



T MORROW

Tomorrow International Holdings Limited

(Incorporated in Bermuda with limited liability)

2002
INTERIM REPORT



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 2002 with comparative figures as follows:

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

	Notes	Six months ended 30 June	
		2002 HK\$'000 (unaudited)	2001 HK\$'000 (unaudited)
Turnover	3	341,116	259,018
Cost of sales		(261,675)	(213,641)
Gross profit		79,441	45,377
Other revenue		6,717	5,799
Negative goodwill recognised		9,549	—
Gain on disposal of partial interest in a subsidiary		3,480	—
Distribution costs		(10,755)	(5,166)
Administrative expenses		(53,586)	(41,938)
Other operating expenses		(2,368)	(4,926)
Profit/(loss) from operating activities	4	32,478	(854)
Finance costs		—	(442)
Share of profits of associates		1,900	—
Profit/(loss) before tax		34,378	(1,296)
Tax	5	(2,471)	(676)
Profit/(loss) before minority interests		31,907	(1,972)
Minority interests		50	3,149
Net profit attributable to shareholders		31,957	1,177
Earnings per share	6		
Basic		1.15 cents	0.13 cent
Diluted		1.15 cents	N/A



CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Six months ended 30 June	
	2002	2001
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Opening balance — Total equity at 1 January	598,592	377,076
Exchange differences on translation of the financial statements of foreign subsidiaries	(199)	(1)
Net loss not recognised in profit and loss account	(199)	(1)
Net profit for the period	31,957	1,177
Issue of shares, net of share issue expenses	25,838	11,548
Closing balance — Total equity at 30 June	656,188	389,800



CONDENSED CONSOLIDATED BALANCE SHEET

	Notes	As at	
		30 June 2002 HK\$'000 (unaudited)	31 December 2001 HK\$'000 (audited)
NON-CURRENT ASSETS			
Fixed assets		208,273	138,811
Negative goodwill	7	(28,564)	—
Interests in associates		38,134	—
Prepaid rental		4,482	4,851
Rental deposit		—	517
Deferred product development costs		4,417	4,459
		226,742	148,638
CURRENT ASSETS			
Cash and bank balances		432,884	373,819
Accounts receivable	8	113,233	37,279
Bills receivable		—	4,240
Loan receivable		834	1,461
Interest receivable on loans		90	285
Deposit paid		—	68,000
Prepayments, deposits and other receivables		24,427	18,256
Short term investments		—	603
Properties held for sale		15,200	15,200
Inventories		100,202	56,334
		686,870	575,477

CONDENSED CONSOLIDATED BALANCE SHEET (continued)

	Notes	As at	
		30 June 2002 HK\$'000 (unaudited)	31 December 2001 HK\$'000 (audited)
CURRENT LIABILITIES			
Bank overdraft		100	—
Accounts payable	9	104,809	55,916
Accrued liabilities and other payables		33,420	14,473
Tax payable		19,660	17,258
Amount due to associates		18,558	—
		176,547	87,647
NET CURRENT ASSETS		510,323	487,830
TOTAL ASSETS LESS CURRENT LIABILITIES		737,065	636,468
NON-CURRENT LIABILITIES			
Deferred tax		1,433	1,433
Provision for long service payment		1,000	—
		2,433	1,433
MINORITY INTERESTS		78,444	36,443
		656,188	598,592
CAPITAL AND RESERVES			
Share capital	10	286,069	268,269
Reserves		370,119	330,323
		656,188	598,592



CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Six months ended 30 June	
	2002	2001
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
NET CASH INFLOW/(OUTFLOW) FROM OPERATING		
ACTIVITIES	25,620	(26,779)
Net cash inflow/(outflow) from investing activities	7,535	(11,078)
Net cash inflow from financing activities	25,838	11,548
INCREASE/(DECREASE) IN CASH AND CASH		
EQUIVALENTS	58,993	(26,309)
Cash and cash equivalents at beginning of year	373,819	138,483
Effect of foreign exchange rate changes, net	(28)	(1)
CASH AND CASH EQUIVALENTS AT END OF PERIOD	432,784	112,173
ANALYSIS OF BALANCES OF CASH AND CASH		
EQUIVALENTS		
Cash and bank balances	432,884	112,594
Bank overdraft	(100)	—
Trust receipt loans	—	(421)
	432,784	112,173

**Notes:****1. Basis of preparation**

The interim financial statements are unaudited but have been reviewed by the Audit Committee.

