

TONIC

TONIC INDUSTRIES HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

Website: <http://www.tonic.com.hk>
www.irasia.com/listco/hk/tonic

ANNOUNCEMENT OF FINAL RESULTS FOR THE YEAR ENDED 31 MARCH 2002

FINANCIAL HIGHLIGHTS

	2002	2001
• Turnover (HK\$M)	2,014	2,626
• EBITDA (HK\$M)*	82	92
• Net profit for the year (HK\$M)	9	13
• Basic earnings per share (HK cents)	1.5	2
• Total dividend paid and payable (HK\$M)	6	11

* EBITDA represents profit before interest, tax, depreciation and amortization

The directors ("Directors") of Tonic Industries Holdings Limited (the "Company") are pleased to announce the audited consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 March 2002 (the "Year") together with the comparative figures for the previous year, as follows:

	2002 HK\$'000	2001 HK\$'000
Turnover (note 2)	2,013,623	2,625,533
Cost of Sales	(1,895,280)	(2,482,576)
Gross Profit	118,343	142,957
Other Revenue	7,697	20,534
Total Income	126,040	163,491
Administration Expenses	(75,451)	(90,463)
Selling and Distribution Expenses	(27,980)	(38,411)
Profit from Operating Activities (note 3)	22,609	34,617
Finance Costs	(11,020)	(20,104)
Share of loss of an associate	(827)	-
Profit Before Tax	10,762	14,513
Taxation (note 4)	(1,522)	(1,979)
Net profit for the year	9,240	12,534
Dividends (note 5)		
Interim	3,176	6,353
Proposed final	3,176	3,176
Underprovision of prior year's proposed final	-	985
	6,352	10,514
Earnings per share (note 6)		
- Basic	1.5 cents	2.0 cents
- Diluted	N/A	N/A

Notes:

1. **Adoption of Statements of Standard Accounting Practice**
 In the current year, the Group has adopted for the first time a number of new and revised Statements of Standard Accounting Practice ("SSAP") issued by the Hong Kong Society of Accountants as follows:-

SSAP 9 (Revised):	"Events after the balance sheet date"
SSAP 14 (Revised):	"Leases"
SSAP 18 (Revised):	"Revenue"
SSAP 26:	"Segment reporting"
SSAP 28:	"Provisions, contingent liabilities and contingent assets"
SSAP 29:	"Intangible assets"
SSAP 30:	"Business combinations"
SSAP 31:	"Impairment of assets"
SSAP 32:	"Consolidated financial statements and accounting for investments in subsidiaries"

Adoption of these SSAPs has led to a number of changes in the Group's accounting policies. In addition, the new and revised SSAPs have introduced additional and revised disclosure requirements which have been adopted in the Group's financial statements. Comparative amounts and disclosures for the prior year have been restated in order to achieve a consistent presentation.

2. Turnover and Segment results

The Group is principally engaged in the manufacture of consumer audio, video products and home appliances products. An analysis of the Group's turnover and segment results is as follows:

	Turnover		Segment results	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Principal activities:				
Audio products	1,314,548	2,396,459	18,018	17,649
Video products	532,821	169,491	4,944	(822)
Home appliance products	123,221	48,759	3,518	10,342
Corporate and others	43,033	10,824	1,623	1,979
	2,013,623	2,625,533	28,103	29,148
Principal markets:				
The United States of America	708,351	789,115	9,274	7,407
Europe	700,117	765,938	9,849	10,442
Asia Pacific countries	602,858	1,069,758	8,950	11,280
Others	2,297	722	30	19
	2,013,623	2,625,533	28,103	29,148

3. Profit from Operating Activities

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

	2002 HK\$'000	2001 HK\$'000
Depreciation	57,808	57,018
Amortisation of trademark and development cost	1,096	251
Staff costs	114,094	127,543
Loss on disposal of fixed assets	313	339
Interest on borrowings	11,020	20,104
Dividend income from listed investments	(657)	(625)

4. 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 Year. Taxes on profits assessable in the PRC have been provided at the rates of tax prevailing in the PRC based on existing legislations, interpretations and practices in respect thereof.

Deferred tax has been provided under the liability method at the rate of 16% (2001: 16%) on all significant timing differences to the extent it is probable that the liability will crystallise in the foreseeable future.

Tax charged to the Group's profit and loss account comprises:

	2002 HK\$'000	2001 HK\$'000
Hong Kong		
Provision for the year	2,514	-
Under/(Over) provision in prior years	-	54
Deferred	(992)	1,331
	1,522	1,385
PRC		
Provision for the year	-	594
Tax charge for the year	1,522	1,979

5. Dividends

	2002 HK\$'000	2001 HK\$'000
Interim - HK0.5 cent (2001: HK1.0 cent) per ordinary share	3,176	6,353
Proposed final - HK0.5 cent (2001: HK0.5 cent) per ordinary share	3,176	3,176
Underprovision of prior year's proposed final dividends	0	985
	6,352	10,514

6. Earnings per share

The calculation of earnings per share is based on the net profit attributable to shareholders of HK\$9,240,000 (2001: HK\$12,534,000) and the weighted average of 635,259,975 shares (2001: 614,281,357 shares) in issue during the Year.

