

C O N T E N T S

	Pages
CORPORATE INFORMATION	2
GROUP STRUCTURE	3
FINANCIAL HIGHLIGHTS	4-5
CHAIRMAN'S STATEMENT	7-9
DIRECTORS AND SENIOR MANAGEMENT PROFILE	11-17
MANAGEMENT DISCUSSION AND ANALYSIS	18-20
REPORT OF THE DIRECTORS	21-28
REPORT OF THE AUDITORS	29
CONSOLIDATED:	
PROFIT AND LOSS ACCOUNT	30
STATEMENT OF RECOGNISED GAINS AND LOSSES	31
BALANCE SHEET	32-33
CASH FLOW STATEMENT	34-35
COMPANY:	
BALANCE SHEET	36
NOTES TO FINANCIAL STATEMENTS	37-68
FINANCIAL SUMMARY	69-70
PROPERTIES HELD BY THE GROUP	71-72
NOTICE OF ANNUAL GENERAL MEETING	73-76



Information

DIRECTORS

Executive Directors

Mr. LING Siu Man, Simon (*Chairman*)
Mr. LEE Ka Yue, Peter
Mr. WONG Ki Cheung
Ms. LI Fung Ching, Catherine
Mr. AU Wai Man
Mr. LIU Hoi Keung, Gary

Non-executive Directors

Mr. WONG Wai Kwong, David
Mr. HO Fook Hong, Ferdinand
Mr. PANG Hon Chung

REGISTERED OFFICE

Ugland House
South Church Street
P.O. Box 309
George Town
Grand Cayman
Cayman Islands
British West Indies

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Unit B, 10th Floor
Summit Building
30 Man Yue Street
Hung Hom
Kowloon
Hong Kong

COMPANY SECRETARY

Mr. LIU Hoi Keung, Gary, FCCA, AHKSA

LEGAL ADVISORS

Richards Butler

AUDITORS

Ernst & Young

AUDIT COMMITTEE

Mr. WONG Wai Kwong, David (*Chairman*)
Mr. HO Fook Hong, Ferdinand
Mr. PANG Hon Chung

PRINCIPAL BANKERS

Hang Seng Bank Limited
The Hong Kong and Shanghai
Banking Corporation Limited
The Standard Chartered Bank Limited

SHARE REGISTRARS AND TRANSFER OFFICE

In Hong Kong
Tengis Limited
4th Floor, Hutchison House
10 Harcourt Road
Central, Hong Kong

In Cayman Island
Bank of Butterfield International
(Cayman) Ltd.
Butterfield House
PO Box 705
George Town
Grand Cayman
Cayman Islands
British West Indies

WEBSITE

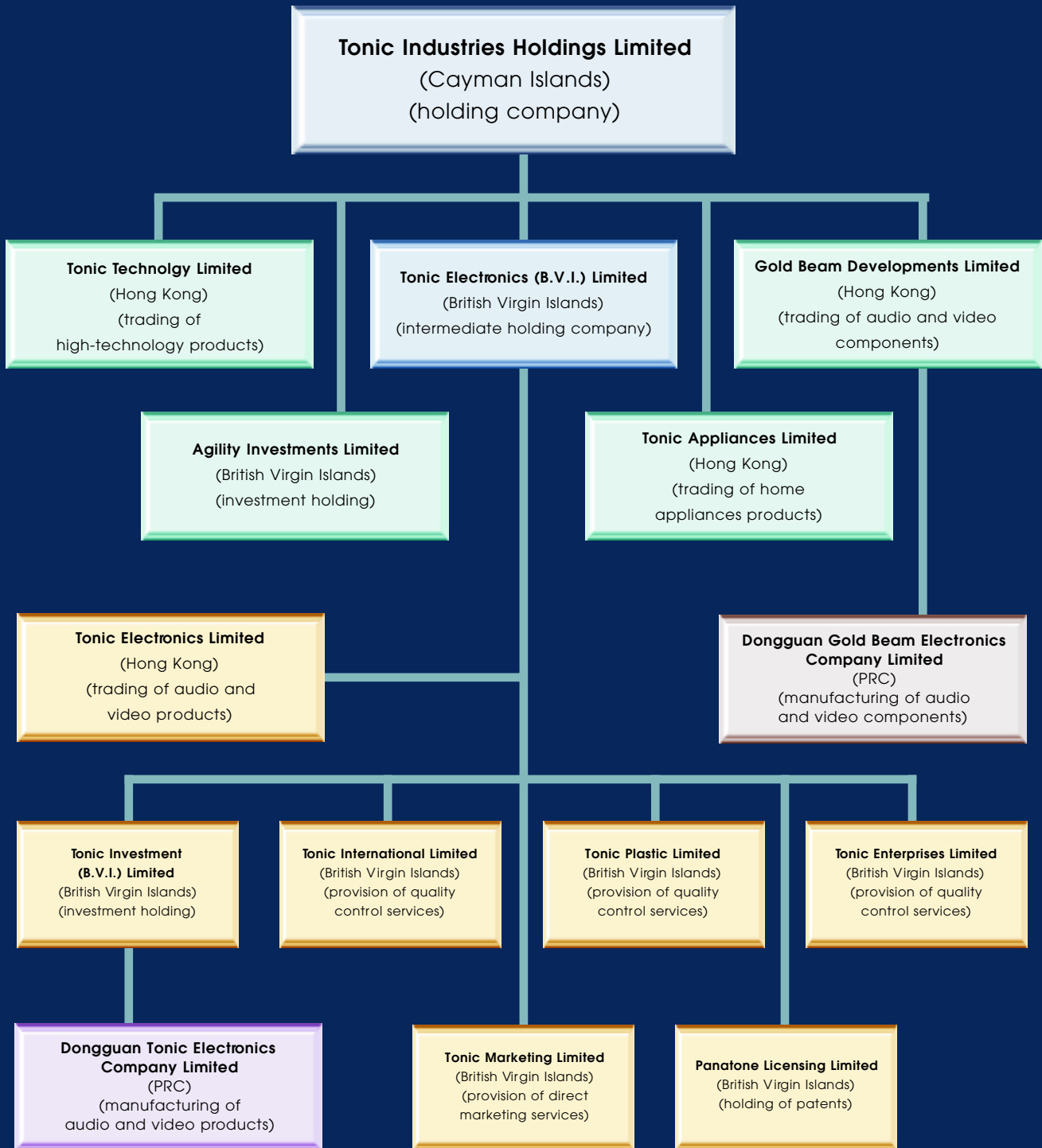
www.tonic.com.hk
www.irasia.com/listco/hk/tonic

STOCK CODE

978

GROUP

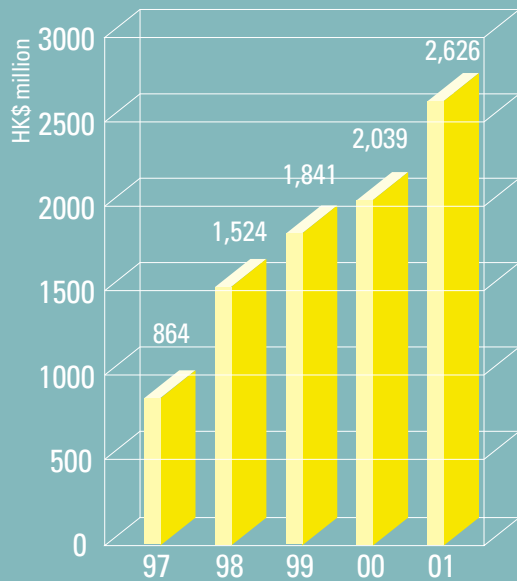
Structure



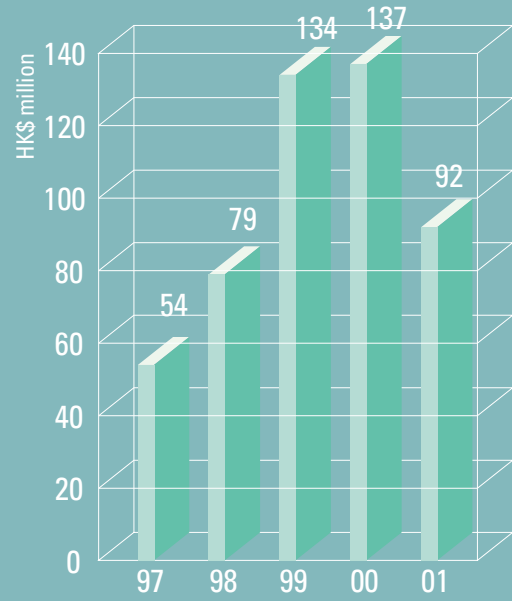
FINANCIAL

Highlights

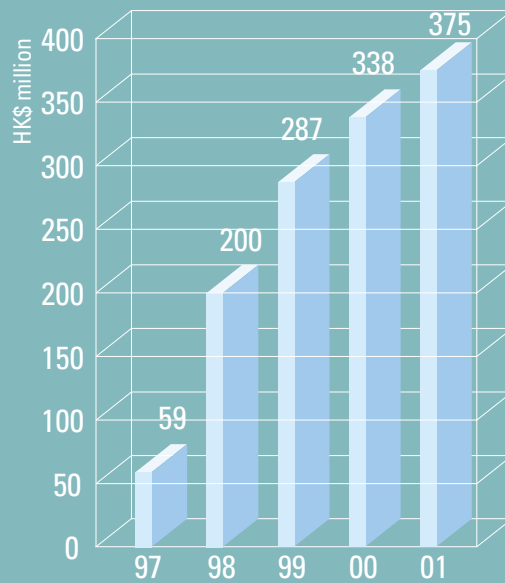
TURNOVER



PROFIT BEFORE INTEREST, TAX, DEPRECIATION AND AMORTISATION

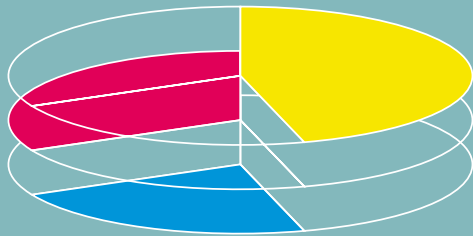


SHAREHOLDERS EQUITY



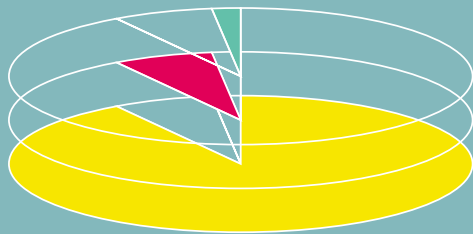
FINANCIAL

Highlights



TURNOVER BY GEOGRAPHICAL REGION

Asia	41%
Americas	30%
Europe	29%



TURNOVER BY PRODUCT CATEGORY

Audio	91%
Video	7%
Others	2%

MAJOR FINANCIAL INDICATORS AND RATIOS

	2001	2000	1999	1998
Gearing Ratio	0.47	0.32	0.51	0.61
Inventory Turnover Period	39 days	43 days	28 days	54 days
Account Receivable Turnover Period	12 days	18 days	10 days	21 days
Earnings Per Share	2.0 cents	12.6 cents	12.2 cents	8.5 cents
Net Assets	HK\$375 million	HK\$338 million	HK\$287 million	HK\$200 million

Digital products including
MP3 discman,
Internet set-top box,
Satellite receiver and DVD,
have been launched this year.



CHAIRMAN'S

Statement



Dear shareholders,

On behalf of the Board of Directors (the "Board"), I am pleased to present the annual report of Tonic Industries Holdings Limited.

FINAL DIVIDEND

The Board has recommended the payment of a final dividend of HK0.5 cent (year ended 31 March 2000: HK3.8 cents) per share. Together with the interim dividend of HK1 cent per share paid in January 2001, total dividend for the year will amount to HK1.5 cents 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 8 October 2001 to registered shareholders.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 10 September 2001 to 12 September 2001, 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 Branch 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 7 September 2001 in order to qualify for the Proposed Final Dividend.