The condensed consolidated interim financial statements have been prepared in accordance with Hong Kong Statement of Standard Accounting Practice ("SSAP") 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 2001.

In addition, the Group has adopted the following revised or new SSAPs which are effective for accounting periods commencing on or after 1 January 2002.

SSAP 1 (Revised)	Presentation of financial statements
SSAP 11 (Revised)	Foreign currency translation
SSAP 15 (Revised)	Cash flow statements
SSAP 34	Employee benefits

The main revision to SSAP 1 is to change the requirements from presenting a statement of recognised gains and losses to a statement of changes in equity. The condensed consolidated statement of changes in equity for the current interim period and the comparative figures have been presented in accordance with this revised SSAP.

In accordance with SSAP 15 (Revised), the cash flow equivalents are presented by means of cash flow statement which classifies cash flows during the period according to operating, investing and financing activities. Condensed consolidated cash flow statement for the six months ended 30 June 2001 have been restated to accord with the current period's presentation.

The adoption of the revised and new SSAPs have had no material effect on the results for the current period or prior financial year. Accordingly, no prior period adjustment is required.

Certain comparative figures of the interim financial statements have been reclassified to conform with the current period's presentation.

2. Principal activities

During the period, the principal activities of the Group 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. The manufacture and sale of optical products were new businesses entered into by the Group upon the acquisition of Swank International Manufacturing Company Limited ("Swank"), another Hong Kong listed company in March 2002.



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.

An analysis of the Group's turnover by principal activities is as follows:

	Six months ended 30 June	
	2002	2001
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Manufacture and sale of electronic products	196,710	187,378
Manufacture and sale of PCBs	50,079	40,939
Trading and distribution of electronic components and parts	172	819
Trading of listed equity investments	667	27,936
Provision of loan financing	310	1,946
Manufacture and sale of optical products	93,178	—
	341,116	259,018

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

	Six months ended 30 June	
	2002	2001
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Manufacture and sale of electronic products	19,625	17,319
Manufacture and sale of PCBs	432	(6,378)
Trading and distribution of electronic components and parts	233	127
Trading of listed equity investments	397	(2,655)
Provision of loan financing	295	(3,020)
Manufacture and sale of optical products	5,770	—
	26,752	5,393
Interest and dividend income	2,722	2,807
Negative goodwill recognised	9,549	—
Gain on disposal of partial interest in a subsidiary	3,480	—
Unallocated expenses	(10,025)	(9,054)
	26,752	5,393
Profit/(loss) from operating activities	32,478	(854)
Finance costs	—	(442)
Share of profits of associates	1,900	—
	34,378	(1,296)



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	
	2002	2001
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Depreciation	15,660	9,327
Amortisation of prepaid rental	368	368
Amortisation and write-off of deferred product development costs	544	458
Net loss/(gain) on disposals of listed equity investments	(64)	3,460
Net unrealised holding gain on listed equity investments	—	(881)
Write-back of provision for inventories	(1,526)	(254)
Interest income	(2,709)	(2,807)

5. Tax

Hong Kong profits tax has been provided at the rate of 16% (2001: 16%) on the estimated assessable profits arising in Hong Kong during the period.

	Six months ended 30 June	
	2002	2001
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Group:		
The People's Republic of China:		
Hong Kong	2,122	775
Mainland China	349	(99)
	2,471	676

6. Earnings per share

The calculation of basic earnings per share is based on the net profit attributable to shareholders for the period of HK\$31,957,000 (2001: HK\$1,177,000) and the weighted average of 2,776,111,859 (2001: 920,940,345) ordinary shares in issue during the period. The calculation of diluted earnings per share for the period is based on the net profit attributable to shareholders for the period of HK\$31,957,000 and the weighted average of 2,789,734,394 ordinary shares in issue during the period. There were no dilutive potential ordinary shares as at 30 June 2001 and accordingly, the comparative diluted earnings per share is not shown.