Diluted earnings per share for both current and last year have not been shown because the effects arising from the exercise of the potential ordinary shares would be anti-dilutive.

FINAL DIVIDEND

The Board has recommended the payment of a final dividend of HK0.5 cent (year ended 31 March 2001: HK0.5 cent) per share. Together with the interim dividend of HK0.5 cent per share paid on 17 January 2002, total dividend for the Year will amount to HK1.0 cent per share. Subject to the approval of the Company's Members at the forthcoming Annual General Meeting, the final dividend will be paid on or before 7 October 2002 to the registered shareholders.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 17 September 2002 to 19 September 2002, both days inclusive, during which period no transfer of shares will be effected. All transfer documents accompanied by the relevant share certificates must be lodged with the Company's Share Registrar in Hong Kong, Tengis Limited at 4th Floor, Hutchison House, 10 Harcourt Road, Central, Hong Kong not later than 4:00 p.m., on 16 September 2002 in order to qualify for the proposed final dividend.

BUSINESS REVIEW AND OUTLOOK

Turnover for the Year was HK\$2,014 million, represented a decrease of 23% from last year. Earnings before interest, tax depreciation and amortisation were HK\$82 million, representing a decrease of 11% as compared to last year. During the Year, the Group implemented stringent cost control strategies and developed new innovative products. The gross profit margin was therefore increased by 0.4%. Earnings per share for the Year was HK1.5 cents, and we proposed a final dividend of HK0.5 cent per share.

It had been a difficult year due to the gloomy business environment. The global consumer market, inevitably affected by the economic downturn, was further hampered by the September 11th terrorist attacks in the United States. As such, the spending confidence of consumers was seriously affected. Compared to the first half of the Year, the drop in sales in the second half was apparent. Customers were reluctant to place orders during the uncertain period, and delayed the placement of new orders and consumed the remaining stocks in the warehouse. The sales volume was decreased and it was difficult to raise selling price.

After the Company's rapid growth of the first few years from being listed on the Hong Kong Stock Exchange in 1997, the last two years have been an important consolidation period. With approximately HK\$250 million capital expenditure spent for the last two years, the Group now has 18 fully automated SMT production lines, 6 sets of heavy oil electric generators and a total of 1,500,000 square feet of production area in our main consumer electronics manufacturing factory in Tong Xia. By next year production capacity and ability will have increased by at least 50%. All of these investments are to equip the Group for an increasingly competitive environment. It will facilitate lower production costs while producing higher quality products.

TONIC

TONIC INDUSTRIES HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

Website: <http://www.tonic.com.hk>
www.irasia.com/listco/hk/tonic

One of our business strategies is to slowly migrate our business from producing lower end traditional analogue audio products to the higher end digital products. Such digital products include Internet set-top boxes, DVD products, digital satellite receivers, digital amplifiers and video telephones. These new products have a longer product life cycle, and offer a higher selling price and profit margin. The research and development of such items, which started three years ago, has begun to pay off. Sales for these products increased from HK\$169 million last year to HK\$539 million this year. Contribution to the turnover of the Group increased from 6.5% to 26.7%. Market statistics have also indicated that these products will be the fastest growing items for the next few years. Additionally, there has been a strong rebound on market demand for consumer electronics products in the last two months.

One of the Company's Japanese OEM customers has endorsed our efforts in developing digital audio products and has confirmed orders to the end of the year, worth more than HK\$500 million. In addition, we have secured a new customer Memorex in the US which is well known and respected. These business partnerships not only enlarge our client base, but will also contribute to the Group's turnover in the coming years. It is expected that sales will reflect market trends.

The home appliances division continues to grow rapidly, turnover for this division increased from HK\$49 million in 2001 to HK\$123 million this year, represented a 151% increase. Furthermore, the amount is expected to grow in the coming year. Turnover contributions to the Group rose from 2% last year to 6% this year and as such, the Group plans to put more resources into this division. The manufacturing space and facilities of the home appliances division at the Qi Shek factory has doubled due to the addition of two factory blocks. The marketing department will also be aggressively expanding by recruiting more staff and setting up new offices.

We have also reviewed our production and operation efficiency and were able to implement certain cost saving measures. As a result, administrative expenses decreased from HK\$90 million in 2001 to HK\$75 million this Year. This achievement was largely due to redesigning administrative processes and documentation flow in the factories.

