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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

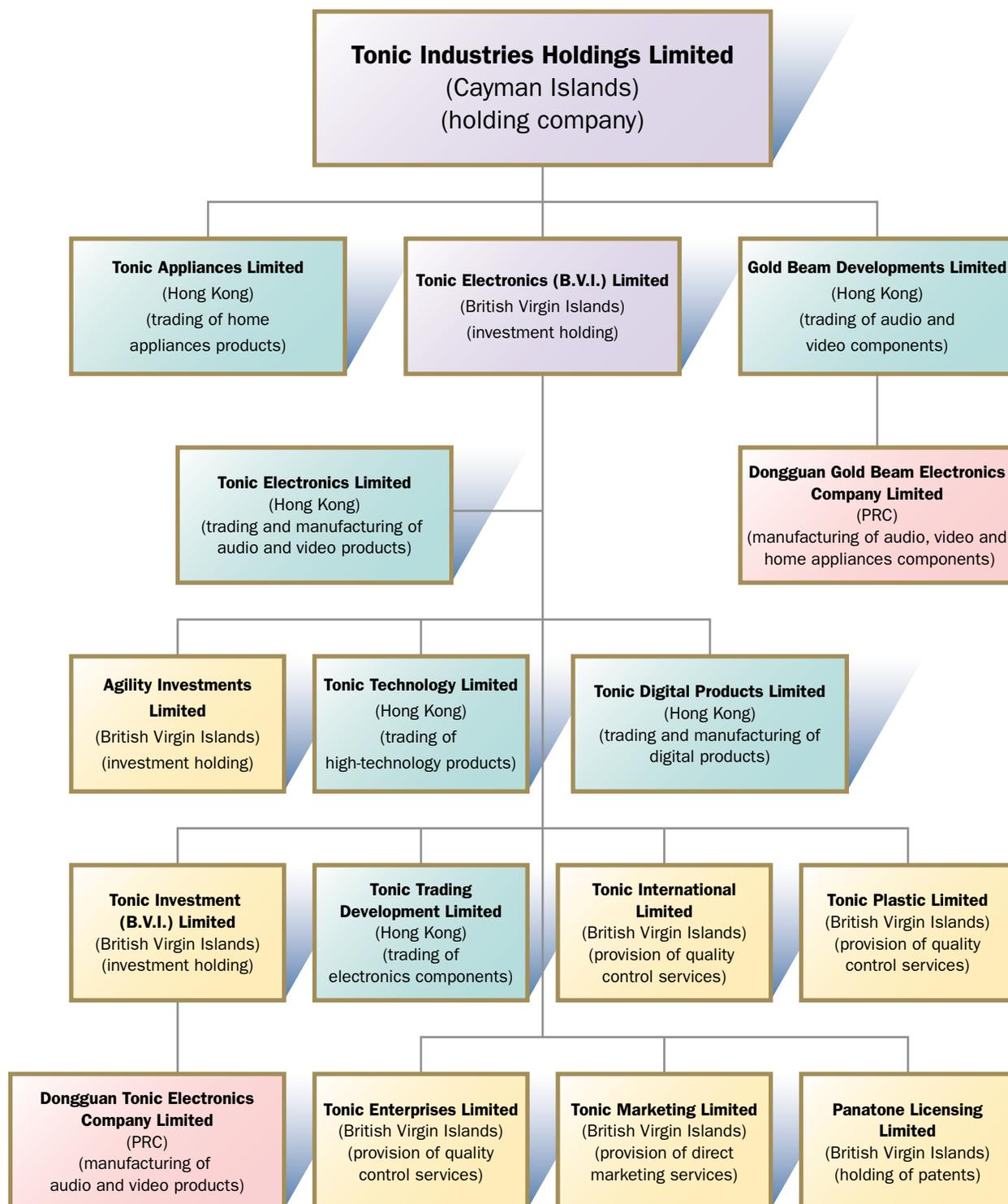
In Cayman Island
Bank of Butterfield International
(Cayman) Ltd.
Butterfield House
PO Box 705
George Town
Grand Cayman
Cayman Islands
British West Indies

WEBSITE

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

STOCK CODE

978



*The Group Structure as at 16 July 2002

High Quality of Video & Audio Products





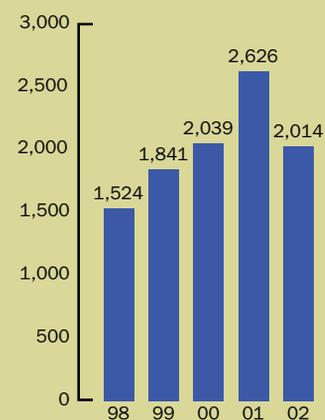
Dear shareholders,

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

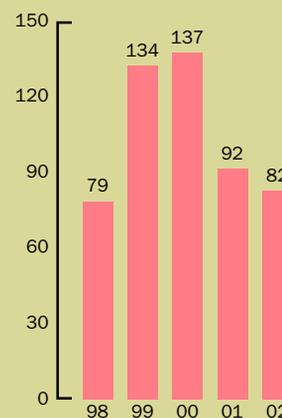
FINAL DIVIDEND

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

TURNOVER (HK\$ million)

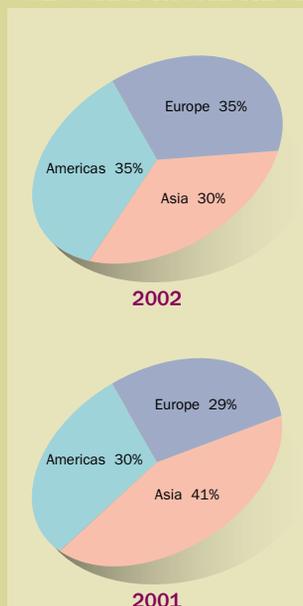
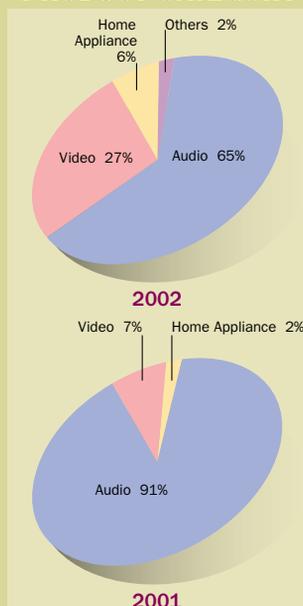


PROFIT BEFORE INTEREST, TAX, DEPRECIATION AND AMORTISATION (HK\$ million)



SHAREHOLDERS EQUITY (HK\$ million)



TURNOVER BY GEOGRAPHICAL REGION**TURNOVER BY PRODUCT CATEGORY****CLOSURE OF REGISTER OF MEMBERS**

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

BUSINESS REVIEW AND OUTLOOK

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

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

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

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

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



Power Station Control Panel



18 lines SMT



400 Tons Auto Pressing Machines

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

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

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

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

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

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

Finally, on behalf of the board of directors, I would like to express my gratitude to our dedicated staff and supportive business associates for working with the Group through this challenging year.

Ling Siu Man, Simon

Chairman & Managing Director

Hong Kong, 16 July 2002

A New Series of Home Appliances



EXECUTIVE DIRECTORS

Mr. LING Siu Man, Simon, aged 52, 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. LING Siu Man, Simon

Mr. LEE Ka Yue, Peter,

Mr. WONG Ki Cheung

Ms. LI Fung Ching, Catherine

Mr. WONG Ki Cheung, aged 52, 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 48, joined the Group in 1976 and is responsible for the management of the accounting, treasury and administrative functions of the Group.

Mr. AU Wai Man, aged 57, 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 37, 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 44, 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 Australian Association of Secretaries and



Mr. AU Wai Man

Mr. LIU Hoi Keung, Gary

Mr. WONG Wai Kwong,
David

Mr. HO Fook Hong,
Ferdinand

Managers. He is a director of International Taxation Advisory Services Limited. Mr. Wong is also a non-executive director of EganaGoldpfeil, as well as seven other Hong Kong listed companies.