The comparative basic earnings per share has been adjusted to reflect the rights issue of shares completed on 12 November 2001, on the basis of two rights shares for every one share held.

7. Negative goodwill

Negative goodwill is arisen from:

- 1) acquisition of 73.55% interest in Swank group by a wholly owned subsidiary of the Company. The transaction was completed within the period under review, and
- 2) an additional 10% investment in a previously 55% owned subsidiary company of the Group, Electronics Tomorrow Manufactory Inc. by the subscription for 57 new shares of that subsidiary in May 2002.

	30 June 2002 HK\$'000 (unaudited)
<hr/>	
Cost	
Balance b/f	—
Addition during the period	38,113
	<hr/>
Balance at 30 June 2002	38,113
	<hr/>
Accumulated amortisation	
Balance b/f	—
Amortisation for the period	2,354
Amount released on partial disposal of a subsidiary	7,195
	<hr/>
Balance at 30 June 2002	9,549
	<hr/>
Net carrying amount at	
30 June 2002	28,564
	<hr/>
31 December 2001	—
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8. Accounts receivable

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

	As at	
	30 June 2002 HK\$'000 (unaudited)	31 December 2001 HK\$'000 (audited)
Current to 3 months	111,966	35,453
4 to 6 months	1,358	2,017
7 months to 1 year	857	709
Over 1 year	10,621	7,774
	124,802	45,953
Provision	(11,569)	(8,674)
	113,233	37,279

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

9. Accounts payable

	As at	
	30 June 2002 HK\$'000 (unaudited)	31 December 2001 HK\$'000 (audited)
Current to 3 months	96,743	51,560
4 to 6 months	3,333	3,755
7 months to 1 year	3,972	68
Over 1 year	761	533
	104,809	55,916



10. Share capital

	As at 30 June 2002	
	No. of shares (in thousands)	HK\$'000
Authorised		
Ordinary shares of HK\$0.10 each	5,000,000	500,000
Issued and fully paid		
At beginning of period	2,682,686	268,269
Issue of shares upon placing	178,000	17,800
At end of period	2,860,686	286,069

Pursuant to a placing agreement dated 11 March 2002, Winspark Venture Limited ("Winspark"), the major shareholder of the Company, placed 178 million shares through Kingston Securities Limited to independent investors at a price of HK\$0.15 per share. Moreover, pursuant to a top-up subscription agreement between the Company and Winspark on the same date, Winspark subscribed for 178 million new shares of the Company at a price of HK\$0.15 per share. The net proceeds of approximately HK\$26 million from the share placement were used for general working capital of the Group.

11. Connected party transactions

As at 30 June 2002, the Group has the following connected party transactions:

- (1) A loan of HK\$12,000,000 (31 December 2001: HK\$4,000,000) was granted by a wholly-owned subsidiary of the Group to E-Top PCB Limited ("E-Top"), a 65% owned subsidiary of the Group, for its general working capital. The loan, which was outstanding as at 30 June 2002, was unsecured, bore interest at the one-month Hong Kong dollar time deposit rate and had no fixed terms of repayment.
- (2) In addition, the Group had certain banking facilities, with a total limit of HK\$20.3 million (31 December 2001: HK\$47.3 million), which were jointly used by E-Top, Plentiful Light Limited, a 65% owned subsidiary of the Group, 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.



- (3) Below is a summary of material transactions between the Swank group and of its certain associates which were carried out in the normal course of business on commercial terms during the period:

	Six months ended 30 June	
	2002	2001
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Sales	7,462	—
Purchases of raw materials and optical products	10,996	—
Management fee received (rental and utilities income)	1,236	—

Amount due to associates are disclosed in the unaudited consolidated balance sheet. Amount due from associates at 30 June 2002 amounted to HK\$13,587,788. These balances are non-interest bearing and have no fixed terms of repayment.

No comparative figures were shown as Swank group was acquired in March 2002.

12. Contingent liabilities

	As at	
	30 June 2002	31 December 2001
	HK\$'000	HK\$'000
	(unaudited)	(audited)
Guarantee of banking facilities granted to subsidiaries	20,300	47,300

INTERIM DIVIDEND

The directors have resolved that no interim dividend will be declared in respect of the six months ended 30 June 2002 (2001: Nil).