CHAIRMAN'S

Statement

The turnover of the Group increased satisfactorily during the year. The Group successfully increased its product range, secured new orders from existing and new customers and enhanced production capacity via the Group's investment in advanced automation machines and new factory blocks.

Profit for the year did not show a corresponding growth due to reductions in profit margins. This was attributable to the abnormal increase and fluctuation in the cost of raw materials such as integrated circuits, RAM and plastic materials. The significant expenditure in research and development, and other start up costs for new products launched in the second half of the year and heavy capital investments also contributed to a lower bottom line. In addition, the markets in Europe and Japan have been affected by the currency depreciation and continue to be very competitive.

For Tonic, the fiscal year 2000/2001 was a year of challenge. Tonic has focused on the manufacturing of consumer audio products for many years. Realizing the world trend towards the digital era, we have taken the necessary steps in preparing the changes. As the next generation of digital products require more precision and accurate manufacturing processes, the Group has invested heavily in automated machinery eg. IC insertion machines and SMT machines from 1999

onward. We now have 18 automated machinery lines which not only reduce the processing time but also improve the product quality. Following the openings of our new factory buildings number 8 and 9 in 2000 and 2001 respectively, the factory production capacity has now been doubled. Production capacity is now able to meet the production demand for the next three years.

Factory Block 8, was inaugurated in June 2000, providing an additional 40% in production area. Factory Block 9, capable of installing 8 production lines was completed in June 2001 and has bolstered the production area by a further 20%. Total production area for the Group now exceeds 1,500,000 square feet.

To maintain its role as one of the leading manufacturers of audio-visual products, Tonic has further strengthened its existing business into a more diversified, technology advanced and value driven business. During the year, new products were being developed. These include CD-RW, DVD, MP3, digital satellite receiver and Internet set-top box and most of these products have been successfully launched in the market this year. These products have a higher unit selling price and generally have a higher profit margins. Consistent with previous years, the research and development costs for the new products were written off in the profit and loss account.

CHAIRMAN'S

Statement

FUTURE PLANS AND PROSPECTS

One of our prestigious Japanese OEM customers, Pioneer Electronics, has contracted the Group to manufacture three new models for them. These include high value DVD and MD products with total turnover exceeding HK\$600 million. We have also secured a new customer from the United States to manufacture Internet-DVD products with quantity forecasted at more than 500,000 sets per year. Together with the sales of our general audio products to other customers, we believe our business will sustain further growth in the coming years.

The business development of our home appliances company, Tonic Appliances Limited progressed smoothly during the year. The Group made good use of its existing production facilities, expertise in design and technology, as well as its quality control systems to produce quality products at a competitive price. Although this division contributed less than 5% to the Group's turnover this year, we believe that contributions from this division will increase rapidly in the next few years. Apart from our innovative 3 in 1 coffee making machine, new products such as air purifiers, ovens and industrial irons were introduced this year.

To seize opportunities arising out of the e-commerce era, the Group is planning to empower its B2B platform by implementing payment gateways and other value added

services e.g. logistics, insurance, quality control and credit checking facilities among others, in our next stage of development. Upon completion, the platform will enable suppliers and customers to search for products, negotiate terms, place orders, arrange delivery and make payment in one easy stop.

2000/01 was a period of investments, consolidation and repositioning for the Group. Acknowledging the swift development of the digital technology, the Group has prepared itself well ahead of the trend. Without the needs of further heavy investment, we expect fruitful returns to be generated from the new products and increased business. We are very confident that the Group's performance will significantly improve in the years ahead.

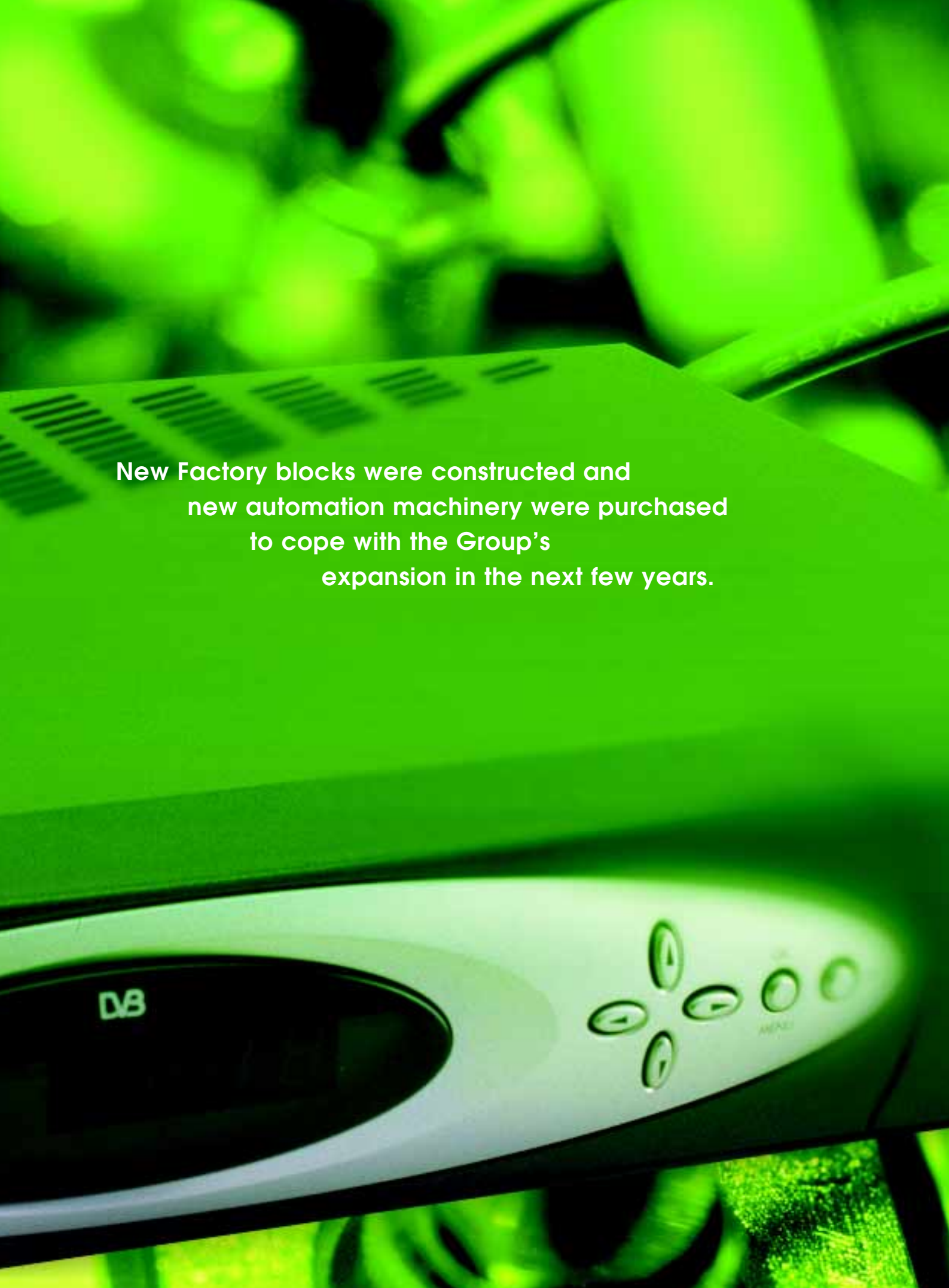
ACKNOWLEDGEMENT

On behalf of the board, I would like to take this opportunity to extend my gratitude to all my fellow directors & staff for their valuable commitment and hard work. I would like also to express my sincere thanks to our business partner support in the past year.

LING Siu Man, Simon

Chairman

Hong Kong, 17 July 2001



New Factory blocks were constructed and new automation machinery were purchased to cope with the Group's expansion in the next few years.

DB



D I R E C T O R S

and Senior
management Profile

EXECUTIVE DIRECTORS

Mr. LING Siu Man, Simon, aged 51, is the Chairman and Managing Director of the Company. Mr. Ling founded the business of the Group in 1976 and has over 25 years experience in the electronics industry. Mr. Ling is responsible for the strategic planning, corporate policy, and marketing aspects of the Group.



Mr. LEE Ka Yue, Peter, aged 54, was appointed to the Board following the participation of EganaGoldpfeil in the Company in June 1997. He is responsible for advising on the financial and corporate policies of the Group as well as overseeing overall coordination between EganaGoldpfeil and the Group. He is also an executive director of EganaGoldpfeil and has over 30 years experience in the timepiece and jewellery businesses as well as in the consumer electronics industry.



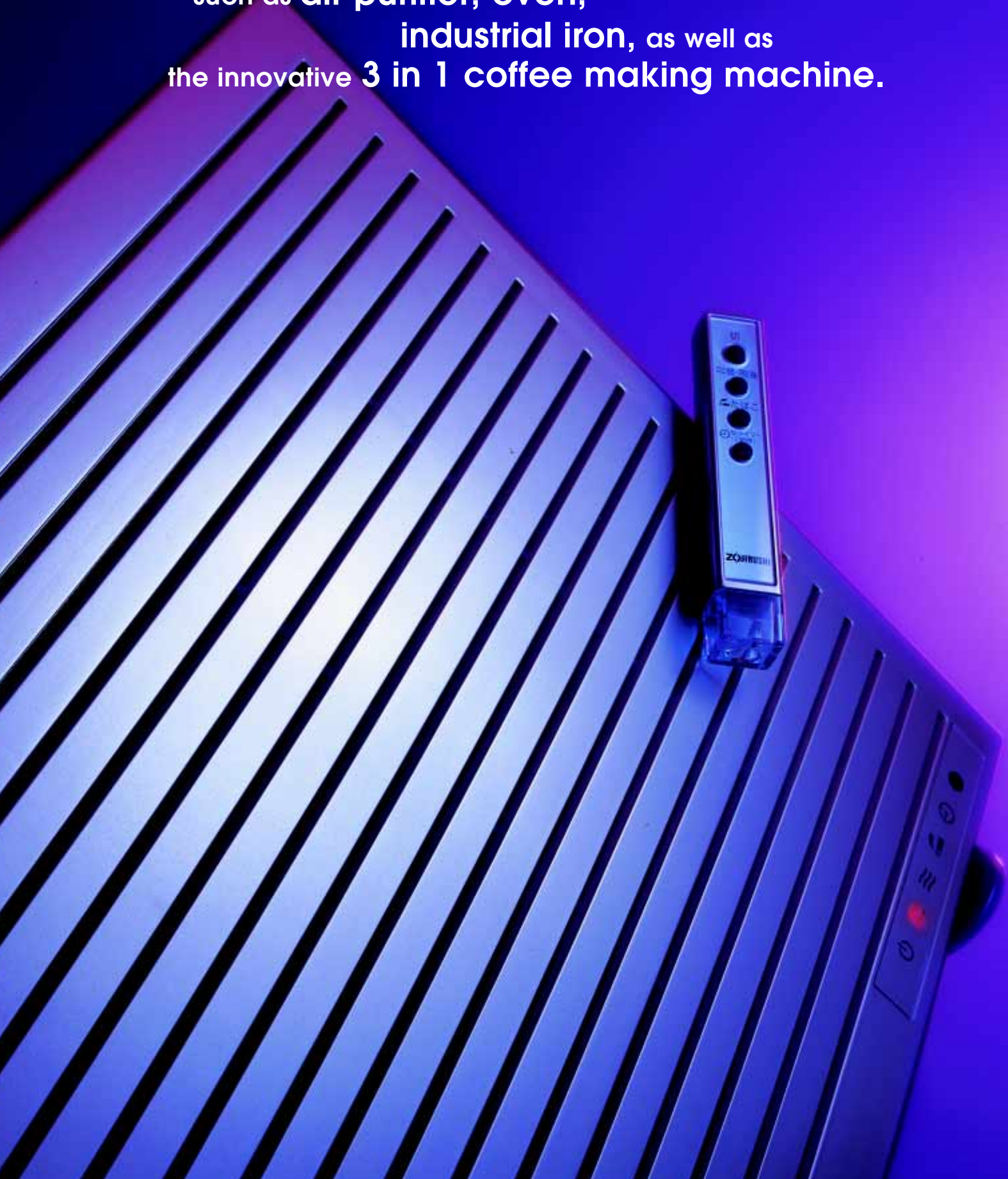
Mr. WONG Ki Cheung, aged 51, joined the Group in 1976 and is responsible for the Group's overall management, purchasing and materials control functions.