Mr. HO Fook Hong, Ferdinand, aged 54, 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 also serves as an independent non-executive director of Winsor Industrial Corporation Limited and Winsor Properties Holdings Limited.

Mr. PANG Hon Chung, aged 51, 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 46, 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 22 years experience in marketing of electronic products and he joined the Group in 1986.

Mr. LAU Yeung Ping, aged 45, is the engineering director of Tonic Electronics Limited and is responsible for the development of the Company's general audio products. He has over 25 years experience in electronic engineering and he joined the Group in 1979.



Mr. PANG Hon Chung



Mr. LAU Tak Loi, Wilsum



Mr. LAU Yeung Ping



Ms. YEUNG Hon PO

Mr. YEUNG Hon Po, aged 54, is the production director of Tonic Electronics Limited. Mr. Yeung is responsible for the manufacturing operations of the Company in Dongguan. He has over 34 years experience in the production of audio products and he joined the Group in 1978.

Mr. OTOGURO Yoshishige, aged 59, 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. HOTOZUKA Kimihisa, aged 55, 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.

Mr. CHAN Pak Kin, aged 51, 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. OTOGURO Yoshishige

Mr. HOTOZUKA Kimihisa

Mr. CHAN Pak Kin

Mr. CHUI Wing Kwong

Mr. CHUI Wing Kwong, aged 53, 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 Qishi in 1998. Mr. Chui is responsible for the overall management of the Qishi factory. Mr. Chiu has over 27 years experience in the manufacturing of audio, plastic and metal products.

Mr. LAM Kwai Wah, Peter, aged 37, is the marketing director of Tonic Electronics Limited. He is mainly responsible for the Company's marketing activities in Europe. Mr. Lam has over 16 years experience in marketing of electronic products and home appliances and he joined the Group in 1998.

Mr. WONG Wai Fan, Peter, aged 38, 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 14 years experience in the field of accounting.

Ms. TAM Wing Ki, Samantha, aged 26, 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. LAM Kwai Wah, Peter



Mr. WONG Wai Fan, Peter



Ms. TAM Wing Ki,
Samantha



Mr. KWOK Yiu Wa

Mr. KWOK Yiu Wa, aged 37, 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 14 years of manufacturing experience of electronic products and he joined the Group in 1988.

BUSINESS PERFORMANCE

Sales were down 23% from last year mainly due to poor worldwide economic situation. The decrease in sales has accelerated in the second half of the financial year after the “911” terrorist attacks in the United States. Approximately 35% of the sales of the Group came from the United States and consumers’ confidence were affected by the uncertainty created by this instance. Despite the adverse situation, the Group took a number of measures in improving efficiency and cutting of costs. These measures proved satisfactorily and as a result gross profit margin increased by 0.4% and administration costs were down by approximately HK\$15 million.

Our objective of slowly moving away from manufacturing of the analogue audio products to the higher end digital products proved to be correct. Demand for digital products including video telephones, DVD players, digital satellite receivers and digital amplifiers are very strong this year, these products are expected to be the fastest growing items in the market in the next few years. Our sales for these products this year were HK\$533 million as compared to HK\$169 million last year. After the spending of much development costs on these new projects, contribution to profit has largely increased from last year, further improvement is expected as we gain more experience in manufacturing these products.

We are encouraged by the continued growth in our home appliances division. Sales increased from HK\$49 million to HK\$123 million and based on the sales orders on hand up to date, we expect to see further growth in the coming year. Products have gradually diversified into coffee making machine, air purifier, toaster oven, steam station and kettle. In addition to our normal ODM business, the division is now looking at opportunities to expand its business through marketing products directly in the retailing level.

Total sales amounts of the Group for the first two months after year end were approximately HK\$265 million, represented more than 50% increase over the corresponding period last year. We expect that the sales for the current year will exceed that of last year.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 March, 2002, the Group had HK\$121 million cash and bank balance and HK\$278 million bank borrowings, as compared to HK\$48 million and HK\$179 million in last year respectively. The bank borrowings included HK\$114 million 3 years bank term loans and HK\$23 million finance lease contracts are mainly used to finance the acquisition of fixed assets for the last two years. Others are trust receipt loans for trading purpose and are repayable normally within three months. Total of these loans and hire purchase contracts repayable within one year amounted to HK\$201 million and HK\$76 million are repayable after one year. While major expansion plan has been completed during the year, it is expected that no more bank loans will be needed for the coming year. As at balance sheet date, gearing ratio calculated based on borrowings less bank balances over the net assets of the Group was 0.41 for the year, compared to 0.34 of last year. The cashflow forecast prepared by the Group indicated that the Group will have sufficient funds for the operation of next year without the addition of new term loans or hire purchase contracts.

EMPLOYEES

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

CONTINGENT LIABILITIES

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

Details of other contingent liabilities can be found in note 29 to the financial statements.

The directors present their annual report and the audited financial statements of the Company and of the Group for the year ended 31 March 2002.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The subsidiaries are engaged in the design, manufacture and marketing of consumer audio, video products and home appliances products. There were no changes in the nature of the Company's principal operations during the year.

Details of the principal activities of the Company's subsidiaries are set out in note 17 to the financial statements.

SEGMENT INFORMATION

An analysis of the Group's turnover and contribution to results by principal activity and geographical area of operations for the year ended 31 March 2002 is set out in note 4 to the financial statements.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 March 2002 and the state of affairs of the Company and of the Group at that date are set out in the financial statements on pages 28 to 78.

An interim dividend of HK0.5 cent per share was paid to shareholders on 17 January 2002. The directors recommend the payment of a final dividend of HK0.5 cent per share in cash to shareholders whose names appear on the register of members on 19 September 2002. This recommendation has been incorporated in the financial statements as an allocation of retained profits within capital and reserves in the balance sheet. Further details of this accounting treatment are set out in note 12 to 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 27 to the financial statements.

DISTRIBUTABLE RESERVES

At 31 March 2002, the Company's reserves available for cash distribution and/or distribution in specie amounted to HK\$115,332,000. Under the Companies Law (2000 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 account, contributed surplus and retained profits.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the five largest customers in aggregate accounted for approximately 68% of the total turnover of the Group and the largest customer accounted for approximately 24% of the total turnover of the Group.

During the year, the five largest suppliers in aggregate accounted for approximately 39% of the total purchases of the Group and the largest supplier accounted for approximately 15% 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 consolidated results and of the assets and liabilities of the Group is set out on page 79 of the annual report.

FIXED ASSETS

Details of movements in the fixed assets of the Group during the year 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 26 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.

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, Pang Hon Chung and Liu Hoi Keung, Gary will retire and, being eligible, will 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.

DIRECTORS' INTERESTS IN SECURITIES

At 31 March 2002, the interests of directors or their associates in the issued share capital of the Company and its associated corporations, 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 (Note)	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	1,412,000

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 2002, 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

Apart from as disclosed under the headings "Directors' interests in securities" above and "Share option scheme" below, 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 32 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.

SHARE OPTION SCHEME

The Company operates a share option scheme (the "Option Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Option Scheme include the Company's executive directors or employees of the Group. The Option Scheme became effective upon the listing of the Company's shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 16 October 1997 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

Other details of the Option Scheme disclosed in accordance with the Listing Rules are as follows:

- The maximum number of unexercised share options currently permitted to be granted under the Option Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue from time to time. At 31 March 2002, the number of shares issuable under share options granted under the Option Scheme was 48,250,000, which represented approximately 7.6% of the Company's shares in issue as at that date. No option may be granted to any one employee which, if exercised in full, would result in the total number of shares already issued and issuable to him under the Option Scheme exceeding 25% of the maximum aggregate number of shares subject to the Option Scheme at the time it is proposed to grant the relevant option to such employee.