BUSINESS REVIEW

Profit attributable to shareholders amounted to HK\$32 million compared with that of HK\$1 million in the previous period.

A turnaround is evident in most regions of the world after the "911 event" except for the United States itself. In particular, it indicates that Japanese economy is showing signs of a turnaround owing to the strengthening growth in Asia. Europe is growing too, but at a sluggish pace. However, although improving, global growth will remain modest during 2002 particularly in the continuous fear of the terrorism and the war in the Middle East.



For the six months period ended 30 June 2002, the Group's electronic business performed satisfactory. Turnover increased by 8% to HK\$247 million compared with the same period of last year.

Attributable to the encouraging growth of OEM business from well-known Japanese customers, the electronic products division of the Group maintained its steady business growth and profitability. Total turnover increased by 5% compared with last year. To cope with the prevailing market demand, electronic products with more advanced features, like radio control clocks and radio-frequency products were produced by the Group during the period under review. As a result, it improved the overall gross margin and the profit contribution to the Group.

The printed circuit boards ("PCB") business recorded a profit before tax of HK\$0.4 million for the six months period ended 30 June 2002, representing a turnaround from the loss position in the immediate past four financial years. It was mainly attributed to the increase in turnover by 22% to HK\$50.1 million compared with the same period of last year. With an improved gross margin from the increase in the sale of multi-layered boards and the effect from tightened cost controls during the period under review, the PCB business resumed its profitability.

In view of the confidence on the PCB business, the Group had subscribed for 57 new shares issued by the holding company of the PCB Group, Electronics Tomorrow Manufactory Inc. at a consideration of about HK\$5 million on 8 May 2002. As a result, it effectively increased the Group's interests in the PCB business from 55% to 65%.

As the trading environment for electronic components and parts particularly in Hong Kong and the Mainland China were still under keen competition and were unclear in the foreseeable future, the trading and distribution business of the Group remained dormant during the first half of 2002.

As the Hong Kong economic condition was not yet improved, the contribution of loan financing and trading of listed equity investments is minimal.

In March 2002, the Group completed the acquisition of Swank group which engages in optical frame and lens manufacturing business. That indicates an immediate improvement to Swank's financial position and its liquidity by converting HK\$300 million convertible notes into shares and transferring HK\$250 million bank loans to intercompany loan. Details of which are laid down in the circular of Swank dated 18 March 2002. The loan still bears an interest rate of prime rate plus 1% per annum. Depending on the performance of Swank group, the Group may or may not waive the interest element. Removing the uncertainty in financial resources of Swank group induces the motive of new management to have vision and mission to focus on both short term result and long-term strategy as well as rebuilding its profit generating ability.



In April 2002, The Group disposed 350 million shares or 15.68% of the issued share capital of Swank to strategic investors.

With the introduction of new management team and efforts of management, Swank group had turnaround and restored to profitable position again during the period under review. This was mainly resulted from streamlining of operation and partly from waiver of bank loan interest expenses. Turnover from March 2002 to June 2002 amounted to HK\$93 million. At the same time, the Swank group continued to experience changes in its customer base. This change, to some extent, has affected the Swank group's turnover as well as the gross profit margin, which dropped by 4% when compared with the interim results of last year. In the first half of year 2002, Swank group experienced a satisfactory growth in sales orders received but effect of which have not been reflected in the interim result. However, it should be noted that there is still half year to go for the current year, and for prudence sake, it would be too early to extrapolate full year performance. Given that there is no unforeseen circumstance, the Swank group will give a profitable result in full year.

As at 30 June 2002, cash and bank balances (including time deposits) maintained by the Group were HK\$433 million, representing an increase of HK\$59 million compared with the position as at 31 December 2001. On the other hand, the Group has available banking facilities of HK\$20.3 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 28.2% as at 30 June 2002, comparing with 17.3% as at 31 December 2001.

Most of the business transactions conducted by the Group were nominated in Hong Kong Dollars, United States Dollars and RMB. As at 30 June 2002, there were no outstanding material forward contracts in foreign currency committed by the Group that might involve it in significant foreign exchange risks and exposures.