Ms. LI Fung Ching, Catherine, aged 47, joined the Group in 1976 and is responsible for the management of the accounting, treasury and administrative functions of the Group.



The Group's home appliances division
is currently marketing new products
such as air purifier, oven,
industrial iron, as well as
the innovative 3 in 1 coffee making machine.



D I R E C T O R S

and Senior
management Profile

Mr. AU Wai Man, aged 56, is the Group's engineering consultant. He is responsible for the research and development of the Group's new products. Prior to joining the Group in 1995, he has over 28 years experience in electronic product engineering.

Mr. LIU Hoi Keung, Gary, aged 36, joined the Group in 1997 and is responsible for the financial management and company secretarial matters of the Group. He is an associate of the Hong Kong Society of Accountants and a fellow of the Association of Chartered Certified Accountants. Prior to joining the Group, he has over 9 years experience in accounting, auditing and taxation.



NON-EXECUTIVE DIRECTORS

Mr. WONG Wai Kwong, David, aged 43, has over 20 years experience in finance, accounting, corporate and taxation affairs. He is a fellow of The Association of Chartered Certified Accountants, and an associate of the Hong Kong Society of Accountants, the Australian Association of Practising



Accountants and the Australasian Association of Secretaries and Managers. He is a director of International Taxation Advisory Services Limited. Mr. Wong is also a non-executive director of EganaGoldpfeil, as well as four other Hong Kong listed companies.

D I R E C T O R S

and Senior
management Profile

Mr. HO Fook Hong, Ferdinand, aged 53, holds a bachelor's degree in science and a master's degree in business administration from the University of Hong Kong and is a solicitor of the Supreme Courts of Hong Kong, England and Wales and Singapore. Mr. Ho is an Attesting Officer appointed by the Ministry of Justice of the PRC. Mr. Ho also serves as an independent non-executive director of Winsor Industrial Corporation Limited and Winsor Properties Holdings Limited.



Mr. PANG Hon Chung, aged 50, holds a master's degree in business administration, and is a member of the Association of Chartered Certified Accountants and the Hong Kong Society of Accountants. Mr. Pang has extensive experience in business management and is a director and the general manager of Lotus International Limited. He is also a director of Graneagle Holdings Limited.



SENIOR MANAGEMENT

Mr. LAU Tak Loi, Wilsum, aged 45, is the marketing director of Tonic Electronics Limited. He is mainly responsible for the Company's marketing activities in the USA. Mr. Lau has over 21 years experience in marketing of electronic products and he joined the Group in 1986.



D I R E C T O R S

and Senior
management Profile

Mr. LAU Yeung Ping, aged 44, is the engineering director of Tonic Electronics Limited and is responsible for the development of the Company's general audio products. He has over 24 years experience in electronic engineering and he joined the Group in 1979.



Mr. YEUNG Hon Po, aged 53, is the production director of Tonic Electronics Limited. Mr. Yeung is responsible for the manufacturing operations of the Company in Dongguan. He has over 33 years experience in the production of audio products and he joined the Group in 1978.

Mr. OTOGURO Yoshishige, aged 58, is responsible for the research and development of Tonic Electronics Limited's audio products. He has a degree in electronic science from Kougakuin University, Japan and has over 36 years experience in design, quality control and product development before joining the Group in 1996.



Mr. KIMISHISA Hotozuka, aged 54, is responsible for the supervision of Tonic Electronics Limited's production lines in Dongguan. Mr. Kimishisa has extensive experience in product engineering in various Japanese enterprises and has over 31 years working experience prior to joining the Group in 1996.



D I R E C T O R S

and Senior
management Profile

Mr. CHAN Pak Kin, aged 50, is the factory manager of Tonic Electronics Limited. Prior to joining the Group in 1992, he has over 16 years experience in engineering and production of electronic products. Mr. Chan is responsible for implementing the ISO program of the Group and also overseeing the operation of the speaker factory.



Mr. CHUI Wing Kwong, aged 52, is the general manager of Gold Beam Developments Limited. Mr. Chui joined the Group after the acquisition by the Group of the new factory at Qi Shi in 1998. Mr. Chui is responsible for the overall management of the Qi Shi factory. Mr. Chiu has over 26 years experience in the manufacturing of audio, plastic and metal products.

Mr. LAM Kwai Wah, Peter, aged 36, is the marketing director of Tonic Electronics Limited. He is mainly responsible for the Company's marketing activities in Europe. Mr. Lam has over 15 years experience in marketing of electronic products and home appliances and he joined the Group in 1998.



D I R E C T O R S

and Senior
management Profile

Mr. WONG Wai Fan, Peter, aged 37, is the group accountant of the Group. He is mainly responsible for the preparation of the Group's financial reports. Mr. Wong received a bachelor honour degree in Business Administration from the Hong Kong University of Science & Technology. He is an associate of the Association of International Accountants, the Hong Kong Society of Accountants and the Taxation Institute of Hong Kong. Mr. Wong has over 13 years experience in the field of accounting.



Ms. TAM Wing Ki, Samantha, aged 25, is the director of Tonic Appliances Limited. She graduated from the University of Michigan Business School and joined the Group in 1998. She is responsible for the management and marketing of the home appliances division.

Mr. KWOK Yiu Wa, aged 36, is the production manager of Tonic Electronics Limited. He is mainly responsible for the manufacturing operations of CD and MD products of the Company in Dongguan. He is also responsible for the automation department in the factory. Mr. Kwok has over 13 years of manufacturing experience of electronic products and he joined the Group in 1988.



MANAGEMENT

Discussion and Analysis

FINANCIAL PERFORMANCE

The Group has a well diversified and balanced customers portfolio. In the United States we have GPX, Emerson, RCA etc, in Europe we have Medion, TCM, Alba, Bush etc, in Japan we have Kenwood, Pioneer and Sanyo etc. Our overall turnover increased by approximately 30% this year and is not affected by the increase and decrease in demand of an individual customer. We successfully expanded our market shares as a result of better quality products and competitive pricing. Major products are still the CD and MD type products which account for more than 80% of the total turnover.

Pioneer Electronics in Japan has been our customers since 1998. After proving that we could meet and exceed their quality requirements, Pioneer has now contracted the Group to manufacture three new models for them. The three models, that have started manufacturing since February 2001, include DVD and MD products. Total turnover this year for the models will exceed HK\$600 million.

The Group also secured a new customer from the United States for the manufacturing of Internet-DVD products, these are products capable of browsing the World Wide Web using television and of playing DVD disc. Manufacturing of the products has begun on July, 2001 and the forecast sale of the products is 500,000 sets per year.

These new products have a FOB price ranging from US\$80 to US\$170 and also provide a better margin. Accompany with the strong sales from the general CD and MD products,

we expect to maintain a continuous increase in sales in the coming years.

RESEARCH AND DEVELOPMENT

Notice that the consumer electronics market has been migrating to the digital world, the Group has been spending a lot of resources in researching and developing new digital type products. Among these are DVD, CD-RW, MP3, digital satellite receivers and internet set-top box. DVD and MP3 products have commenced production since February 2001, internet set-top box has started production since April, 2001, digital satellite receivers and CD-RW will commence production in August, 2001. It is expected that turnover generated from the sales of these products will exceed 50% of the total turnover of the Group in the year 2002.

The many new models introduced in the second half of the financial year have caused a significant increase in research and development cost and pre-production cost etc. Consistent with the prudent practice of the Group in previous years, all the costs incurred before the launching of the new products have been written off in the profit and loss account.

MATERIALS SHORTAGE

The unusual shortage of IC and Ram has affected the profit margin of the Group this year, which has been decreased from 9.4% to 5.5%. Normally the Group will only order raw materials from suppliers after sales orders have been confirmed from customers. In this way profit margin can be determined and the Group is able to maintain a steady profit

Discussion and Analysis

margin over the years. Due to the worldwide shortage of these components, we were unable to confirm some of the raw materials purchase orders when the sales were committed. This has resulted in loss when there was subsequent increase in the price of the raw materials. Recently demand for these components have dropped and the prices lowered as a result of increase in supply and slowdown in the world economy. In addition, we have taken measures to prevent the material shortage problems which include longer production planning schedule and direct coordination with component manufacturers. We do not expect the shortage problem to recur in future years and believe our usual margin could be recovered.

GROUP EXPANSION PLAN

To prepare for the future expansion, the Group commenced construction of a new factory building number 8 that was completed on July 2000. Another factory block number 9 was subsequently built and was completed on June 2001. These two blocks add additional factory area of approximately 400,000 square feet to the Group. Total production area of the Group now exceeds 1,500,000 square feet.

In order to further upgrade the manufacturing process, the Group has purchased additional sets of SMT (Surface Mounted Technology) machines and other automated insertion machines. All the machines have been arrived at the factory on May 2001. The factory now has 18 SMT machinery lines and 18 sets radial

and axial automated insertion machines. These machines are capable of inserting electronic components into the chassis board at super high speed and with extreme accuracy.

In addition, the Group has committed to purchase 6 sets of heavy oil electricity generators in replacement for the diesel oil electricity generators. 4 of the 6 sets have been installed and used. Total investment for the generators amounted to approximately HK\$50 million. As a result of using the heavy oil gensets, it is estimated that more than HK\$10 million fuel cost could be saved each year. We have calculated that the payback period for the investment will be approximately 4 years.

The total capital expenditure and depreciation for the year amounted to approximately HK\$134 million and 57 million as compared to HK\$63 million and 45 million for last year.

As to the HK\$120 million aggregate bank term loans obtained in year 2000 to finance the capital expenditure, HK\$50 million were drawn during the year ended 31 March 2001. The internal funding of the Group is sufficient to pay off the capital expenditure at 31 March 2001, therefore the remaining HK\$70 million term loans were drawn after the year ended 31 March 2001 in order to mitigate the interest expenses. As a result a large net current liabilities has arose as at 31 March 2001, the net current liabilities have been significantly reduced after the drawing of the remaining HK\$70 million term loans after the year end.

MANAGEMENT

Discussion and Analysis

GROUP EXPANSION PLAN *(continued)*

We have estimated that with the increased production area and efficiency, the Group is now capable of handle sales of more than HK\$5 billion. The consumer market will be changing rapidly in the next few years from selling mainly analog type products to digital type products. The Group is well prepared for the changes in terms of enhancing technical capability, automating manufacturing process and increase in factory capacity, we believe a fruitful return could be generated in the years ahead.

EMPLOYEE INFORMATION

As at 31 March 2001, total numbers of employees of the Group were approximately 140 in Hong Kong and approximately 10,500 in the PRC. Remuneration is commensurated with individual qualification and experience. Salary and wages are normally reviewed annually. Other benefits included provident fund scheme, medical insurance, performance bonus and share options.

B2B PLATFORM

Jointly with another three listed electronic products manufacturers, the Group launched its B2B platform "eglobalex.com" in April 2001. "eglobalex.com" provides an easy to use platform for suppliers to look for suitable purchase orders through the internet. "eglobalex.com" now has more than fifty members and the numbers are continually increasing. Further services will be added into the platform which includes payment gateway, logistic services, insurance, credit checking and quality assurance facilities among others. Total investment for "eglobalex.com" is less than HK\$5 million and it is expected that eGlobalex could break even in its second year of operation.