SHARE OPTION SCHEME *(Continued)*

- The exercise price of the share options is determined by the directors and equal to the higher of: (i) the nominal value of the shares; or (ii) 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 of such options.

- An option may be exercised in accordance with the terms of the Option Scheme at any time from the date of acceptance of the option by the employee or such later date as may be fixed by the directors, to any date prior to the tenth anniversary of such date provided that the employee can only exercise a maximum of 20% of the options granted to him in each 12 month period following the commencement of the relevant option period. The consideration to be paid by the employee upon acceptance of an option is HK\$1.00.

With effect from 1 September 2001, the Stock Exchange requires that the exercise price of options to be at least the higher of the closing price of the shares on the Stock Exchange on the date of grant and the average closing prices of the shares on the Stock Exchange for the five trading days immediately preceding the date of grant. Up to the date of this report, the Company has not granted any options on or after 1 September 2001.

SHARE OPTION SCHEME (Continued)

The following share options were outstanding under the Option Scheme during the year:

	At 1 April 2001	Number of outstanding share options cancelled during the year	At 31 March 2002	Date of grant of share options	Exercise period of share options	Exercise price of share option HK\$
Directors						
Ling Siu Man, Simon	10,000,000	–	10,000,000	07-04-00	10-04-00 to 09-04-10	0.70
Lee Ka Yue, Peter	1,810,000	–	1,810,000	07-04-00	10-04-00 to 09-04-10	0.70
Wong Ki Cheung	1,810,000	–	1,810,000	07-04-00	10-04-00 to 09-04-10	0.70
Li Fung Ching, Catherine	1,810,000	–	1,810,000	07-04-00	10-04-00 to 09-04-10	0.70
Au Wai Man	1,810,000	–	1,810,000	07-04-00	10-04-00 to 09-04-10	0.70
Liu Hoi Keung, Gary	1,810,000	–	1,810,000	07-04-00	10-04-00 to 09-04-10	0.70
	<u>19,050,000</u>	<u>–</u>	<u>19,050,000</u>			
Other employees						
In aggregate	29,750,000	550,000	29,200,000	07-04-00	10-04-00 to 09-04-10	0.70
	<u>48,800,000</u>	<u>550,000</u>	<u>48,250,000</u>			

No theoretical value of share options is disclosed as no share options were granted during the year.

Summary details of the Company's share option scheme are also set out in note 26 to the financial statements.

SUBSTANTIAL SHAREHOLDERS

At 31 March 2002, 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>)	36,274,000	5.71
EganaGoldpfeil (Holdings) Limited ("EganaGoldpfeil") (<i>Note 2</i>)	157,374,869	24.77
Peninsula International Limited ("Peninsula") (<i>Note 3</i>)	157,374,869	24.77

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 32 to the financial statements.

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
16 July 2002



To the members

Tonic Industries Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

We have audited the financial statements on pages 28 to 78 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 2002 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

16 July 2002

CONSOLIDATED PROFIT AND LOSS ACCOUNT

Year ended 31 March 2002

	Notes	2002 HK\$'000	2001 HK\$'000
TURNOVER	5	2,013,623	2,625,533
Cost of sales		(1,895,280)	(2,482,576)
Gross profit		118,343	142,957
Other revenue		7,697	20,534
Selling and distribution costs		(27,980)	(38,411)
Administrative expenses		(75,451)	(90,463)
PROFIT FROM OPERATING ACTIVITIES	6	22,609	34,617
Finance costs	9	(11,020)	(20,104)
Share of loss of an associate		(827)	–
PROFIT BEFORE TAX		10,762	14,513
Tax	10	(1,522)	(1,979)
NET PROFIT ATTRIBUTABLE TO SHAREHOLDERS	11	9,240	12,534
DIVIDENDS	12		
Interim		3,176	6,353
Proposed final		3,176	3,176
Underprovision of prior year's proposed final		–	985
		6,352	10,514
EARNINGS PER SHARE	13		
– Basic		1.5 cents	2.0 cents
– Diluted		N/A	N/A

CONSOLIDATED STATEMENT OF RECOGNISED GAINS AND LOSSES

Year ended 31 March 2002

	Notes	2002 HK\$'000	2001 HK\$'000
Exchange differences on translation of overseas subsidiaries' financial statements	27	10	(4,013)
Revaluation surplus on fixed assets	27	<u>—</u>	<u>17,690</u>
Net gains not recognised in the profit and loss account		10	13,677
Net profit for the year attributable to shareholders		<u>9,240</u>	<u>12,534</u>
Total recognised gains and losses		9,250	26,211
Goodwill eliminated directly against reserves	27	<u>—</u>	<u>(2)</u>
		<u>9,250</u>	<u>26,209</u>

CONSOLIDATED BALANCE SHEET

31 March 2002

	Notes	2002 HK\$'000	2001 HK\$'000 (Restated)
NON-CURRENT ASSETS			
Fixed assets	14	466,419	415,300
Intangible assets	15	6,234	2,257
Interest in an associate	18	273	850
Long term investments	19	22,076	22,076
Non-current portion of loans receivable	20	2,617	1,219
Deposits for acquisition of fixed assets		15,035	28,254
		512,654	469,956
CURRENT ASSETS			
Inventories	21	183,857	262,492
Accounts receivable	22	80,533	89,486
Current portion of loans receivable	20	4,696	2,078
Prepayments, deposits and other receivables		4,247	4,218
Tax recoverable		5,464	3,963
Cash and bank balances		121,122	48,382
		399,919	410,619
CURRENT LIABILITIES			
Trust receipt loans	23	141,379	132,060
Accounts payable	24	207,834	284,967
Accrued liabilities and other payables		33,367	31,306
Current portion of finance lease payables	25	8,781	2,463
Current portion of long term bank loans	23	51,320	19,667
Tax payable		3,162	–
		445,843	470,463

	Notes	2002 HK\$'000	2001 HK\$'000 (Restated)
NET CURRENT LIABILITIES		<u>(45,924)</u>	<u>(59,844)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		466,730	410,112
NON-CURRENT LIABILITIES			
Non-current portion of finance lease payables	25	(14,130)	(2,765)
Non-current portion of long term bank loans	23	(62,347)	(19,000)
Deferred tax	10	<u>(9,608)</u>	<u>(10,600)</u>
		<u>(86,085)</u>	<u>(32,365)</u>
		380,645	377,747
CAPITAL AND RESERVES			
Issued capital	26	63,526	63,526
Reserves	27	313,943	311,045
Proposed final dividend	12	<u>3,176</u>	<u>3,176</u>
		380,645	377,747

LING Siu Man, Simon
Director

LIU Hoi Keung, Gary
Director

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 March 2002

	Note	2002 HK\$'000	2001 HK\$'000
NET CASH INFLOW FROM OPERATING ACTIVITIES	28(a)	93,519	51,426
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Interest received		1,627	11,786
Interest paid		(13,715)	(21,109)
Interest element on finance lease rental payments		(436)	(709)
Dividends received		657	625
Dividends paid		(6,352)	(29,728)
Net cash outflow from returns on investments and servicing of finance		(18,219)	(39,135)
TAX			
Hong Kong profits tax paid		(853)	(9,733)
PRC taxes paid		—	—
Taxes paid		(853)	(9,733)
INVESTING ACTIVITIES			
Purchases of fixed assets		(69,302)	(127,196)
Proceeds from disposal of fixed assets		3,353	—
Acquisition of trademarks		—	(2,508)
Additions of deferred development costs		(5,073)	—
Acquisition of an associate		—	(850)
Acquisition of minority interests		—	(2)
Purchases of long term investments		—	(6,052)
Increase in loans receivable		(5,756)	(3,297)
Deposits paid for fixed assets		—	(28,254)
Net cash outflow from investing activities		(76,778)	(168,159)