It was announced on 14 June 2002 that the Group will enter into certain connected transactions with EganaGoldpfeil (Holdings) Limited and its Subsidiaries ("Egana"). A detail circular and a notice of extraordinary general meeting dated 5 July 2002 have been sent out to shareholders of the Company. It is expected that benefits will be derived from a closer relationship with Egana.

The recent depreciation of the US dollar to the Japanese Yen and the Euro has had a positive impact on sales for the Group. As sales to Japanese and European customers are priced using the US dollar, the depreciation reduced the currency risks for our customers and therefore, lowered the pressure of pricing negotiations.

Looking to the future, the Group will continue with its current business strategy of moving from traditional analogue audio products to producing higher end digital products. Our highly technological equipment, research and development facilities, as well as our cost efficient production capabilities in Dongguan, have stood us in good stead to cater to the escalating demand for digital products and to enlarge our market share in Europe and the US.

In view of the rising demand for innovative home appliances, we are committed to furthering our research and development capabilities, and to producing new products with higher profit margins. In addition, we will seek overseas partnerships and make every effort to develop closer relationships with our long-standing customers.

MANAGEMENT DISCUSSION AND ANALYSIS

As at 31 March, 2002, the Group had 122 staff stationed in Hong Kong and 10,200 staff and workers working in the PRC factories. Total salaries and wages amounted to approximately HK\$114 million for the Year. Salaries and wages are normally reviewed on an annual basis based on performance appraisals and market conditions. The Group provides year-end double pay, discretionary bonuses, provident fund, medical insurance and training.

As at 31 March, 2002, the Group had HK\$121 million cash and bank balance and HK\$278 million bank loans, as compared to HK\$48 million and HK\$176 million in last year respectively. The bank loans included HK\$114 million 3 years term loans and HK\$23 million hire purchase contracts are mainly used to finance the acquisition of fixed assets for the last two years. Others are trust receipt loans for trading purpose and are repayable normally within three months. Total of these loans and hire purchase contracts repayable within one year amounted to HK\$201 million and HK\$76 million are repayable after one year. While major expansion plan has been completed during the Year, it is expected that no more bank loans will be needed for the coming year.

Gearing ratio calculated based on borrowings less bank balances over the net assets of the Group was 0.41 for the Year, compared to 0.34 of last year.

During the Year, the Hong Kong Inland Revenue Department challenged the appropriateness of the filling of tax returns by the Group on a consolidated basis, rather than on an individual company basis, starting from the years of assessment 1998/99 (the "Prior Years"). The final assessment of the Prior Years had not yet been issued, and the potential tax liabilities cannot be reliably estimated. However, based on information available at the date of this announcement, the Directors are of the opinion that there is no material unprovided tax at 31 March 2002.

PURCHASE, SALE OR REDEMPTION OF SHARES

During the Year, there was no purchase, sale or redemption of the shares of the Company by the Company or any of its subsidiaries.

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 to the Listing Rules of The Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the Year.

PUBLICATION OF ANNUAL RESULTS ON THE STOCK EXCHANGE

Information required by paragraphs 45(1) to 45(3) inclusive of Appendix 16 to the Listing Rules, will be published on the website of the Hong Kong Stock Exchange in due course.

On behalf of the Board
Simon Ling Siu Man
Chairman & Managing Director

Hong Kong, 16 July 2002

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT an Annual General Meeting of the Members of Tonic Industries Holdings Limited (the "Company") will be held at Sung Room I, 4th Floor, Sheraton Hong Kong Hotel & Towers, 20 Nathan Road, Kowloon, Hong Kong on Thursday, 19 September 2002 at 11:00 a.m. for the following purposes:

- To receive and consider the Audited Consolidated Financial Statements and the Reports of the Directors and of the Auditors for the year ended 31 March 2002.
- To declare a final dividend.
- To re-elect Directors and to authorise the Board of Directors to fix the Directors' remuneration.
- To consider the appointment of Auditors and to authorise the Board of Directors to fix their remuneration.
- As special business, to consider and, if thought fit, pass with or without modification the following resolutions as Ordinary Resolutions:

"(A) **THAT:**

- Subject to paragraphs (b) and (c) of this resolution, the exercise by the directors of the Company ("Directors") during the Relevant Period (as defined below) of all the powers of the Company to repurchase issued shares in the capital of the Company on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") or on any other stock exchange on which the shares of the Company may be listed and recognised by the Securities and Futures Commission and the Stock Exchange for this purpose, subject to and in accordance with all applicable laws and/or requirements of the Stock Exchange or any other stock exchange as amended from time to time, be and the same is hereby generally and unconditionally approved;
- the approval in paragraph (a) of this resolution shall, in addition to any other authorisation given to the Directors, authorise the Directors on behalf of the Company during the Relevant Period to procure the Company to purchase its own shares at a price to be determined by the Directors;
- the aggregate nominal amount of the issued shares of the Company to be repurchased or agreed conditionally or unconditionally to be repurchased by the Company pursuant to the approval in paragraph (a) of this resolution during the Relevant Period shall not exceed 10% of the aggregate nominal amount of the share capital of the Company in issue as at the date of passing of this resolution and the said approval shall be limited accordingly; and
- for the purposes of this resolution:
"Relevant Period" means the period from the passing of this resolution until whichever is the earlier of:
 - the conclusion of the next annual general meeting of the Company;
 - the expiration of the period within which the next annual general meeting of the Company is required by law or its articles of association to be held; or
 - the revocation or variation of the authority granted under this resolution by an ordinary resolution of the shareholders of the Company in general meetings."

"(B) **THAT:**

- subject to paragraphs (b) and (c) below and without prejudice to the resolution numbered 5(C) set out in the notice of this Meeting, the exercise by the Directors during the Relevant Period (as defined in resolution numbered 5(A)(d) set out in the notice of this Meeting) of all the powers of the Company to allot, issue and deal in shares in the capital of the Company or securities convertible into shares or options, warrants or similar rights to subscribe for any shares in the Company and to make or grant offers, agreements and options which might require the exercise of such power, be and is hereby generally and unconditionally approved;

- the approval in paragraph (a) above shall, in addition to any other authorisation given to the Directors, authorise the Directors during the Relevant Period to make or grant offers, agreements or options (including warrants or similar rights to subscribe for any shares in the Company) which might require the exercise of such power after the end of the Relevant Period;
- the aggregate nominal amount of securities allotted, issued or dealt with or agreed conditionally or unconditionally to be allotted, issued or dealt with by the Directors pursuant to the approval given in paragraph (a) above, otherwise than pursuant to (i) a Rights Issue (as defined below); (ii) the exercise of the rights of subscription or conversion under the terms of any securities or bonds which are convertible into any shares in the capital of the Company; (iii) any options granted or issue of shares under any share option scheme or similar arrangement for the time being adopted by the Company, or (iv) any scrip dividend schemes or similar arrangements providing for the allotment of shares in lieu of the whole or part of a dividend on shares in accordance with the articles of association of the Company, shall not exceed 20% of the aggregate nominal amount of the share capital of the Company in issue as at the date of passing of this resolution and the said approval shall be limited accordingly;
- for the purposes of this resolution:

"Rights Issue" means an offer of shares open for a period fixed by the Directors to holders of shares on the Register on a fixed record date in proportion to their then holdings of such shares (subject to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of any relevant jurisdiction, or the requirements of any recognised regulatory body or any stock exchange in any territory outside Hong Kong)."

- THAT** conditional upon the passing of the resolutions numbered 5(A) and 5(B) set out in the notice of this Meeting, the aggregate nominal amount of the shares in the Company which are repurchased by the Company pursuant to and in accordance with the said resolution numbered 5(A) shall be added to the aggregate nominal amount of the shares in the Company that may be allotted, issued or dealt with or agreed conditionally or unconditionally by the Directors pursuant to and in accordance with the said resolution numbered 5(B)."

By Order of the Board
Liu Hoi Keung, Gary
Secretary & Director

Hong Kong, 16 July 2002

Notes:

- The Register of Members of the Company will be closed from Tuesday, 17 September 2002 to Thursday, 19 September 2002 (both days inclusive), during which period no transfer of shares can be registered and no shares will be allotted and issued on the exercise of share options issued/granted by the Company. In order to qualify for the proposed final dividend, all transfers accompanied by the relevant share certificates and transfer forms must be lodged with the Company's Share Registrar in Hong Kong, Tengis Limited at 4th Floor, Hutchison House, 10 Harcourt Road, Central, Hong Kong for registration not later than 4:00 p.m. on Monday, 16 September 2002.
- A shareholder of the Company who is the holder of two or more shares may appoint more than one proxy to represent him on his behalf. A proxy need not be a shareholder of the Company. If more than one proxy is so appointed, the appointment shall specify the number and class of shares in respect of which each such proxy is so appointed.
- The instrument appointing a proxy and the power of attorney or other authority, if any, under which it is signed, or a notarially certified copy of such power or authority, must be lodged with the Company's Share Registrar in Hong Kong, Tengis Limited at 4th Floor, Hutchison House, 10 Harcourt Road, Central, Hong Kong not less than 48 hours before the time fixed for holding the Meeting.
- The Annual Report of the Company for the year ended 31 March 2002 also containing this notice together with a circular setting out further information regarding resolution numbered 5 above will be dispatched to shareholders as soon as practicable.