R E P O R T O F

the Directors

The directors herein present their annual report and the audited financial statements of the Company and the Group for the year ended 31 March 2001.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The subsidiaries are engaged in the design, manufacture and marketing of consumer audio and video products. The design, manufacture and marketing of consumer video products was new business entered into by the Group during the year.

Details of the principal activities of the Company's subsidiaries are set out in note 14 to the financial statements.

SEGMENTAL INFORMATION

An analysis of the Group's turnover and contribution by principal activity and geographical area of markets is set out in note 3 to the financial statements.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 March 2001 and the state of affairs of the Company and of the Group at that date are set out in the financial statements on pages 30 to 68.

An interim dividend of HK1.0 cent per share was paid to shareholders on 16 January 2001. The directors recommend the payment of a final dividend of HK0.5 cents per share in cash to shareholders whose names appear on the register of members on 12 September 2001. This recommendation has been incorporated in the financial statements.

RESERVES

Details of movements in the reserves of the Company and of the Group during the year are set out in note 24 to the financial statements.

DISTRIBUTABLE RESERVES

At 31 March 2001, the Company's reserves available for cash distribution and/or distribution in specie amounted to HK\$132,679,000. Under the Companies Law (1998 Revision) of the Cayman Islands, the share premium of the Company is available for paying distributions or dividends to shareholders subject to the provisions of its memorandum or articles of association and, provided that immediately following the distribution of dividends, the Company is able to pay its debts as and when they fall due in the ordinary course of business. In the opinion of the directors, the Company's reserves available for distribution represent the share premium, contributed surplus and retained profits.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the five largest customers in aggregate accounted for approximately 81% of the total turnover of the Group and the largest customer accounted for approximately 40% of the total turnover of the Group.

During the year, the five largest suppliers in aggregate accounted for approximately 45% of the total purchases of the Group and the largest supplier accounted for approximately 20% of the total purchases of the Group.

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 any shareholders which to the knowledge of the directors own more than 5% of the Company's issued share capital, had any interest in the five largest customers or suppliers.

FIVE YEAR FINANCIAL SUMMARY

A summary of the combined/consolidated results and of the assets and liabilities of the Group is set out on pages 69-70 of the annual report.

FIXED ASSETS

Details of movements in the fixed assets of the Group during the year are set out in note 12 to the financial statements.

SUBSIDIARIES

Details of the subsidiaries of the Company as at 31 March 2001 are set out in note 14 to the financial statements.

SHARE CAPITAL, WARRANTS AND SHARE OPTIONS

Details of movements in the share capital, warrants and share options of the Company during the year and the reasons therefor are set out in note 23 to the financial statements.

PRE-EMPTIVE RIGHTS

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

BANK BORROWINGS

Details of bank borrowings of the Group as at 31 March 2001 are set out in note 20 to the financial statements.

INTEREST CAPITALISED

Interest of approximately HK\$1,714,000 (2000: Nil) was capitalised during the year in respect of the Group's fixed assets.

PENSION COSTS

The retirement scheme contributions made by the Group during the year amounted to HK\$1,903,000 and were in respect of employees of the Group in Hong Kong who were members of either the Group's defined contribution retirement schemes or the mandatory provident fund. The total forfeited contributions during the year were HK\$79,000. As at 31 March 2001, no forfeited contributions were available to reduce the Group's contributions to the retirement schemes in future years.

DIRECTORS

The directors of the Company during the year and up to the date of this report were:

Executive directors:

Ling Siu Man, Simon (*Chairman and Managing Director*)

Lee Ka Yue, Peter

Wong Ki Cheung

Li Fung Ching, Catherine

Au Wai Man

Liu Hoi Keung, Gary

Non-executive directors:

Wong Wai Kwong, David

Ho Fook Hong, Ferdinand*

Pang Hon Chung*

* *Independent non-executive directors*

In accordance with article 116 of the Company's articles of association, Au Wai Man and Ho Fook Hong, Ferdinand will retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

The terms of office of the non-executive directors are the periods from their dates of appointment up to their retirement by rotation in accordance with the Company's articles of association.

DIRECTORS' SERVICE CONTRACTS

All the executive directors, other than Lee Ka Yue, Peter, have entered into service contracts with the Company for terms of three years commencing from 1 October 2000.

Save as disclosed above, none of the directors proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

REMUNERATION OF DIRECTORS AND OF THE FIVE HIGHEST PAID EMPLOYEES

Details of the directors' remuneration and that of the five highest paid employees in the Group are set out in notes 5 and 6 to the financial statements, respectively.

DIRECTORS' INTERESTS IN SECURITIES

At 31 March 2001, the interests of directors or their associates in the issued share capital of the Company and its associated corporation, as recorded in the register maintained by the Company under Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") were as follows:

a) The Company

Name of directors	Nature of interest	Number of ordinary shares held
Ling Siu Man, Simon	Corporate (<i>Note</i>)	317,886,782
Wong Ki Cheung	Personal	938,000
Li Fung Ching, Catherine	Personal	1,200,000
Liu Hoi Keung, Gary	Personal	3,920
Pang Hon Cheung	Personal	742,000

Note: These shares were held by Success Forever Limited, a company incorporated in the British Virgin Islands, the entire issued share capital of which is beneficially owned by Ling Siu Man, Simon.

b) Associated corporation

At 31 March 2001, Ling Siu Man, Simon personally held 2,850 non-voting deferred shares of HK\$100 each of Tonic Electronics Limited, a subsidiary of the Company.

Save as disclosed above, and other than certain shares of the Company's subsidiaries held by certain directors in trust for the Group, none of the directors or their associates had any interest in any securities of the Company or any of its associated corporations as defined in the SDI Ordinance.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Particulars of the share option scheme of the Company are set out in note 23 to the financial statements. During the year, on 10 April 2000, the Company granted a total of 19,050,000 options to the executive directors of the Company to subscribe for a total of 19,050,000 ordinary shares of the Company at an exercise price of HK\$0.70 per share on or before 9 April 2010. In the absence of a readily available market value of the share options granted on the shares of the Company, the directors are unable to arrive at an accurate assessment of the value of the share options granted, and accordingly no value has been included in the remuneration above in relation thereto.

None of the above share options was exercised during the year and the number of share options held by each director as at 31 March 2001 were as follows:

	Number of share options
Ling Siu Man, Simon	10,000,000
Lee Ka Yue, Peter	1,810,000
Wong Ki Cheung	1,810,000
Li Fung Ching, Catherine	1,810,000
Au Wai Man	1,810,000
Liu Hoi Keung, Gary	1,810,000
	<hr/>
	<u>19,050,000</u>

Apart from the foregoing, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any directors or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company, its holding company or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

DIRECTORS' INTEREST IN CONTRACTS OF SIGNIFICANCE

Save as disclosed in note 28 to the financial statements, no contract of significance to which the Company or any of its subsidiaries was a party in which any director had a material interest, whether directly or indirectly, subsisted at the end of the year or any time during the year.

SUBSTANTIAL SHAREHOLDERS

At 31 March 2001, the following interests of 10% or more of the issued share capital of the Company were recorded in the register of interests kept by the Company pursuant to Section 16(1) of the SDI Ordinance:

Name	Number of ordinary shares held	Percentage of issued share capital (%)
Success Forever Limited (<i>Note 1</i>)	317,886,782	50.04
Eco-Haru Manufacturing Holdings Limited ("Eco-Haru") (<i>Note 2</i>)	121,100,869	19.06
Glorious Concept Limited ("Glorious Concept") (<i>Note 2</i>)	7,744,000	1.22
EganaGoldpfeil (Holdings) Limited ("EganaGoldpfeil") (<i>Note 2</i>)	128,844,869	20.28
Peninsula International Limited ("Peninsula") (<i>Note 3</i>)	128,844,869	20.28

Notes:

- 1) The entire issued share capital of Success Forever Limited is beneficially owned by Ling Siu Man, Simon as disclosed in "Directors' interests in securities" above.
- 2) The entire issued share capital of Eco-Haru and Glorious Concept is beneficially owned by EganaGoldpfeil.
- 3) The entire issued share capital of EganaGoldpfeil is held as to 39.02% by Peninsula.

Save as disclosed above and other than the directors of the Company whose interests are set out above, no persons had an interest of 10% or more in the issued share capital of the Company that was required to be recorded under Section 16(1) of the SDI Ordinance.

CONNECTED TRANSACTIONS

Details of connected transactions of the Company are set out in note 28 to the financial statements.

CONNECTED TRANSACTIONS *(Continued)*

The independent non-executive directors of the Company have reviewed and confirmed that the connected transactions were conducted in the ordinary and usual course of the Group's business and are fair and reasonable so far as the Company's shareholders are concerned, or in accordance with the terms of the agreements governing the transactions.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the year, 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 throughout the year.

AUDIT COMMITTEE

Pursuant to the requirement of the Listing Rules, the Company has established an audit committee which comprises all the Company's non-executive directors. Except for Wong Wai Kwong, David, all members of the audit committee are independent non-executive directors. There are written terms of reference describing the authority and duties of the audit committee. The audit committee's principal duties include the review and supervision of the Group's financial reporting process and internal controls.

AUDITORS

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

LING Siu Man, Simon

Chairman

Hong Kong

17 July 2001

R E P O R T O F

the Auditors



To the members

Tonic Industries Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

We have audited the financial statements on pages 30 to 68 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 statements and to report our opinion to you.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes an 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 Company's and the Group's circumstances, 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.

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 March 2001 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young

Certified Public Accountants

Hong Kong
17 July 2001

CONSOLIDATED

Year ended 31 March 2001

Profit and Loss Account

	<i>Notes</i>	2001 HK\$'000	2000 <i>HK\$'000</i>
TURNOVER	3	2,625,533	2,038,700
Cost of sales		(2,482,576)	(1,847,347)
Gross profit		142,957	191,353
Other revenue		20,534	21,380
Selling and distribution costs		(38,411)	(37,595)
Administrative expenses		(90,463)	(83,034)
PROFIT FROM OPERATING ACTIVITIES	4	34,617	92,104
Finance costs	7	(20,104)	(14,143)
PROFIT BEFORE TAX		14,513	77,961
Tax	8	(1,979)	(6,663)
PROFIT BEFORE MINORITY INTERESTS		12,534	71,298
Minority interests		–	2
NET PROFIT ATTRIBUTABLE TO SHAREHOLDERS	9	12,534	71,300
Dividends	10	(10,514)	(30,982)
RETAINED PROFITS FOR THE YEAR		2,020	40,318
EARNINGS PER SHARE	11		
– Basic		2.0 cents	12.6 cents
– Diluted		N/A	11.9 cents

CONSOLIDATED

Year ended 31 March 2001

Statement of Recognised Gains and Losses

	<i>Note</i>	2001 HK\$'000	2000 HK\$'000
Exchange difference on translation of overseas subsidiaries' financial statements	24	(4,013)	(785)
Revaluation surplus on fixed assets	24	17,690	–
Net gains/(losses) not recognised in the profit and loss account		13,677	(785)
Net profit for the year attributable to shareholders		12,534	71,300
Total recognised gains and losses		26,211	70,515
Goodwill eliminated directly against reserves	24	(2)	–
		26,209	70,515