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 March 2002

	Note	2002 HK\$'000	2001 HK\$'000
NET CASH OUTFLOW BEFORE FINANCING ACTIVITIES		(2,331)	(165,601)
FINANCING ACTIVITIES	28(b)		
Proceeds from issue of new shares		–	21,354
New bank loans		105,000	50,000
Repayment of bank loans		(30,000)	(11,333)
Capital element of finance lease rental payments		(9,239)	(7,724)
Net cash inflow from financing activities		65,761	52,297
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		63,430	(113,304)
Cash and cash equivalents at beginning of year		(83,678)	30,321
Effect of foreign exchange rate changes, net		(9)	(695)
CASH AND CASH EQUIVALENTS AT END OF YEAR		(20,257)	(83,678)
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		121,122	48,382
Trust receipt loans with maturity of less than three months		(141,379)	(132,060)
		(20,257)	(83,678)

BALANCE SHEET

31 March 2002

	Notes	2002 HK\$'000	2001 HK\$'000 (Restated)
NON-CURRENT ASSETS			
Interests in subsidiaries	17	181,912	189,541
CURRENT ASSETS			
Cash and bank balances		131	131
Prepayments and other receivables		157	199
		<u>288</u>	<u>330</u>
CURRENT LIABILITIES			
Accrued liabilities and other payables		<u>166</u>	<u>490</u>
		<u>166</u>	<u>490</u>
NET CURRENT ASSETS/(LIABILITIES)		<u>122</u>	<u>(160)</u>
		<u>182,034</u>	<u>189,381</u>
CAPITAL AND RESERVES			
Issued capital	26	63,526	63,526
Reserves	27	115,332	122,679
Proposed final dividend	12	3,176	3,176
		<u>182,034</u>	<u>189,381</u>

LING Siu Man, Simon
Director

LIU Hoi Keung, Gary
Director

1. CORPORATION INFORMATION

The principal activity of the Company is investment holding. The subsidiaries are engaged in the design, manufacture and marketing of consumer audio, video products and home appliances products. There were no changes in the nature of the Group's principal operations 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. IMPACT OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE ("SSAPs")

The following recently-issued and revised SSAPs and related Interpretations are effective for the first time for the current year's financial statements:

- SSAP 9 (Revised): "Events after the balance sheet date"
- SSAP 14 (Revised): "Leases"
- SSAP 18 (Revised): "Revenue"
- SSAP 26: "Segment reporting"
- SSAP 28: "Provisions, contingent liabilities and contingent assets"
- SSAP 29: "Intangible assets"
- SSAP 30: "Business combinations"
- SSAP 31: "Impairment of assets"
- SSAP 32: "Consolidated financial statements and accounting for investments in subsidiaries"
- Interpretation 12: "Business combinations - subsequent adjustment of fair values and goodwill initially reported"
- Interpretation 13: "Goodwill – continuing requirements for goodwill and negative goodwill previously eliminated against/credited to reserves"

These SSAPs prescribe new accounting measurement and disclosure practices. The major effects on the Group's accounting policies and on the amounts disclosed in these financial statements of those SSAPs and Interpretations which have had a significant effect on the financial statements, are summarised as follows:

2. IMPACT OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE (“SSAPs”) (Continued)

SSAP 9 (Revised) prescribes which type of events occurring after the balance sheet date require adjustment to the financial statements, and which require disclosure, but no adjustment. Its principal impact on these financial statements is that the proposed final dividend which is not declared and approved until after the balance sheet date, is no longer recognised as a liability at the balance sheet date, but is disclosed as an allocation of retained profits on a separate line within the capital and reserves section of the balance sheet. The prior year adjustment arising from the adoption of this new SSAP is detailed in note 12 to the financial statements.

SSAP 14 (Revised) prescribes the basis for lessor and lessee accounting for finance and operating leases, and the required disclosures in respect thereof. Certain amendments have been made to the previous accounting measurement treatments, which may be accounted for retrospectively or prospectively, in accordance with the requirements of the SSAP. The revised SSAP requirements have not had a material effect on the amounts previously recorded in the financial statements, therefore no prior year adjustment has been required. The disclosure changes under this SSAP have resulted in changes to the detailed information disclosed for finance leases and operating leases, which are further detailed in notes 25 and 30 to the financial statements.

SSAP 18 (Revised) prescribes the recognition of revenue and was revised as a consequence of the revision to SSAP 9 described above. Proposed final dividends from subsidiaries that are declared and approved by the subsidiaries after the balance sheet date are no longer recognised in the Company's financial statements for the year. The adoption of the SSAP has resulted in prior year adjustments, further details of which are included in notes 11 and 27 to the financial statements.

SSAP 26 prescribes the principles to be applied for reporting financial information by segment. It requires that management assesses whether the Group's predominant risks or returns are based on business segments or geographical segments and determines one of these bases to be the primary segment information reporting format, with the other as the secondary segment information reporting format. The impact of this SSAP is the inclusion of significant additional segment reporting disclosures which are set out in note 4 to the financial statements.

2. IMPACT OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE (“SSAPs”) (Continued)

SSAP 30 prescribes the accounting treatment of business combinations, including the determination of the date of acquisition, the method for determining the fair values of the assets and liabilities acquired, and the treatment of goodwill or negative goodwill arising on acquisition. The SSAP requires the disclosure of goodwill in the non-current assets section of the consolidated balance sheet. It requires that goodwill is amortised to the consolidated profit and loss account over its estimated useful life. Interpretation 13 prescribes the application of SSAP 30 to goodwill arising from acquisition in previous years which remains eliminated against consolidated reserves. The adoption of SSAP 30 and Interpretation 13 has not resulted in a prior year adjustment, for the reasons detailed in note 16 to the financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with SSAPs, 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 2002. 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.

Subsidiaries

A subsidiary is a company whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The Company's interests in subsidiaries are stated at cost less any impairment losses.

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

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 interests 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 impairment losses.

Goodwill

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

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

In prior years, goodwill arising on acquisitions was eliminated against consolidated reserves in the year of the acquisition. The Group has adopted the transitional provision of SSAP 30 that permits goodwill on acquisitions which occurred prior to 1 April 2001, to remain eliminated against consolidated reserves. Goodwill on subsequent acquisitions is treated according to the new accounting policy above.

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

The carrying amount of goodwill, including goodwill remaining eliminated against consolidated reserves, is reviewed annually and written down for impairment when it is considered necessary. A previously recognised impairment loss for goodwill is not reversed unless the impairment loss was caused by a specific external event of an exceptional nature that was not expected to recur, and subsequent external events have occurred which have reversed the effect of that event.

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

Impairment of assets

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years.

A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Fixed assets and depreciation

Fixed assets, other than construction in progress, are stated at cost or valuation less accumulated depreciation and any impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after 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 that asset.

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

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	10% - 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 less any impairment losses. 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.

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

Fixed assets and depreciation *(Continued)*

With effect from 1 April 2001, as a result of changing conditions and experience, the Company revised the estimated useful lives of certain fixed assets. In particular, equipment and tools previously depreciated at 25% per annum on the reducing balance basis are now depreciated at 10% - 25% on the same basis. In the opinion of the directors, the depreciable lives of these fixed assets are more accurately reflected by the adoption of the revised depreciation rates. This constitutes a change in accounting estimate. These depreciation rates have been applied prospectively and resulted in a decrease in depreciation charge of approximately HK\$6,562,000 for the current year.

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 finance leases

At the inception of a finance lease, the cost of the leased 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 capitalised finance leases are included in fixed assets and depreciated over the estimated useful lives of the assets. The finance costs of such leases are charged to the profit and loss account so as to produce a constant periodic rate over the lease terms.

Assets acquired through hire purchase contracts of a financing nature are accounted for as finance leases, but are depreciated over their estimated useful lives.