As at 30 June 2002, the Group employed approximately 4,700 employees, with about 4,530 in the Mainland China and about 170 in Hong Kong. All employees are remunerated based on industry practice and in accordance with the prevailing labour law.

FUTURE PLANS

The management of the Group is prudently optimistic for the global economy in the rest of the year 2002. In the electronics industry, owing to the continuing globalisation effect, most of the overseas conglomerates are undergoing to move their manufacturing plants



to the South East Asian region, especially the Mainland China to take advantage of the lower operating costs. The Hong Kong based electronic enterprises might benefit from this move to play the role as a bridge to the Mainland China.

The electronic products division of the Group will be continuing to develop its OEM business with Japanese and European customers. Manufacturing projects with internationally well-known Japanese electronic corporations under co-operation basis are always in the agenda of the Company's management. The Group is taking an aggressive approach in the discussion with potential partners and believes that it will benefit from the technology transfers through the co-operation projects. On the other hand, development of household electronic products with advanced features, like solar and wireless applications, is the target in our research and development strategies. It might help the Group to diversify the product range and to enter different product and market segments in the electronics industry.

For the PCB business, the Group will keep on improving its production capacity and capability. Enhancement of the production process is underway to further reduce the production and subcontracting costs. In addition, the marketing force will be strengthened to develop the overseas markets.

As the prospect of the trading and distribution business is still uncertain, the management of the Group will closely monitor the recent development of the trading market, in particular the Mainland China pre and post WTO admission to consider whether it should recommence the trading and distribution business.

As uncertain economic condition still prevails, the demand for loan financing is foreseen to be on low side and trading of listed equity investments is expected to be on low side.

Swank has been repositioning itself internally and key initiatives have been planned to increase its competitive advantage by achieving a competitive delivery lead time and shortening the new product launch time.

The Group continues to be in a position of solid base and will continue to explore suitable investment opportunities to enhance its earning base. Future targets will include but not limited to business of 'Light Industries'.

Building on our success on the acquisition and turnaround of the operations of Swank, we aim to explore and identify investment opportunities in Hong Kong and China including both listed or unlisted companies which have growth potential. With abundant cash as



per our back up, we regard these as our long-term investments. Leveraging our financial support and expertise, we target to accelerate their business growth as well as bringing promising returns to shareholders.

DIRECTORS' INTERESTS IN SHARES

At 30 June 2002, 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	148,474,000
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 had a share option scheme approved on 21 July 1995 ("Old Scheme") under which the directors might 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. After the adoption of the amended Chapter 17 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") with effect from 1 September 2001, certain terms of the Old Scheme require amendment in order to comply with the new requirements under Chapter 17 of the Listing Rules. In Annual General Meeting of the Company held on 29 May 2002, resolutions were passed to terminate the Old Scheme and a new share option scheme was adopted.



The share options granted by the Company under the Old Scheme will not be affected by the new share option scheme. As at 30 June 2002, no options were granted under the new scheme and options to subscribe for shares of HK\$ 0.10 each in the Company granted to directors under the Old Scheme of the Company were as follows:

Directors	Period during which options are exercisable	Price per share to be paid on exercise of options HK\$	Number of Shares to be issued upon exercise of options	Consideration paid for the options granted HK\$
Louie Mei Po	11 August 2000 to 10 August 2003	0.227	23,700,000	1
	20 September 2000 to 19 September 2003	0.163	19,800,000	1
	2 November 2000 to 1 November 2003	0.090	9,000,000	1
			52,500,000	
Wong Shin Ling, Irene	20 September 2000 to 19 September 2003	0.163	10,800,000	1
	2 November 2000 to 1 November 2003	0.090	19,200,000	1
			30,000,000	
Tam Ping Wah	2 November 2000 to 1 November 2003	0.090	9,000,000	1
				9,000,000
			91,500,000	

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 2002, 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.

<u>Name of Shareholder</u>	<u>Number of Ordinary Shares</u>
Winspark Venture Limited	1,648,359,630

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

On 1 August 2002, Winspark further acquired 10,000,000 shares of the Company from the market.

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 2002, 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 Bye-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, 18 September, 2002