CONSOLIDATED

31 March 2001

Balance Sheet

	<i>Notes</i>	2001 HK\$'000	2000 <i>HK\$'000</i>
NON-CURRENT ASSETS			
Fixed assets	12	415,300	322,686
Trademarks	13	2,257	–
Interest in an associate	15	850	–
Long term investments	16	22,076	16,024
Non-current portion of loans receivable	17	1,219	–
Deposits for acquisition of fixed assets		28,254	–
		<hr/> 469,956 <hr/>	<hr/> 338,710 <hr/>
CURRENT ASSETS			
Cash and bank balances		48,382	81,348
Time deposits		–	50,000
Accounts receivable	18	89,486	100,099
Current portion of loans receivable	17	2,078	–
Inventories	19	262,492	214,840
Prepayments, deposits and other receivables		4,218	16,274
Tax recoverable		3,963	–
		<hr/> 410,619 <hr/>	<hr/> 462,561 <hr/>
CURRENT LIABILITIES			
Trust receipt loans	20	132,060	101,027
Accounts payable	21	284,967	281,542
Accrued liabilities and other payables		31,306	36,772
Current portion of obligations under hire purchase contracts	22	2,463	3,752
Current portion of long term bank loans	20	19,667	–
Tax payable		–	5,132
Proposed final dividend	10	3,176	22,390
		<hr/> 473,639 <hr/>	<hr/> 450,615 <hr/>

CONSOLIDATED

31 March 2001

Balance Sheet (Continued)

	<i>Notes</i>	2001 HK\$'000	2000 <i>HK\$'000</i>
NET CURRENT ASSETS/(LIABILITIES)		(63,020)	11,946
TOTAL ASSETS LESS CURRENT LIABILITIES		406,936	350,656
NON-CURRENT LIABILITIES			
Non-current portion of obligations under hire purchase contracts	22	(2,765)	(3,865)
Non-current portion of long term bank loans	20	(19,000)	–
Deferred tax	8	(10,600)	(9,269)
		(32,365)	(13,134)
		374,571	337,522
CAPITAL AND RESERVES			
Share capital	23	63,526	58,889
Reserves	24	311,045	278,633
		374,571	337,522

LING Siu Man, Simon
Director

LIU Hoi Keung, Gary
Director

CONSOLIDATED

Year ended 31 March 2001

Cash Flow Statement

	<i>Note</i>	2001 HK\$'000	2000 HK\$'000
NET CASH INFLOW FROM OPERATING ACTIVITIES	25(a)	51,426	89,558
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Interest received		11,786	14,239
Interest paid		(21,109)	(13,690)
Interest element on hire purchase contracts		(709)	(453)
Dividends received		625	134
Dividends paid		(29,728)	(28,784)
Net cash outflow from returns on investments and servicing of finance		(39,135)	(28,554)
TAX			
Hong Kong profits tax paid		(9,733)	(3,435)
PRC taxes paid		–	(302)
Taxes paid		(9,733)	(3,737)
INVESTING ACTIVITIES			
Purchases of fixed assets		(127,196)	(52,844)
Proceeds from disposals of fixed assets		–	40
Acquisition of trademarks		(2,508)	–
Acquisition of an associate		(850)	–
Acquisition of minority interests		(2)	–
Purchases of long term investments		(6,052)	–
Increase in loans receivable		(3,297)	–
Deposits paid for fixed assets		(28,254)	–
Net cash outflow from investing activities		(168,159)	(52,804)

CONSOLIDATED

Year ended 31 March 2001

Cash Flow Statement

(Continued)

	<i>Note</i>	2001 HK\$'000	2000 <i>HK\$'000</i>
NET CASH INFLOW/(OUTFLOW) BEFORE FINANCING ACTIVITIES		(165,601)	4,463
FINANCING ACTIVITIES	25(b)		
Proceeds from issue of new shares		21,354	10,829
New bank loans		50,000	–
Repayment of bank loans		(11,333)	–
Repayment of obligations under hire purchase contracts		(7,724)	(4,804)
Minority shareholder's contribution on forming a new subsidiary		–	2
Net cash inflow from financing activities		52,297	6,027
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		(113,304)	10,490
Cash and cash equivalents at beginning of year		30,321	20,616
Effect of foreign exchange rate changes, net		(695)	(785)
CASH AND CASH EQUIVALENTS AT END OF YEAR		(83,678)	30,321
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		48,382	81,348
Time deposits with original maturity of less than three months when acquired		–	50,000
Trust receipt loans with maturity of less than three months		(132,060)	(101,027)
		(83,678)	30,321

BALANCE SHEET

31 March 2001

	<i>Notes</i>	2001 HK\$'000	2000 <i>HK\$'000</i>
NON-CURRENT ASSETS			
Interests in subsidiaries	14	189,541	126,247
CURRENT ASSETS			
Cash and bank balances		131	18
Prepayments and other receivables		199	221
Dividend receivable		–	62,390
		330	62,629
CURRENT LIABILITIES			
Accrued liabilities and other payables		490	495
Proposed final dividend	10	3,176	22,390
		3,666	22,885
NET CURRENT ASSETS/(LIABILITIES)			
		(3,336)	39,744
		186,205	165,991
CAPITAL AND RESERVES			
Share capital	23	63,526	58,889
Reserves	24	122,679	107,102
		186,205	165,991

LING Siu Man, Simon
Director

LIU Hoi Keung, Gary
Director

1. CORPORATION INFORMATION

The Company was incorporated in the Cayman Islands under the Companies Law (1995 Revision) as an exempted company with limited liability on 24 April 1997. On 30 May 1997, pursuant to a reorganisation to rationalise the Group structure in preparation for the listing of the Company's shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company became the holding company of the companies now comprising the Group through the acquisition, for shares, of the entire issued share capital of Tonic Electronic (B.V.I.) Limited, the former holding company of the Group. The shares of the Company were listed on the Stock Exchange on 16 October 1997.

The principal activity of the Company is investment holding. The subsidiaries are engaged in the design, manufacture and marketing of consumer audio and video products. The design, manufacture and marketing of consumer video products was new business entered into by the Group during the year.

In the opinion of the directors, the ultimate holding company is Success Forever Limited, a company incorporated in the British Virgin Islands.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the revaluation of fixed assets as further explained below.

Basis of consolidation and presentation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 March 2001. The results of 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Subsidiaries

A subsidiary is a company in which the 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.

Interests in subsidiaries are stated at cost unless, in the opinion of the directors, there have been impairment in values other than temporary, when they are written down to values determined by the directors.

Associates

An associate is a company, not being a subsidiary or a joint venture, in which the Group has a long term interest of not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's investment in an associate is stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting less any additional provisions for impairment in values deemed necessary by the directors.

Goodwill

Goodwill arising on consolidation of subsidiaries represents the excess purchase consideration paid over the fair values ascribed to the net underlying assets acquired and is eliminated against reserves in the year of acquisition. On disposal of subsidiaries, the relevant portion of attributable goodwill previously eliminated against reserves is written back and included in the calculation of the gain or loss on disposal.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)***Fixed assets and depreciation**

Fixed assets, other than construction in progress, are stated at cost or valuation less accumulated depreciation. 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 fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account 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 fixed asset, the expenditure is capitalised as an additional cost of the fixed asset.

Depreciation is calculated to write off the cost or valuation of each asset at the following rates per annum:

Land held under medium and long term leases	Over the remaining lease terms on the straight-line basis
Buildings	4% on the straight-line basis
Leasehold improvements	25% on the reducing balance basis
Furniture and fixtures	25% on the reducing balance basis
Equipment and tools	25% on the reducing balance basis
Motor vehicles	30% on the reducing balance basis
Moulds	25% on the straight-line basis

Construction in progress represents the cost of buildings under construction in the People's Republic of China (the "PRC") not yet ready for its intended use. Construction in progress is stated at cost. Depreciation is provided upon transfer to other fixed assets accounts when such fixed assets are ready for their intended use.

Changes in the values of fixed assets are dealt with as movements in the asset revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to the profit and loss account. A subsequent revaluation increase is recognised as income to the extent that it reverses a revaluation deficit of the same asset previously charged to the profit and loss account.

Upon the disposal of revalued fixed assets, the relevant portion of the revaluation reserve realised in respect of the previous valuation is credited directly to the retained profits account.

The gain or loss on disposal or retirement of a fixed asset recognised in the profit and loss account is the difference between the net sales proceeds and the carrying amount of the relevant asset.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Research and development costs

All research costs are charged to the profit and loss account 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 expensed when incurred.

Deferred product development costs are amortised using the straight-line basis over the commercial lives of the underlying products not exceeding five years, commencing from the date when the products are put into commercial production.

Assets held under hire purchase contracts

At the inception of a hire purchase contract, the cost of the asset is capitalised at the present value of the minimum contract payments and recorded together with the obligation, excluding the interest element, to reflect the costs of purchase and financing. Assets held under hire purchase contracts are included in fixed assets and depreciated over the estimated useful lives of the assets. The finance costs of such hire purchase contracts are charged to the profit and loss account so as to produce a constant periodic rate over the contract terms.

Trademarks

Trademarks are stated at cost and are amortised, using the straight-line basis over their estimated useful lives but not exceeding ten years.

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 payable and receivable under operating leases are recorded in the profit and loss account on the straight-line basis over the lease terms.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)***Long term investments**

Long term investments in listed and unlisted equity securities which are intended to be held for an identified long term purpose documented at the time of acquisition or change of purpose are stated at cost less any provisions for diminutions in values, on an individual investment basis. Provisions are made when the fair values have declined below the carrying amounts unless there is evidence that the decline is temporary. Fair values are based on the quoted market prices at the balance sheet date for listed securities on individual investment basis. Unlisted securities are stated at their estimated fair values on an individual basis. Any reduction in carrying amounts is charged to the profit and loss account.

When the circumstances and events that led to the write downs or write offs of long term investments cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future, the appreciation in fair value is credited to the profit and loss account, on an individual investment basis, to the extent of the amount previously charged.

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 estimated selling prices less any estimated costs to be incurred to completion and disposal.

Deferred tax

Deferred tax is provided, using the liability method, on all significant timing differences to the extent it is probable that the liability will crystallise in the foreseeable future. A deferred tax asset is not recognised until its realisation is assured beyond reasonable doubt.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)***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:

- (a) 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;
- (b) the rendering of subcontracting services, when services are rendered;
- (c) rental income, on a time proportion basis over the lease terms;
- (d) interest income, on a time proportion basis, taking into account the principal outstanding and the effective interest rate applicable; and
- (e) dividends, when the shareholders' right to receive payment is established.

Foreign currencies

Foreign currency transactions are recorded at the applicable rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable rates of exchange ruling at that date. Exchange differences are dealt with in the profit and loss account.

On consolidation, the financial statements of overseas subsidiaries are translated into Hong Kong dollars at the applicable rates of exchange ruling at the balance sheet date. The resulting translation differences are dealt with in the exchange fluctuation reserve.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets which necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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.

Staff retirement scheme

Previously, the Group operated two defined contribution retirement benefits schemes (the "Schemes") for its employees, who were eligible and had elected to participate in the Schemes, the assets of which were held separately from those of the Group in an independently administered fund. Contributions were made based on a percentage of the eligible employees' salaries and were charged to the profit and loss account as they became payable in accordance with the rules of the Schemes. When an employee left a scheme prior to his/her interest in the Group's contributions vesting fully, the ongoing contributions payable by the Group might be reduced by the relevant amount of forfeited contributions.

On 1 December 2000, one of the Schemes was terminated with all of its underlying assets of this terminated scheme being transferred to a Mandatory Provident Fund ("MPF"). Contributions to the MPF are made based on rates applicable to the respective employees' relevant income from the Group and are charged to the profit and loss account as they become payable in accordance with government regulations. The Group's mandatory contributions are fully and immediately vested in favour of the employees.

Cash equivalents

For the purpose of the consolidated cash flow statement, cash equivalents represent short term highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from banks repayable within three months from the date of the advance.