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

Trademarks

Trademarks are stated at cost less accumulated amortisation and any impairment losses. They 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.

Long term investments

Long term investments in listed and unlisted equity securities, intended to be held for a continuing strategic or long term purpose, are stated at cost less any impairment losses, on an individual investment basis.

When impairments in values have occurred, the carrying amounts of the securities are reduced to their fair values, as estimated by the directors, and the amounts of the impairments are charged to the profit and loss account for the period in which they arise. When the circumstances and events which led to the impairments in values cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future, the amounts of the impairments previously charged are credited to the profit and loss account to the extent of the amounts 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.

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

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.

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) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (b) from 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.

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within capital and reserves in the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

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

Dividends *(Continued)*

In previous years, the Company recognised its proposed final dividend to shareholders, which was declared and approved after the balance sheet date, as a liability in its balance sheet. The revised accounting treatment for dividends resulting from the adoption of SSAP 9 (Revised) and SSAP 18 (Revised), have given rise to prior year adjustments in the Group's and the Company's financial statements, further details of which are included in notes 11, 12 and 27 to the financial statements.

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. The 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.

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.

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

Staff retirement schemes

Previously, the Group operated two defined contribution retirement benefit 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 and when 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.

4. SEGMENT INFORMATION

SSAP 26 was adopted during the year, as detailed in note 2 to the financial statements. Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

4. SEGMENT INFORMATION *(Continued)*

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

- (a) the audio products segment consists of the design, manufacture and sale of consumer audio products;
- (b) the video products segment consists of the design, manufacture and sale of consumer video products;
- (c) the home appliances products segment consists of the manufacture and sale of home appliances products; and
- (d) the corporate and others segment consists of the subcontracting of audio products, together with other corporate income and expense items.

In determining the Group's geographical segments, revenues and results are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets.

4. SEGMENT INFORMATION (Continued)**Business segments**

The following tables present revenue, results and certain asset, liability and expenditure information of the Group's business segments.

Group

	Audio products		Video products		Home appliances products		Corporate and Others		Elimination		Consolidated	
	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:												
Sales to external customers	1,314,548	2,396,459	532,821	169,491	123,221	48,759	43,033	10,824	-	-	2,013,623	2,625,533
Other revenue	2,166	3,071	878	148	27	8	1,104	1,667	-	-	4,175	4,894
Total	1,316,714	2,399,530	533,699	169,639	123,248	48,767	44,137	12,491	-	-	2,017,798	2,630,427
Segment results	18,018	17,649	4,944	(822)	3,518	10,342	1,623	1,979	-	-	28,103	29,148
Interest income and unallocated income											3,522	15,640
Unallocated expenses											(9,016)	(10,171)
Profit from operating activities											22,609	34,617
Finance costs											(11,020)	(20,104)
Share of loss of an associate							(827)				(827)	-
Profit before tax											10,762	14,513
Tax											(1,522)	(1,979)
Net profit attributable to shareholders											9,240	12,534

4. SEGMENT INFORMATION (Continued)

Business segments (Continued)

Group

	Audio products		Video products		Home appliances products		Corporate and Others		Elimination		Consolidated	
	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment assets	595,975	767,194	225,489	42,744	36,401	24,279	19,043	14,922	-	-	876,908	849,139
Interest in an associate	-	-	-	-	-	-	273	850	-	-	273	850
Unallocated assets	-	-	-	-	-	-	-	-	-	-	35,392	30,586
Total assets	595,975	767,194	225,489	42,744	36,401	24,279	19,043	14,922	-	-	912,573	880,575
Segment liabilities	157,104	286,140	59,008	14,241	1,746	9,207	21,648	5,740	-	-	239,506	315,328
Unallocated liabilities	-	-	-	-	-	-	-	-	-	-	292,422	187,500
Total liabilities	157,104	286,140	59,008	14,241	1,746	9,207	21,648	5,740	-	-	531,928	502,828
Other segment information:												
Capital expenditure	68,628	147,272	29,497	11,918	3,848	3,438	2,455	2,379	-	-	104,428	165,007
Depreciation and amortisation	39,246	52,109	17,319	3,168	1,054	877	1,285	1,115	-	-	58,904	57,269
Provision for inventories	3,300	10,028	2,355	483	18	9	108	215	-	-	5,781	10,735
Provision for doubtful debts	-	-	1,740	-	-	-	-	-	-	-	1,740	-

4. SEGMENT INFORMATION (Continued)**Geographical segments**

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

Group

	United States of America		Europe		Asia-Pacific countries		Others		Consolidated	
	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue										
Sales to external customers	<u>708,351</u>	<u>789,115</u>	<u>700,117</u>	<u>765,938</u>	<u>602,858</u>	<u>1,069,758</u>	<u>2,297</u>	<u>722</u>	<u>2,013,623</u>	<u>2,625,533</u>
Segment results	<u>9,274</u>	<u>7,407</u>	<u>9,849</u>	<u>10,442</u>	<u>8,950</u>	<u>11,280</u>	<u>30</u>	<u>19</u>	<u>28,103</u>	<u>29,148</u>
Other segment information:										
Segment assets										
- Hong Kong									<u>301,760</u>	<u>236,108</u>
- the PRC									<u>610,813</u>	<u>644,467</u>
Totals									<u>912,573</u>	<u>880,575</u>
Capital expenditure										
- Hong Kong									<u>5,070</u>	<u>9,007</u>
- the PRC									<u>99,358</u>	<u>156,000</u>
Totals									<u>104,428</u>	<u>165,007</u>

5. 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:

	2002	2001
	HK\$'000	HK\$'000
Manufacture and sale of audio products	1,314,548	2,396,459
Manufacture and sale of video products	532,821	169,491
Manufacture and sale of home appliances products	123,221	48,759
Others	43,033	10,824
	<u> </u>	<u> </u>
Total	<u>2,013,623</u>	<u>2,625,533</u>

6. PROFIT FROM OPERATING ACTIVITIES

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

	2002	2001
	HK\$'000	HK\$'000
Depreciation	57,808	57,018
Minimum lease payments under operating leases on land and buildings	1,740	1,998
Auditors' remuneration	750	760
Amortisation of trademarks*	251	251
Research and development costs:		
Deferred development costs amortised*	845	–
Current year's expenditure	3,414	–
Provision for inventories	5,781	10,735
Provision for doubtful debts	1,740	–
Staff costs (including directors' remuneration – note 7):		
Wages and salaries	111,820	125,719
Pension contributions	2,274	1,903
Less: Forfeited contributions**	–	(79)
	114,094	127,543
Loss on disposal of fixed assets	313	339
Exchange gains, net	(1,937)	(3,229)
Interest income	(1,627)	(11,786)
Gross and net rental income from land and buildings	(880)	(869)
Dividend income from listed investments	(657)	(625)

Notes:

* The amortisation of trademarks and deferred development costs for the year are included in "Selling and distribution costs" and "Cost of sales", respectively, on the face of the profit and loss account.

** As at 31 March 2002, the Group had no forfeited contributions available to offset its future employers' contributions (2001: Nil).

7. DIRECTORS' REMUNERATION

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Fees - non-executive directors	195	195
Other emoluments - executive directors:		
Salaries and allowances	10,483	10,608
Pension contributions	533	178
	<u>11,211</u>	<u>10,981</u>

During the year, no fees were paid to the executive directors (2001: Nil) and no other emoluments were paid to the non-executive directors (2001: Nil).

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

	Number of directors	
	2002	2001
Nil - HK\$1,000,000	4	4
HK\$1,500,001 - HK\$2,000,000	4	4
HK\$3,500,001 - HK\$4,000,000	1	1
	<u>9</u>	<u>9</u>

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2001: Nil).

8. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included five (2001: five) directors, details of whose remuneration are set out in note 7 above.

