for any specific project.

DIRECTORS' INTERESTS IN SHARES

At 30 June 2001, the interests of the directors in the listed securities of the Company as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance") were as follows :

Name of Director	Notes	Nature of interest	Number of shares
Mr. Yau Tak Wah, Paul	1	Corporate	49,674,000
Mr. Tam Ping Wah	2	Corporate	80,000

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, or their associates, had any personal, family, corporate or other interests in the equity securities of the Company or any of its associated corporations as defined in the SDI Ordinance.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

The Company has a share option scheme approved on 21 July 1995 under which the directors may grant options to executive directors and employees of the Group to subscribe up to 10% of the nominal amount of the issued share capital of the Company. As at 30 June 2001, options to subscribe for shares of HK\$ 0.10 each in the Company granted to directors under the share option scheme of the Company were as follows:

Directors	Period during which options are exercisable	Price per share to be paid on exercise of options <i>HK\$</i>	Number of Shares to be issued upon exercise of options	Consideration paid for the options granted <i>HK\$</i>
Louie Mei Po	11 August 2000 to 10 August 2003	0.680	7,900,000	1
	20 September 2000 to 19 September 2003	0.488	6,600,000	1
	2 November 2000 to 1 November 2003	0.270	3,000,000	1
			<hr/>	
			17,500,000	
Wong Shin Ling, Irene	20 September 2000 to 19 September 2003	0.488	3,600,000	1
	2 November 2000 to 1 November 2003	0.270	6,400,000	1
			<hr/>	
			10,000,000	
Tam Ping Wah	2 November 2000 to 1 November 2003	0.270	3,000,000	1
			<hr/>	
			3,000,000	
			<hr/>	
			30,500,000	



Saved as disclosed herein, at no time during the period was the Company or any of its subsidiaries a party to any arrangements to enable the directors of the Company, their respective spouse, or children under 18 years of age, to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2001, according to the register required to be kept by the Company under section 16(1) of the SDI Ordinance, the Company has been notified that the following shareholder was interested in 10% or more of the share capital of the Company.

Name of Shareholder	Number of Ordinary Shares
Winspark Venture Limited	212,262,000

Note: The entire issued share capital of Winspark Venture Limited is beneficially owned by Mr. Chan Yuen Ming.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the period, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

CODE OF BEST PRACTICE

In the opinion of the directors, the Company has complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules of The Stock Exchange of Hong Kong Limited during the six months ended 30 June 2001, except that the independent non-executive directors of the Company are not appointed for specific terms, but are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the provisions of the Company's By-laws.



AUDIT COMMITTEE

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed internal control and financial reporting matters including the review of the unaudited interim financial statements.

By Order of the Board
Yau Tak Wah, Paul
Chairman

Hong Kong, 26 September 2001