3. TURNOVER

Turnover represents the invoiced value of goods sold, net of discounts and returns, after elimination of all significant intra-group transactions. Revenue from the following activities has been included in turnover:

	2001 HK\$'000	2000 HK\$'000
Manufacture and trading of audio products	2,396,459	2,033,424
Manufacture and trading of video products	169,491	–
Others	59,583	5,276
	<hr/>	<hr/>
Total	2,625,533	2,038,700
	<hr/> <hr/>	<hr/> <hr/>

An analysis of the Group's turnover by geographical area of markets, disclosed pursuant to the requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") is as follows:

	2001 HK\$'000	2000 HK\$'000
The United States of America	789,115	757,991
Europe	765,938	523,576
Asia Pacific countries	1,069,758	683,546
Others	722	73,587
	<hr/>	<hr/>
Total	2,625,533	2,038,700
	<hr/> <hr/>	<hr/> <hr/>

An analysis of the contribution to profit from operating activities by principal activity, disclosed pursuant to the Listing Rules, is as follows:

	2001 HK\$'000	2000 HK\$'000
Manufacture and trading of audio products	51,257	92,730
Manufacture and trading of video products	(21,170)	–
Others	4,530	(626)
	<hr/>	<hr/>
Total	34,617	92,104
	<hr/> <hr/>	<hr/> <hr/>

3. TURNOVER *(Continued)*

The contribution to profit from operating activities by geographical area of markets is not presented as the contribution from each market is substantially in line with the overall rate of profit from operating activities to turnover of the Group.

4. PROFIT FROM OPERATING ACTIVITIES

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

	2001 HK\$'000	2000 HK\$'000
Depreciation:		
Owned fixed assets	55,295	42,550
Leased fixed assets	1,723	2,721
Operating lease rentals on land and buildings	1,998	1,448
Auditors' remuneration	760	720
Amortisation of trademarks	251	–
Provision for inventories	10,735	–
Staff costs (including directors' remuneration – note 5):		
Wages and salaries	125,719	106,743
Pension contributions	1,903	1,028
Less: Forfeited contributions (Note)	(79)	(178)
	127,543	107,593
Loss on disposal of fixed assets	339	13
Exchange gains, net	(3,229)	(1,246)
Interest income	(11,786)	(14,239)
Gross and net rental income from land and buildings	(869)	(876)
Dividend income from listed investments	(625)	(134)
Write back of provision for doubtful debts	–	(450)
	–	–

Note: As at 31 March 2001, the Group had no forfeited contributions available to offset its future employers' contributions (2000: Nil).

5. DIRECTORS' REMUNERATION

	2001 HK\$'000	2000 <i>HK\$'000</i>
Fees – non-executive directors	195	–
Other emoluments – executive directors:		
Salaries and allowances	10,608	10,200
Bonuses paid and payable	–	6,500
Pension contributions	178	–
	<u>10,981</u>	<u>16,700</u>

During the year, no fees were paid to the executive directors (2000: Nil) and no other emoluments were paid to the non-executive directors (2000: Nil).

The number of directors whose remuneration for the year fell within the designated bands is set out below.

	Number of directors	
	2001	2000
Nil – HK\$1,000,000	4	4
HK\$1,500,001 – HK\$2,000,000	4	3
HK\$2,000,001 – HK\$2,500,000	–	1
HK\$3,500,001 – HK\$4,000,000	1	–
HK\$8,000,001 – HK\$8,500,000	–	1
	<u>–</u>	<u>1</u>

On 10 April 2000, the Company granted a total of 19,050,000 options to the executive directors of the Company to subscribe for a total of 19,050,000 ordinary shares of the Company at an exercise price of HK\$0.70 per share on or before 9 April 2010. In the absence of a readily available market value of the share options granted on the shares of the Company, the directors are unable to arrive at an accurate assessment of the value of the share options granted, and accordingly no value has been included in the remuneration above in relation thereto.

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2000: Nil).

6. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included five (2000: five) directors, details of whose remuneration are set out in note 5 above.

7. FINANCE COSTS

	2001 HK\$'000	2000 <i>HK\$'000</i>
Interest on:		
Bank loans and facilities wholly repayable within five years	21,109	13,690
Obligations under hire purchase contracts	709	453
	<hr/>	<hr/>
Total finance costs	21,818	14,143
Interest capitalised	(1,714)	–
	<hr/>	<hr/>
	20,104	14,143
	<hr/> <hr/>	<hr/> <hr/>

8. 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 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% (2000: 16%) on all significant timing differences to the extent it is probable that the liability will crystallise in the foreseeable future.

8. TAX (Continued)

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

	2001 HK\$'000	2000 <i>HK\$'000</i>
Hong Kong:		
Provision for the year	–	5,410
Under/(over)provision in prior years	54	(2,598)
Deferred	1,331	2,933
	1,385	5,745
PRC:		
Provision for the year	594	918
Tax charge for the year	1,979	6,663

The movement in the Group's deferred tax provision is as follows:

	2001 HK\$'000	2000 <i>HK\$'000</i>
At beginning of year	9,269	6,336
Charge for the year	1,331	2,933
At balance sheet date	10,600	9,269

The principal components of the Group's deferred tax provision are as follows:

	2001 HK\$'000	2000 <i>HK\$'000</i>
Accelerated depreciation allowances	15,782	9,204
Tax losses carried forward	(5,192)	–
Others	10	65
	10,600	9,269

31 March 2001

Financial Statements

8. TAX (Continued)

The revaluation of the Group's leasehold land and buildings in the current year did not constitute a timing difference and, consequently, the amount of potential deferred tax thereon has not been quantified.

9. NET PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The net profit attributable to shareholders dealt with in the financial statements of the Company for the year ended 31 March 2001 is HK\$9,374,000 (2000: HK\$60,961,000).

10. DIVIDENDS

	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Interim – HK1.0 cent (2000: HK1.5 cents) per ordinary share	6,353	8,592
Proposed final – HK0.5 cent (2000: HK3.8 cents) per ordinary share	3,176	22,390
Underprovision of prior year's proposed final dividends	985	–
	<hr/> 10,514 <hr/>	<hr/> 30,982 <hr/>

11. EARNINGS PER SHARE

The calculation of earnings per share is based on the net profit attributable to shareholders of HK\$12,534,000 (2000: HK\$71,300,000) and the weighted average of 614,281,357 shares (2000: 567,266,794 shares) in issue during the year.

Diluted earnings per share for the year ended 31 March 2001 has not been shown because the effects arising from the exercise of the potential ordinary shares would be anti-dilutive. The calculation of diluted earnings per share for the year ended 31 March 2000 was based on the net profit attributable to shareholders of HK\$71,300,000 and the weighted average of 597,391,291 shares in issue, adjusted to reflect the effects of all dilutive potential ordinary shares during the prior year.

11. EARNINGS PER SHARE *(Continued)*

A reconciliation of the weighted average number of shares used in the basic earnings per share calculation for the year ended 31 March 2000 to that used in the diluted earnings per share calculation is as follows:

	2001	2000
Weighted average number of shares used in the basic earnings per share calculation	614,281,357	567,266,794
Weighted average number of shares assumed to have been issued at no consideration on the deemed exercise of all warrants outstanding during the year	—	30,124,497
Weighted average number of shares used in the diluted earnings per share calculation	<u>614,281,357</u>	<u>597,391,291</u>

31 March 2001

Financial Statements

12. FIXED ASSETS

Group

	Leasehold land and buildings <i>HK\$'000</i>	Const- ruction in progress <i>HK\$'000</i>	Leasehold improve- ments <i>HK\$'000</i>	Furniture and fixtures <i>HK\$'000</i>	Equipment and tools <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Moulds <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost or valuation:								
At beginning of year	196,102	9,798	20,776	21,098	147,199	9,012	58,162	462,147
Additions	1,237	27,435	13,411	2,112	72,585	3,452	14,013	134,245
Transfers	15,678	(21,596)	1,339	-	1,529	-	3,050	-
Disposals	-	-	-	-	(490)	-	-	(490)
Revaluation	4,879	-	-	-	-	-	-	4,879
Exchange adjustments	(1,496)	(104)	(128)	(48)	(469)	(16)	(27)	(2,288)
At 31 March 2001	216,400	15,533	35,398	23,162	220,354	12,448	75,198	598,493
Analysis of cost or valuation:								
At cost	-	15,533	35,398	23,162	220,354	12,448	75,198	382,093
At valuation	216,400	-	-	-	-	-	-	216,400
	216,400	15,533	35,398	23,162	220,354	12,448	75,198	598,493
Accumulated depreciation:								
At beginning of year	6,255	-	8,248	13,688	65,219	6,264	39,787	139,461
Provided during the year	6,605	-	4,785	2,261	32,332	1,452	9,583	57,018
Disposals	-	-	-	-	(151)	-	-	(151)
Written back on revaluation	(12,811)	-	-	-	-	-	-	(12,811)
Exchange adjustments	(49)	-	(45)	(26)	(190)	(9)	(5)	(324)
At 31 March 2001	-	-	12,988	15,923	97,210	7,707	49,365	183,193
Net book value:								
At 31 March 2001	216,400	15,533	22,410	7,239	123,144	4,741	25,833	415,300
At 31 March 2000	189,847	9,798	12,528	7,410	81,980	2,748	18,375	322,686

12. FIXED ASSETS (Continued)

An analysis of the Group's leasehold land and buildings is as follows:

	Hong Kong	PRC	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At valuation:			
Held under long term leases	4,000	–	4,000
Held under medium term leases	41,800	170,600	212,400
	<u>45,800</u>	<u>170,600</u>	<u>216,400</u>

The Group's leasehold land and buildings were revalued at 31 March 2001 by Sallmanns (Far East) Limited, an independent firm of professional valuers, on an open market, existing use basis at HK\$216,400,000.

The Group is applying for land use right certificates in respect of certain of the Group's leasehold land in the PRC. This piece of land had an aggregate net book value of approximately HK\$2,966,000 at 31 March 2001 (2000: HK\$2,395,000).

Had the Group's leasehold land and buildings been carried at cost less accumulated depreciation, they would have been included in the financial statements at approximately HK\$117,091,000 (2000: HK\$104,277,181).

The amount of construction in progress transferred to leasehold land and buildings included interest capitalised during the year of approximately HK\$597,000 (2000: Nil). Also, the Group's construction in progress and leasehold improvements included interest capitalised during the year of approximately HK\$915,000 (2000: Nil) and HK\$202,000 (2000: Nil), respectively.

Included in the total amount of fixed assets at 31 March 2001 are assets held under hire purchase contracts with a net book value of HK\$7,852,000 (2000: HK\$9,834,000) and the depreciation charge for the year in respect of all such assets held under hire purchase contracts amounted to HK\$1,723,000 (2000: HK\$2,721,000).

31 March 2001

Financial Statements

13. TRADEMARKS

	Group <i>HK\$'000</i>
Cost:	
Additions and at 31 March 2001	2,508
Amortisation:	
Provided during the year and at 31 March 2001	<u>251</u>
Net book value:	
At 31 March 2001	<u><u>2,257</u></u>

14. INTERESTS IN SUBSIDIARIES

	Company	
	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Unlisted shares, at cost	58,812	58,810
Due from subsidiaries	<u>130,729</u>	<u>67,437</u>
	<u><u>189,541</u></u>	<u><u>126,247</u></u>

The balances due from subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

14. INTERESTS IN SUBSIDIARIES (Continued)

Particulars of the subsidiaries are as follows:

Company	Place of incorporation/ registration and operations	Nominal value of issued/ registered paid-up capital	Percentage of equity attributable to the Company		Nature of business
			Direct	Indirect	
Agility Investments Limited	British Virgin Islands	US\$1	100%	–	Investment holding
Dongguan Gold Beam Electronics Co., Ltd	PRC	*HK\$22,220,000	–	100%	Manufacture of audio and video components
Dongguan Tonic Electronic Co., Ltd.	PRC	HK\$22,200,000	–	100%	Manufacture of audio and video products
Gold Beam Developments Limited	Hong Kong	HK\$2	100%	–	Trading of audio and video components
Tonic Appliances Limited	Hong Kong	HK\$2	100%	–	Trading of home appliances products
Tonic Electronics (B.V.I.) Limited	British Virgin Islands	HK\$1	100%	–	Investment holding
Tonic Electronics Limited	Hong Kong	Ordinary HK\$200 #Non-voting deferred HK\$300,000	–	100%	Trading of audio and video products

14. INTERESTS IN SUBSIDIARIES *(Continued)*

Particulars of the subsidiaries are as follows:

Company	Place of incorporation/ registration and operations	Nominal value of issued/ registered paid-up capital	Percentage of equity attributable to the Company		Nature of business
			Direct	Indirect	
Tonic Enterprises Limited	British Virgin Islands	US\$1	–	100%	Provision of quality control services
Tonic International Limited	British Virgin Islands	HK\$0.01	–	100%	Provision of quality control services
Tonic Investment (B.V.I.) Limited	British Virgin Islands	HK\$0.01	–	100%	Investment holding
Tonic Marketing Limited	British Virgin Islands	US\$0.01	–	100%	Direct marketing
Tonic Plastic Limited	British Virgin Islands	US\$0.01	–	100%	Provision of quality control services
Tonic Technology Limited	Hong Kong	HK\$10,000	**100%	–	Trading of high-technology products
Panatone Licensing Limited	British Virgin Islands	US\$1	–	100%	Holding of Patents

* The registered capital of Dongguan Gold Beam Electronics Co., Ltd. is HK\$22,220,000. At 31 March 2001, the Group has paid up HK\$20,044,540 of the capital.