9. FINANCE COSTS

	2002	2001
	HK\$'000	HK\$'000
Interest on:		
Bank loans and facilities wholly repayable within five years	13,715	21,109
Finance leases	436	709
	<hr/>	<hr/>
Total interest	14,151	21,818
Less: Interest capitalised	(3,131)	(1,714)
	<hr/>	<hr/>
	11,020	20,104
	<hr/> <hr/>	<hr/> <hr/>

10. TAX

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

No provision for PRC corporate income tax has been made as the Group did not generate any assessable profits in the PRC during the year. In the prior year, taxes on profits assessable in the PRC has been provided at the rates of tax prevailing in the PRC based on existing legislations, interpretations and practices in respect thereof.

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

10. TAX (Continued)

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

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

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

	2002 HK\$'000	2001 HK\$'000
At beginning of year	10,600	9,269
Charge/(credit) for the year	(992)	1,331
At balance sheet date	9,608	10,600

10. TAX (Continued)

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

	2002	2001
	HK\$'000	HK\$'000
Accelerated depreciation allowances	9,517	15,782
Tax losses carried forward	–	(5,192)
Others	91	10
	<u>9,608</u>	<u>10,600</u>

The revaluation of the Company's leasehold land and buildings does not constitute a timing difference and, consequently, the amount of potential deferred tax thereon has not been quantified.

11. NET PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The net loss attributable to shareholders dealt with in the financial statements of the Company for the year ended 31 March 2002 is HK\$995,000 (2001: net profit of HK\$31,764,000 as restated).

The comparative amount for 2001 has been restated by a prior year adjustment resulting in a credit of HK\$22,390,000 to the Company's net profit for that year, and a debit of the same amount to the retained profits as at 1 April 2000. The prior year adjustment reversed dividends from a subsidiary which were declared and approved by the subsidiaries after the prior year's balance sheet date, but which were recognised by the Company as revenue in its financial statements for that prior year. This change in accounting policy has arisen from the adoption of revisions to SSAP 18 as further detailed in notes 2 and 27 to the financial statements.

12. DIVIDENDS

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

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

During the year, the Group adopted the revised SSAP 9 "Events after the balance sheet date", as detailed in note 2 to the financial statements. To comply with this revised SSAP, a prior year adjustment has been made to reclassify the proposed final dividend for the year ended 31 March 2001 of HK\$3,176,000, which was recognised as a current liability at the prior year end, to the proposed final dividend reserve account within the capital and reserves section of the balance sheet. The result of this has been to reduce both the Group's and the Company's current liabilities and increase the reserves previously reported as at 31 March 2001, by HK\$3,176,000.

The effect of this change in accounting policy as at 31 March 2002, is that the current year's proposed final dividend of HK\$3,176,000 has been included in the proposed final dividend reserve account within the capital and reserves section of the balance sheet at that date, whereas in previous years, it would have been recognised as a current liability at the balance sheet date.

13. EARNINGS PER SHARE

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

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

14. FIXED ASSETS**Group**

	Leasehold land and buildings	Construction in progress	Leasehold improvements	Furniture and fixtures	Equipment and tools	Motor vehicles	Moulds	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cost or valuation:								
At beginning of year	216,400	15,533	35,398	23,162	220,354	12,448	75,198	598,493
Additions	3,765	10,701	5,338	1,386	71,815	188	19,381	112,574
Disposals	-	-	-	(26)	(3,818)	(1,120)	(2,072)	(7,036)
Exchange adjustments	-	4	5	1	13	-	2	25
At 31 March 2002	220,165	26,238	40,741	24,523	288,364	11,516	92,509	704,056
Analysis of cost or valuation:								
At cost	-	26,238	40,741	24,523	288,364	11,516	92,509	483,891
At valuation	220,165	-	-	-	-	-	-	220,165
	220,165	26,238	40,741	24,523	288,364	11,516	92,509	704,056
Accumulated depreciation:								
At beginning of year	-	-	12,988	15,923	97,210	7,707	49,365	183,193
Provided during the year	7,648	-	5,945	2,019	29,158	1,449	11,589	57,808
Disposals	-	-	-	(8)	(2,199)	(1,064)	(99)	(3,370)
Exchange adjustments	-	-	1	1	4	-	-	6
At 31 March 2002	7,648	-	18,934	17,935	124,173	8,092	60,855	237,637
Net book value:								
At 31 March 2002	212,517	26,238	21,807	6,588	164,191	3,424	31,654	466,419
At 31 March 2001	216,400	15,533	22,410	7,239	123,144	4,741	25,833	415,300

14. FIXED ASSETS (Continued)

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

	Hong Kong <i>HK\$'000</i>	PRC <i>HK\$'000</i>	Total <i>HK\$'000</i>
At valuation:			
Held under long term leases	4,000	–	4,000
Held under medium term leases	41,800	174,365	216,165
	<u>45,800</u>	<u>174,365</u>	<u>220,165</u>

The Group's leasehold land and buildings, other than the current year's additions, 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. No professional valuation of such land was made as at 31 March 2002 because the directors are of the opinion that the value of such land and buildings at 31 March 2002 is not significantly different from the carrying amount at 31 March 2001 and that a further professional valuation would involve expense out of proportion to the value to the shareholders of the Company.

No professional valuation of the current year's additions of leasehold land and buildings was made as at 31 March 2002 because the directors are of the opinion that the value of such land and buildings at 31 March 2002 is not significantly different from the carrying amount at 31 March 2002.

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\$2,907,000 at 31 March 2002 (2001: HK\$2,966,000).

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\$116,608,000 (2001: HK\$117,091,000).

14. FIXED ASSETS (Continued)

The Group's construction in progress and equipment and tools included interest capitalised during the year of approximately HK\$559,000 (2001: HK\$915,000) and HK\$2,572,000 (2001: Nil), respectively. In the prior year, the Group's leasehold improvements and the amount of construction in progress transferred to leasehold land and buildings included interest capitalised during that year of approximately HK\$202,000 and HK\$597,000, respectively.

Included in the total amount of fixed assets at 31 March 2002 are assets held under finance leases with a net book value of HK\$24,828,000 (2001: HK\$7,852,000).

15. INTANGIBLE ASSETS**Group**

	Trademarks <i>HK\$'000</i>	Deferred development costs <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost:			
At beginning of year	2,508	–	2,508
Additions	–	5,073	5,073
At 31 March 2002	2,508	5,073	7,581
Accumulated amortisation:			
At beginning of year	251	–	251
Provided during the year	251	845	1,096
At 31 March 2002	502	845	1,347
Net book value:			
At 31 March 2002	2,006	4,228	6,234
At 31 March 2001	2,257	–	2,257

16. GOODWILL

SSAP 30 was adopted during the year as detailed in note 2 to the financial statements.

As detailed in note 3 to the financial statements, the Group has adopted the transitional provision of SSAP 30 which permits goodwill in respect of acquisitions which occurred prior to 1 January 2001, to remain eliminated against consolidated reserves.

Due to the adoption of SSAP 31, the Group has adopted a policy to assess goodwill eliminated against consolidated reserves for impairment.

The amount of goodwill remaining in consolidated reserves, arising from the acquisition of a subsidiary prior to 1 April 2001, are as follows:

Group

	Goodwill eliminated against retained profits
	<i>HK\$'000</i>
Cost:	
At beginning and end of year	2
Accumulated impairment:	
At beginning and end of year	-
Net amount:	
At 31 March 2002	2
At 31 March 2001	2

17. INTERESTS IN SUBSIDIARIES

	Company	
	2002 HK\$'000	2001 HK\$'000
Unlisted shares, at cost	58,812	58,812
Due from subsidiaries	123,100	130,729
	<u>181,912</u>	<u>189,541</u>

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

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, video and home appliances components
Dongguan Tonic Electronics 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

17. INTERESTS IN SUBSIDIARIES (Continued)

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 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 and manufacture of audio and video products
Tonic Digital Products Limited**	Hong Kong	HK\$2	–	100	Trading and manufacture of digital products
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

17. INTERESTS IN SUBSIDIARIES (Continued)

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 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 2002, the Group paid up HK\$20,044,540 of the capital.