** During the year, the Company increased its shareholding in Tonic Technology Limited from 80% to 100%.

The non-voting deferred shares carry the right to one-half of the profits after the holders of the ordinary shares have received a dividend of HK\$1,000,000,000,000, have no right to vote at general meetings and carry the right to receive one half of the balance of any surplus in a return of capital in a winding-up after the holders of the ordinary shares have received a total return of the HK\$500,000,000,000,000. None of the non-voting deferred shares was held by members of the Group at the balance sheet date.

31 March 2001

Financial Statements

15. INTEREST IN AN ASSOCIATE

	2001 <i>HK\$'000</i>	Group 2000 <i>HK\$'000</i>
Share of net assets	<u>850</u>	<u>–</u>

Particulars of the associate are as follows:

Name	Business structure	Place of incorporation and operations	Percentage of equity attributable to the Group	Nature of business
E-Global Electronics Trading Platform Limited	Corporate	Hong Kong	25%	Provision of electronics procurement services

16. LONG TERM INVESTMENTS

	2001 <i>HK\$'000</i>	Group 2000 <i>HK\$'000</i>
At cost		
Hong Kong listed equity investments	21,221	16,024
Overseas unlisted equity investments	855	–
	<u>22,076</u>	<u>16,024</u>
Market value of listed equity investments at balance sheet date	<u>20,716</u>	<u>18,684</u>

31 March 2001

Financial Statements

17. LOANS RECEIVABLE

Loans receivable represent unsecured and interest-free advances to certain staff of the Group. The terms of the loans receivable are analysed as follows:

	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Repayable within one year	1,869	–
Repayable by equal monthly instalments over eight years	1,406	–
No fixed terms of repayment	22	–
	<hr/>	<hr/>
	3,297	–
Portion classified as current assets	(2,078)	–
	<hr/>	<hr/>
Non-current portion	1,219	–
	<hr/> <hr/>	<hr/> <hr/>

18. ACCOUNTS RECEIVABLE

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

	2001		2000	
	<i>HK\$'000</i>	<i>Percentage</i>	<i>HK\$'000</i>	<i>Percentage</i>
0 – 30 days	67,978	76	88,391	88
31 – 60 days	7,266	8	2,746	3
61 – 90 days	8,221	9	3,305	3
Over 90 days	6,021	7	5,657	6
	<hr/>	<hr/>	<hr/>	<hr/>
	89,486	100	100,099	100
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

The normal credit terms granted by the Group to customers range from 7 to 35 days.

31 March 2001

Financial Statements

19. INVENTORIES

	2001 HK\$'000	Group 2000 <i>HK\$'000</i>
Raw materials	132,016	83,924
Work in progress	87,230	93,901
Finished goods	43,246	37,015
	<hr/> 262,492 <hr/>	<hr/> 214,840 <hr/>

The carrying amount of inventories carried at net realisable value included in the above is HK\$50,886,000 (2000: Nil).

20. BANK BORROWINGS

	2001 HK\$'000	Group 2000 <i>HK\$'000</i>
Long term bank loans repayable:		
Within one year	19,667	–
In the second year	15,667	–
In the third to fifth years, inclusive	3,333	–
	<hr/> 38,667 <hr/>	<hr/> – <hr/>
Portion classified as current liabilities	(19,667)	–
Non-current portion	19,000	–
	<hr/> 19,000 <hr/>	<hr/> – <hr/>

The Group's trust receipt loans are repayable within one year.

As at 31 March 2001, all the Group's bank borrowings were secured by corporate guarantee granted by the Company and cross corporate guarantees among certain subsidiaries and the Company.

31 March 2001

Financial Statements

21. ACCOUNTS PAYABLE

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

	2001		2000	
	<i>HK\$'000</i>	<i>Percentage</i>	<i>HK\$'000</i>	<i>Percentage</i>
0 – 30 days	129,993	46	118,535	42
31 – 60 days	78,723	28	59,930	21
61 – 90 days	32,243	11	48,754	18
Over 90 days	44,008	15	54,323	19
	<u>284,967</u>	<u>100</u>	<u>281,542</u>	<u>100</u>

22. OBLIGATIONS UNDER HIRE PURCHASE CONTRACTS

There were commitments under hire purchase contracts at the balance sheet date as follows:

	Group	
	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Amounts payable:		
Within one year	2,824	4,262
In the second year	2,195	3,449
In the third to fifth years, inclusive	768	552
	<u>5,787</u>	<u>8,263</u>
Total minimum contract payments	5,787	8,263
Future finance charges	(559)	(646)
	<u>5,228</u>	<u>7,617</u>
Total net obligations under hire purchase contracts	5,228	7,617
Portion classified as current liabilities	(2,463)	(3,752)
	<u>2,765</u>	<u>3,865</u>
Non-current portion	2,765	3,865

23. SHARE CAPITAL

	2001 HK\$'000	Company 2000 HK\$'000
Authorised: 1,200,000,000 ordinary shares of HK\$0.10 each	120,000	120,000
Issued and fully paid: 635,259,975 (2000: 588,891,296) ordinary shares of HK\$0.10 each	63,526	58,889

Details of the movements in the issued share capital of the Company during the year are as follows:

- (a) During the year, warrants with an aggregate subscription value of approximately HK\$21,284,000 were exercised by warrant holders, resulting in the issue of 46,268,679 ordinary shares of HK\$0.10 each at the subscription price of HK\$0.46 per share. The excess of the proceeds over the par value of the ordinary shares issued of approximately HK\$16,657,000 was credited to the share premium account. Details of the warrants are set out below.
- (b) During the year, 100,000 share options were exercised by a share options holder, resulting in the issue of 100,000 ordinary shares of HK\$0.10 each at the subscription price of HK\$0.70 per share for HK\$70,000 in cash. The excess of the proceeds over the par value of the ordinary shares issued of HK\$60,000 was credited to the share premium amount. Details of the share options are set out below.

Warrants

Pursuant to a shareholders' resolution passed on 16 September 1998, a bonus issue of warrants was made in the proportion of one warrant for every five ordinary shares then held by shareholders whose names appeared on the register of members of the Company as at 16 September 1998. As a result, 57,600,000 warrants were issued. Each bonus warrant entitles the registered holder to subscribe for a new ordinary share of the Company at an initial subscription price of HK\$0.65, subject to adjustments, at any time from the date of issue to 30 September 2000.

23. SHARE CAPITAL *(Continued)***Warrants** *(Continued)*

At beginning of the year, the Company had outstanding warrants with an aggregate subscription value of HK\$26,201,708 entitling the registered holders to subscribe for a total of 56,960,237 ordinary shares of the Company at a subscription price of HK\$0.46 per share. As detailed above, warrants with an aggregate subscription value of approximately HK\$21,284,000 were exercised during the year. The remaining unexercised warrants expired on 30 September 2000.

Share options

On 18 September 1997, the Company approved a share option scheme (the "Scheme") under which the board of directors of the Company may, at their discretion, invite any executive director or employee of the Group to take up options to subscribe for shares of the Company at any time during the ten years from the date of approval. The subscription price will be a price determined by the directors and will be the higher of a price, being not less than 85% of the average closing price of the Company's shares on the Stock Exchange for the five trading days immediately preceding the date of grant or the nominal value of the shares, whichever is greater. The maximum number of shares on which options may be granted may not exceed 10% of the ordinary share capital in issue from time to time. The Scheme became effective upon the listing of the Company's shares on the Stock Exchange on 16 October 1997.

On 10 April 2000, 50,000,000 share options were granted to the executive directors and certain employees of the Group to subscribe for a total of 50,000,000 ordinary shares of the Company at an exercise price of HK\$0.70 per share, subject to adjustment, on or before 9 April 2010.

During the year, 100,000 share options were exercised and 1,100,000 share options were cancelled due to the termination of employment of a share options holder.

At the balance sheet date, the Company had 48,800,000 outstanding share options. The exercise in full of these outstanding share options would, under the present capital structure of the Company, result in the issue of 48,800,000 additional ordinary shares and cash proceeds, before issue expenses, of approximately HK\$34,160,000.

31 March 2001

Financial Statements

24. RESERVES

Group

	Share premium	Contributed surplus	Exchange fluctuation reserve	Asset revaluation reserve	Retained profits	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Balance at 1 April 1999	19,695	280	(4,520)	91,413	139,909	246,777
Exercise of warrants	8,511	-	-	-	-	8,511
Bonus issue of shares	(16,188)	-	-	-	-	(16,188)
Exchange difference on translation of overseas subsidiaries' financial statements	-	-	(785)	-	-	(785)
Net profit for the year	-	-	-	-	71,300	71,300
Dividends	-	-	-	-	(30,982)	(30,982)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Balance at 31 March 2000 and beginning of year	12,018	280	(5,305)	91,413	180,227	278,633
Exercise of warrants	16,657	-	-	-	-	16,657
Exercise of share options	60	-	-	-	-	60
Goodwill reserve arising from acquisition of minority interests of a subsidiary	-	-	-	-	(2)	(2)
Exchange difference on translation of overseas subsidiaries' financial statements	-	-	(4,013)	-	-	(4,013)
Revaluation surplus on fixed assets	-	-	-	17,690	-	17,690
Net profit for the year	-	-	-	-	12,534	12,534
Dividends	-	-	-	-	(10,514)	(10,514)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Balance at 31 March 2001	<u>28,735</u>	<u>280</u>	<u>(9,318)</u>	<u>109,103</u>	<u>182,245</u>	<u>311,045</u>

24. RESERVES *(Continued)***Company**

	Share premium <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Retained profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
Balance at 1 April 1999	19,695	58,794	6,311	84,800
Exercise of warrants	8,511	–	–	8,511
Bonus issue of share	(16,188)	–	–	(16,188)
Net profit for the year	–	–	60,961	60,961
Dividends	–	–	(30,982)	(30,982)
	<hr/>	<hr/>	<hr/>	<hr/>
Balance at 31 March 2000 and beginning of year	12,018	58,794	36,290	107,102
Exercise of warrants	16,657	–	–	16,657
Exercise of share options	60	–	–	60
Net profit for the year	–	–	9,374	9,374
Dividends	–	–	(10,514)	(10,514)
	<hr/>	<hr/>	<hr/>	<hr/>
Balance at 31 March 2001	<u>28,735</u>	<u>58,794</u>	<u>35,150</u>	<u>122,679</u>

The contributed surplus of the Group arose as a result of the Group reorganisation as set out in note 1, and represents the difference between the nominal value of the share capital of the former holding company of the Group acquired pursuant to the Group reorganisation and the nominal value of the share capital of the Company issued in exchange therefor.