** Incorporated during the year.

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.

18. INTEREST IN AN ASSOCIATE

	Group	
	2002 HK\$'000	2001 HK\$'000
Share of net assets	23	850
Due from an associate	250	–
	<u>273</u>	<u>850</u>

The amount due from an associate is unsecured, interest-free and has no fixed terms of repayment.

18. INTEREST IN AN ASSOCIATE (Continued)

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

19. LONG TERM INVESTMENTS

	2002	Group
	HK\$'000	2001
		HK\$'000
At cost:		
Hong Kong listed equity investments	21,221	21,221
Overseas unlisted equity investments	855	855
	22,076	22,076
Market value of listed equity investments at balance sheet date	24,089	20,716

20. LOANS RECEIVABLE

Loans receivable represent unsecured and interest free advances to certain staff of the Group, except for an amount of HK\$3,480,000 which bears interest at 5% per annum.

The terms of the loans receivable are analysed as follows:

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Repayable within one year	4,354	1,869
Repayable by equal monthly instalments over seven years (2001: eight years)	1,219	1,406
Repayable by 60 equal quarterly instalments over fifteen years	3,480	–
No fixed terms of repayment	–	22
	9,053	3,297
Less: Provision	(1,740)	–
	7,313	3,297
Portion classified as current assets	(4,696)	(2,078)
Non-current portion	2,617	1,219

21. INVENTORIES

	2002 <i>HK\$'000</i>	Group 2001 <i>HK\$'000</i>
Raw materials	76,680	132,016
Work in progress	65,516	87,230
Finished goods	41,661	43,246
	183,857	262,492

The carrying amount of inventories carried at net realisable value included in the above was HK\$32,779,000 (2001: HK\$50,886,000).

22. ACCOUNTS RECEIVABLE

The aged analysis of the Group's accounts receivable, as at the balance sheet date, based on invoice date, is as follows:

	2002		2001	
	HK\$'000	Percentage	HK\$'000	Percentage
0 – 30 days	62,993	78	67,978	76
31 – 60 days	4,198	5	7,266	8
61 – 90 days	11,416	14	8,221	9
Over 90 days	1,926	3	6,021	7
	<u>80,533</u>	<u>100</u>	<u>89,486</u>	<u>100</u>

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

23. BANK BORROWINGS

	Group	
	2002 HK\$'000	2001 HK\$'000
Long term bank loans repayable:		
Within one year	51,320	19,667
In the second year	62,347	15,667
In the third to fifth years, inclusive	–	3,333
	<u>113,667</u>	<u>38,667</u>
Portion classified as current liabilities	<u>(51,320)</u>	<u>(19,667)</u>
Non-current portion	<u>62,347</u>	<u>19,000</u>

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

As at 31 March 2002, 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.

24. ACCOUNTS PAYABLE

The aged analysis of the Group's accounts payable as at the balance sheet date, based on invoice date, is as follows:

	2002		2001	
	<i>HK\$'000</i>	<i>Percentage</i>	<i>HK\$'000</i>	<i>Percentage</i>
0 – 30 days	104,416	50	129,993	46
31 – 60 days	30,292	15	78,723	28
61 – 90 days	39,525	19	32,243	11
Over 90 days	33,601	16	44,008	15
	207,834	100	284,967	100

25. FINANCE LEASE PAYABLES

The Group leases certain of its fixed assets for its business. These leases are classified as finance leases and have remaining lease terms ranging from 1 to 4 years. At 31 March 2002, the total future minimum lease payments under finance leases and their present values, were as follows:

Group	Minimum lease payments 2002 HK\$'000	Minimum lease payments 2001 HK\$'000	Present value of minimum lease payments 2002 HK\$'000	Present value of minimum lease payments 2001 HK\$'000
Amount payable:				
Within one year	9,619	2,824	8,781	2,463
In the second year	8,011	2,195	7,586	2,049
In the third to fifth years, inclusive	6,681	768	6,544	716
Total minimum finance lease payments	24,311	5,787	22,911	5,228
Future finance charges	(1,400)	(559)		
Total net finance lease payables	22,911	5,228		
Portion classified as current liabilities	(8,781)	(2,463)		
Non-current portion	14,130	2,765		

26. SHARE CAPITAL

	Company	
	2002	2001
	HK\$'000	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 (2001: 635,259,975) ordinary shares of HK\$0.10 each	63,526	63,526

Share options

The Company operates a share option scheme (the "Option Scheme") further details of which are set out under the heading "Share Option Scheme" in the report of the directors.

At the beginning of the year, there were 48,800,000 options outstanding under the Option Scheme. Such options are exercisable at a price of HK\$0.70 per share during the period from 10 April 2000 to 9 April 2010.

During the year, 550,000 share options were cancelled due to the termination of employment of a share option holder.

At the balance sheet date, the Company had 48,250,000 outstanding share options under the Option Scheme. The exercise in full of these outstanding share options would, under the present capital structure of the Company, result in the issue of 48,250,000 additional ordinary shares of HK\$0.1 each and proceeds, before issue expenses, of approximately HK\$33,775,000.

27. RESERVES

Group	Share premium account	Contributed surplus	Exchange fluctuation reserve	Asset revaluation reserve	Retained profits	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1 April 2000	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 differences 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
Interim 2001 dividend	–	–	–	–	(6,353)	(6,353)
Proposed final 2001 dividend	–	–	–	–	(3,176)	(3,176)
Underprovision of prior year's proposed final dividend	–	–	–	–	(985)	(985)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
At 31 March 2001 and beginning of year	28,735	280	(9,318)	109,103	182,245	311,045
Exchange differences on translation of overseas subsidiaries' financial statements	–	–	10	–	–	10
Net profit for the year	–	–	–	–	9,240	9,240
Interim 2002 dividend	–	–	–	–	(3,176)	(3,176)
Proposed final 2002 dividend	–	–	–	–	(3,176)	(3,176)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Balance at 31 March 2002	<u>28,735</u>	<u>280</u>	<u>(9,308)</u>	<u>109,103</u>	<u>185,133</u>	<u>313,943</u>

Certain amounts of goodwill arising on the acquisition of minority interests of a subsidiary remain eliminated against retained profits, as explained in note 16 to the financial statements.

27. RESERVES (Continued)**Company**

	Share premium account <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Retained profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 April 2000				
As previously reported	12,018	58,794	36,290	107,102
Prior year adjustment: SSAP 18 (Revised) – net year-on-year effect of dividends from a subsidiary no longer recognised as income for the year (notes 2 and 11)	–	–	(22,390)	(22,390)
As restated	12,018	58,794	13,900	84,712
Exercise of warrants	16,657	–	–	16,657
Exercise of share options	60	–	–	60
Net profit for the year (as restated)	–	–	31,764	31,764
Interim 2001 dividend	–	–	(6,353)	(6,353)
Proposed final 2001 dividend	–	–	(3,176)	(3,176)
Underprovision of prior year's proposed final dividend	–	–	(985)	(985)
	<u>28,735</u>	<u>58,794</u>	<u>35,150</u>	<u>122,679</u>
At 31 March 2001 and beginning of year				
	28,735	58,794	35,150	122,679
Net loss for the year	–	–	(995)	(995)
Interim 2002 dividend	–	–	(3,176)	(3,176)
Proposed final 2002 dividend	–	–	(3,176)	(3,176)
	<u>–</u>	<u>–</u>	<u>(7,347)</u>	<u>(7,347)</u>
At 31 March 2002	<u>28,735</u>	<u>58,794</u>	<u>27,803</u>	<u>115,332</u>

27. RESERVES *(Continued)*

The contributed surplus of the Group 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 to rationalise the Group structure in preparation for the listing of the Company's share on The Stock Exchange of Hong Kong Limited and the nominal value of the share capital of the Company issued in exchange therefor.