The contributed surplus of the Company arose as a result of the same Group reorganisation, and represents the excess of the then combined net asset value of the subsidiaries acquired over the nominal value of the Company's share capital issued in exchange thereof.

Under the Companies Law (1998 Revision) of the Cayman Islands, the share premium of the Company is available for paying distributions or dividends to shareholders subject to the provisions of its memorandum or articles of associations and, provided that immediately following the distribution of dividends, the Company is able to pay its debts as and when they fall due in the ordinary course of business. In the opinion of the directors, the Company's reserves available for distribution represent the share premium, contributed surplus and retained profits.

25. NOTES TO CONSOLIDATED CASH FLOW STATEMENT

- (a) Reconciliation of profit from operating activities to net cash inflow from operating activities

	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Profit from operating activities	34,617	92,104
Interest income	(11,786)	(14,239)
Dividend income	(625)	(134)
Depreciation	57,018	45,271
Amortisation of trademarks	251	–
Provision for inventories	10,735	–
Loss on disposal of fixed assets	339	13
Decrease/(increase) in accounts receivable	10,613	(49,638)
Increase in inventories	(59,517)	(74,628)
Decrease/(increase) in prepayments, deposits and other receivables	11,754	(11,261)
Increase in accounts payable	3,425	105,652
Decrease in accrued liabilities and other payables	(5,398)	(3,582)
	<hr/>	<hr/>
Net cash inflow from operating activities	51,426	89,558
	<hr/> <hr/>	<hr/> <hr/>

25. NOTES TO CONSOLIDATED CASH FLOW STATEMENT (Continued)

(b) Analysis of changes in financing during the year

	Share capital (including share premium) <i>HK\$'000</i>	Bank loans <i>HK\$'000</i>	Obligations under hire purchase contracts <i>HK\$'000</i>	Minority interests <i>HK\$'000</i>
Balance at 1 April 1999	60,078	–	3,285	–
Net cash inflow/(outflow) from financing	10,829	–	(4,804)	2
Inception of hire purchase contracts	–	–	9,136	–
Share of loss for the year	–	–	–	(2)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Balance at 31 March 2000 and beginning of year	70,907	–	7,617	–
Net cash inflow/(outflow) from financing	21,354	38,667	(7,724)	–
Inception of hire purchase contracts	–	–	5,335	–
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Balance at 31 March 2001	<u>92,261</u>	<u>38,667</u>	<u>5,228</u>	<u>–</u>

(c) Major non-cash transactions

During the year, the Group entered into hire purchase contracts in respect of fixed assets with a total capital value at the inception of the contracts of HK\$5,335,000 (2000: HK\$9,136,000).

31 March 2001

Financial Statements

26. CONTINGENT LIABILITIES

	Group		Company	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Bills discounted with recourse	13,999	2,421	–	–
Guarantees for general banking facilities of subsidiaries*	–	–	712,137	501,072
Shipping guarantee	406	–	–	–
	<u>14,405</u>	<u>2,421</u>	<u>712,137</u>	<u>501,072</u>

* At 31 March 2001, HK\$170,727,000 (2000: HK\$101,027,000) of the general banking facilities were utilised by the subsidiaries.

In addition, the Company has granted a guarantee in favour of a supplier of a subsidiary for the subsidiary's trade debts due to such supplier. At 31 March 2001, the subsidiary had trade debts in an aggregate of HK\$1,970,000 (2000: HK\$1,495,000) due to the supplier.

27. COMMITMENTS

	Group	
	2001 HK\$'000	2000 HK\$'000
Capital commitments in respect of fixed assets		
(a) Contracted for, but not provided in the financial statements in respect of:		
Construction in progress in the PRC	1,087	6,980
Equipment and tools	30,227	928
Moulds	352	4,999
Motor vehicles	–	3,239
Leasehold improvements	270	717
Furniture and fixtures	–	92
	<u>31,936</u>	<u>16,955</u>

31 March 2001

Financial Statements

27. COMMITMENTS (Continued)

	2001 HK\$'000	Group 2000 <i>HK\$'000</i>
(b) Authorised, but not contracted for in respect of:		
Moulds	-	447
Leasehold improvements	-	290
	<u>-</u>	<u>737</u>
	31,936	17,692
	<u>31,936</u>	<u>17,692</u>
Capital commitment in respect of capital contribution to a subsidiary established in the PRC	2,175	4,175
	<u>2,175</u>	<u>4,175</u>
Operating lease commitments		
Commitments payable in the following year under non-cancellable operating leases in respect of land and buildings expiring:		
Within one year	872	180
In the second to fifth years, inclusive	165	1,219
	<u>1,037</u>	<u>1,399</u>
Other commitments		
Commitments to purchase foreign currencies	140,052	16,492
Commitments to sell foreign currencies	-	186,903
	<u>140,052</u>	<u>186,903</u>

At the balance sheet date, the Company had no capital or operating lease commitments (2000: Nil).

28. RELATED PARTY TRANSACTIONS AND CONNECTED TRANSACTIONS

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

- (a) The Group sold audio products and related components amounting to HK\$10,192,000 (2000: HK\$408,000) to Pioneer Ventures Limited ("PVL"), a wholly-owned subsidiary of EganaGoldpfeil (Holdings) Limited, which is a substantial shareholder of the Company.

The sales to PVL were made according to the published prices and conditions offered to the major customers of the Group.

- (b) The Group paid HK\$143,000 (2000: HK\$318,900) to International Taxation Advisory Services Limited, of which Mr. Wong Wai Kwong, David, a non-executive director of the Company, is a director, for corporate advisory services rendered to the Group.

The directors consider that the above corporate advisory services charge was paid according to the prices and conditions similar to those offered by other external consultants of the Group.

The above transactions are related party transactions, of which item (a) also constitutes a connected transaction under the Listing Rules.

29. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by the board of directors on 17 July 2001.

FIVE YEAR

31 March 2001

Financial Summary

A summary of the combined/consolidated results and of the assets and liabilities of the Group prepared on the basis set out in notes below is set out as follows:

RESULTS

	Year ended 31 March				
	2001 HK\$'000	2000 HK\$'000	1999 HK\$'000	1998 HK\$'000 (note 1)	1997 HK\$'000 (note 2)
TURNOVER	2,625,533	2,038,700	1,840,799	1,524,396	863,800
PROFIT BEFORE TAX	14,513	77,961	75,972	44,604	27,384
Tax	(1,979)	(6,663)	(7,027)	(3,121)	(3,785)
PROFIT BEFORE MINORITY INTERESTS	12,534	71,298	68,945	41,483	23,599
Minority Interests	-	2	-	-	-
NET PROFIT ATTRIBUTABLE TO SHAREHOLDERS	12,534	71,300	68,945	41,483	23,599

31 March 2001

Financial Summary *(Continued)*

ASSETS AND LIABILITIES

	2001 HK\$'000	At 31 March			
		2000 HK\$'000	1999 HK\$'000	1998 HK\$'000	1997 HK\$'000 <i>(note 3)</i>
TOTAL ASSETS	880,575	801,271	682,804	681,226	381,627
TOTAL LIABILITIES	(506,004)	(463,749)	(395,644)	(481,245)	(322,825)
NET ASSETS	374,571	337,522	287,160	199,981	58,802

Notes:

1. The results of the Group for the year ended 31 March 1998 have been prepared on a pro forma consolidated basis using the merger basis of accounting as if the current group structure had been in existence throughout that year.
2. The results of the Group for the year ended 31 March 1997 have been prepared on a pro forma combined basis as if the current group structure had been in existence throughout that year, and are extracted from the Company's prospectus dated 30 September 1997.
3. The pro forma combined balance sheet as at 31 March 1997 has been prepared on the basis that the current group structure was in place at that date.

PROPERTIES

Held by the Group

Particulars of major properties held by the Group as at 31 March 2001 are as follows:

PROPERTY INTERESTS HELD BY THE GROUP IN HONG KONG

	Type	Lease term
1. Units D, G and H on 4th Floor, Summit Building, 30 Man Yue Street and 21-23 Tai Wan Road, Hung Hom, Kowloon	Industrial	Medium
2. Unit B on 10th Floor, Summit Building, 30 Man Yue Street and 21-23 Tai Wan Road, Hung Hom, Kowloon	Industrial	Medium
3. Units A, B, L and O on 11th Floor, Summit Building, 30 Man Yue Street and 21-23 Tai Wan Road, Hung Hom, Kowloon	Industrial	Medium
4. Town House No.113, Sunderland Estate, 1 Hereford Road, Kowloon Tong, Kowloon	Residential	Medium
5. Flat G on 11th Floor, Block 9, 9 Shung King Street, Whampoa Garden – Site 2, Hung Hom, Kowloon	Residential	Long

PROPERTIES

Held by the Group

PROPERTY INTERESTS HELD BY THE GROUP IN HONG KONG *(Continued)*

	Type	Lease term
6. Flat D on 14th Floor, Block 8, 6 Tak Hong Street, Whampoa Garden – Site 11, Hung Hom, Kowloon	Residential	Long
7. Lorry Car Parking Spaces Nos. 7, 8, 9 and 10 on 1st Floor Summit Building, 30 Man Yue Street and 21-23 Tai Wan Road, Hung Hom, Kowloon	Car park	Medium
8. Private Car Parking Spaces Nos. 10, 14, 21 and 22 on Basement Summit Building, 30 Man Yue Street and 21-23 Tai Wan Road, Hung Hom, Kowloon	Car park	Medium

PROPERTY INTERESTS HELD BY THE GROUP IN THE PRC

9. A factory complex in Shitanbu Administrative Zone Tangxia Town, Dongguan, Guangdong Province	Industrial	Medium
10. A factory complex in Zhenhua Industrial District Qishi Town, Dongguan, Guangdong Province	Industrial	Medium

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 Tang Room, 3rd Floor, Sheraton Hong Kong Hotel & Towers, 20 Nathan Road, Kowloon, Hong Kong on Wednesday, 12 September 2001 at 11:00 a.m. for the following purposes:

1. 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 2001.
2. To declare a final dividend.
3. To re-elect Directors and to authorise the Board of Directors to fix the Directors' remuneration.
4. To re-appoint Auditors and to authorise the Board of Directors to fix their remuneration.
5. As special business, to consider and, if thought fit, pass with or without modification the following resolutions as Ordinary Resolutions:

"(A) THAT:

- (a) 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;
- (b) 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;
- (c) 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

N O T I C E O F

Annual General Meeting

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

(d) for the purposes of this resolution:

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

- (i) the conclusion of the next annual general meeting of the Company;
- (ii) 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
- (iii) 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:

- (a) 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;
- (b) 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;
- (c) 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;

NOTICE OF

Annual General Meeting

(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;

(d) 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).”

“(C) 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).”

6. As special business, to consider and, if thought fit, pass with or without modification, the following resolution as a Special Resolution:

“THAT “東力實業控股有限公司” be adopted as the Company’s Chinese name for the purpose of registration in Hong Kong.”

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

Hong Kong, 17 July 2001

N O T I C E O F

Annual General Meeting

Notes:

- (a) The Register of Members of the Company will be closed from Monday, 10 September 2001 to Wednesday, 12 September 2001 (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 Branch 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 Friday, 7 September 2001.
- (b) 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.
- (c) 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 Branch 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.
- (d) The Annual Report of the Company for the year ended 31 March 2001 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.
- (e) The above Resolution 6 relates to the adoption of a Chinese name by the Company. As the Company is a company incorporated in the Cayman Islands, only its English name appears in its Certificate of Incorporation. Accordingly, the Company has been registered as an oversea company in its English name only under Part XI of the Hong Kong Companies Ordinance. The Chinese name now appears in the Company's documents has been used as a Chinese translation of its English name. As an oversea company is now allowed to register a Chinese name in Hong Kong notwithstanding the fact that only the English name of a company appears in the Certificate of Incorporation, the Directors propose the adoption of the Chinese name to formalize its use by the Company in Hong Kong.