The contributed surplus of the Company represents the excess of the then combined net asset value of the subsidiaries acquired at the date of acquisition over the aggregate of the nominal value of the Company's shares in exchange thereof.

Under the Companies Law (2000 Revision) of the Cayman Islands, the share premium account 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 and when as 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 account, contributed surplus and retained profits.

28. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT**(a) Reconciliation of profit from operating activities to net cash inflow from operating activities**

	2002	2001
	HK\$'000	<i>HK\$'000</i>
Profit from operating activities	22,609	34,617
Interest income	(1,627)	(11,786)
Dividend income	(657)	(625)
Depreciation	57,808	57,018
Amortisation of trademarks	251	251
Amortisation of deferred development costs	845	–
Provision for inventories	5,781	10,735
Provision for doubtful debts	1,740	–
Loss on disposal of fixed assets	313	339
Increase in an amount due from an associate	(250)	–
Decrease/(increase) in inventories	72,854	(59,517)
Decrease in accounts receivable	8,953	10,613
Decrease/(increase) in prepayments, deposits and other receivables	(29)	11,754
Increase/(decrease) in accounts payable	(77,133)	3,425
Increase/(decrease) in accrued liabilities and other payables	2,061	(5,398)
	<hr/>	<hr/>
Net cash inflow from operating activities	93,519	51,426
	<hr/> <hr/>	<hr/> <hr/>

28. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)**(b) Analysis of changes in financing during the year**

	Issued capital (including share premium account) HK\$'000	Bank loans HK\$'000	Finance lease obligations HK\$'000
Balance at 1 April 2000	70,907	–	7,617
Net cash inflow/(outflow) from financing	21,354	38,667	(7,724)
Inception of finance lease contracts	–	–	5,335
	<hr/>	<hr/>	<hr/>
Balance at 31 March 2001 and beginning of year	92,261	38,667	5,228
Net cash inflow/(outflow) from financing	–	75,000	(9,239)
Inception of finance lease contracts	–	–	26,922
	<hr/>	<hr/>	<hr/>
Balance at 31 March 2002	<u>92,261</u>	<u>113,667</u>	<u>22,911</u>

(c) Major non-cash transactions

- (i) During the year, the Group entered into finance lease arrangements in respect of fixed assets with a total capital value at the inception of the leases of HK\$26,922,000 (2001: HK\$5,335,000)
- (ii) During the year, deposits for acquisition of fixed assets of HK\$13,219,000 (2001: Nil) was utilised as part of the considerations paid for the purchases of fixed assets.

29. CONTINGENT LIABILITIES

- (a) At the balance sheet date, contingent liabilities not provided for in the financial statements were as follows:

	Group		Company	
	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Bills discounted with recourse	15,624	13,999	–	–
Guarantees for general banking facilities of subsidiaries*	–	–	764,906	712,137
Shipping guarantees	1,688	406	–	–
	17,312	14,405	764,906	712,137

* At 31 March 2002, HK\$255,046,000 (2001: HK\$170,727,000) 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 a supplier. At 31 March 2002, the subsidiary had trade debts in aggregate of HK\$1,621,000 (2001: HK\$1,970,000) due to the supplier.

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

30. OPERATING LEASE ARRANGEMENTS

The Group's leases certain of its properties under operating lease arrangements. Leases for properties are negotiated for terms ranging from 1 to 5 years.

At 31 March 2002, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2002	Group
	HK\$'000	2001
		<i>HK\$'000</i>
		<i>(Restated)</i>
Within one year	1,541	573
In the second to fifth years, inclusive	5,304	81
	<u>6,845</u>	<u>654</u>

At balance sheet date, the Company had no operating lease arrangements (2001: Nil).

SSAP 14 (Revised), which was adopted during the year, requires lessees under operating leases to disclose the total future minimum operating lease payments, rather than only the payments to be made during the next year as was previously required. Accordingly, the prior year comparative amounts for operating leases as lessee have been restated to accord with the current year's presentation.

31. COMMITMENTS

	2002	Group
	HK\$'000	2001
		HK\$'000
Contracted for, but not provided in the financial statements in respect of:		
Construction in progress in the PRC	3,817	1,087
Equipment and tools	16,601	30,227
Moulds	100	352
Leasehold improvements	–	270
	20,518	31,936
Capital commitment in respect of capital contributions to a subsidiary established in the PRC	2,175	2,175
Other commitments:		
Commitments to purchase foreign currencies	46,788	140,052
Commitments to sell foreign currencies	127,591	–

At balance sheet date, the Company had no capital commitments (2001: Nil).

32. RELATED PARTY TRANSACTIONS AND CONNECTED TRANSACTIONS

In addition to the transaction and balances detailed elsewhere in the financial statements, during the year, the Group had the following related party and connected transactions:

- (a) The Group sold audio and video products and related components amounting to HK\$2,091,000 (2001: HK\$10,192,000) 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.

32. RELATED PARTY TRANSACTIONS AND CONNECTED TRANSACTIONS *(Continued)*

- (b) The Group paid HK\$132,000 (2001: HK\$143,000) 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.

33. COMPARATIVE AMOUNTS

As further explained in note 2 to the financial statements, due to the adoption of certain new and revised SSAPs during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain prior year adjustments have been made and certain comparative amounts have been reclassified to conform with the current year's presentation.

34. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 16 July 2002.

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

RESULTS

	Year ended 31 March				
	2002 HK\$'000	2001 HK\$'000 (Restated)	2000 HK\$'000 (Restated)	1999 HK\$'000 (Restated)	1998 HK\$'000 (Restated) (note)
TURNOVER	2,013,623	2,625,533	2,038,700	1,840,799	1,524,396
PROFIT BEFORE TAX	10,762	14,513	77,961	75,972	44,604
Tax	(1,522)	(1,979)	(6,663)	(7,027)	(3,121)
PROFIT BEFORE MINORITY INTERESTS	9,240	12,534	71,298	68,945	41,483
Minority interests	–	–	2	–	–
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	9,240	12,534	71,300	68,945	41,483

ASSETS AND LIABILITIES

	At 31 March				
	2002 HK\$'000	2001 HK\$'000	2000 HK\$'000	1999 HK\$'000	1998 HK\$'000
TOTAL ASSETS	912,573	880,575	801,271	682,804	681,226
TOTAL LIABILITIES	(531,928)	(502,828)	(441,359)	(375,452)	(472,605)
	380,645	377,747	359,912	307,352	208,621

Note: 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.

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

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

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 2002.
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 consider the appointment of 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 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; (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).”

By Order of the Board

Liu Hoi Keung, Gary

Secretary & Director

Hong Kong, 16 July 2002

Notes:

- (a) The Register of Members of the Company will be closed from Tuesday, 17 September 2002 to Thursday, 19 September 2002 (both days inclusive), during which period no transfer of shares can be registered and no shares will be allotted and issued on the exercise of share options issued/granted by the Company. In order to qualify for the proposed final dividend, all transfers accompanied by the relevant share certificates and transfer forms must be lodged with the Company's Share Registrar in Hong Kong, Tengis Limited at 4th Floor, Hutchison House, 10 Harcourt Road, Central, Hong Kong for registration not later than 4:00 p.m. on Monday, 16 September 2002.
- (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 Share Registrar in Hong Kong, Tengis Limited at 4th Floor, Hutchison House, 10 Harcourt Road, Central, Hong Kong not less than 48 hours before the time fixed for holding the Meeting.
- (d) The Annual Report of the Company for the year ended 31 March 2002 also containing this notice together with a circular setting out further information regarding resolution numbered 5 above will be dispatched to shareholders as soon as practicable.