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CORPORATE INFORMATION

DIRECTORS

Executive Directors

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

Non-executive Directors

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

* *Independent*

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

WEBSITES

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

STOCK CODE

978

The Board of Directors (the "Directors") of Tonic Industries Holdings Limited (the "Company") is pleased to announce that the unaudited condensed consolidated financial statements of the Company and its subsidiaries (the "Group") for the six months ended 30 September 2001 (the "Period") together with the comparative figures for the previous corresponding period are as follows:

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

		For the six months ended 30 September	
		2001	(Restated) 2000
		Unaudited	Unaudited
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	2	1,253,066	1,390,436
Cost of sales		<u>(1,176,438)</u>	<u>(1,296,523)</u>
Gross profit		76,628	93,913
Other revenue		3,153	6,477
Selling and distribution costs		(11,824)	(20,921)
Administrative expenses		<u>(37,809)</u>	<u>(39,607)</u>
Profit from operating activities		30,148	39,862
Finance costs		<u>(9,859)</u>	<u>(11,230)</u>
Profit before taxation	3	20,289	28,632
Taxation	4	<u>(1,623)</u>	<u>(1,745)</u>
Profit before minority interests		18,666	26,887
Minority interests		<u>—</u>	<u>2</u>
Profit retained for the period		<u>18,666</u>	<u>26,889</u>
Interim dividend		<u>3,176</u>	<u>6,353</u>
Earnings per share	5		
— Basic		<u>2.9 cents</u>	<u>4.6 cents</u>
— Diluted		<u>N/A</u>	<u>N/A</u>

CONDENSED CONSOLIDATED STATEMENT OF RECOGNISED GAINS AND LOSSES

	For the six months ended 30 September	
	2001	2000
	Unaudited	Unaudited
	<i>HK\$'000</i>	<i>HK\$'000</i>
Exchange differences arising on translation of overseas operation not recognised in the profit and loss account	2,677	570
Net profit for the period	<u>18,666</u>	<u>26,889</u>
Total recognised gains and losses	<u>21,343</u>	<u>27,459</u>

CONDENSED CONSOLIDATED BALANCE SHEET

		30 September 2001 Unaudited HK\$'000	31 March 2001 Audited HK\$'000
	<i>Notes</i>		
NON-CURRENT ASSETS			
Fixed assets		456,598	415,300
Long term investments		23,076	22,076
Deposits for acquisition of fixed assets		37,106	28,254
Other non-current assets		4,441	4,326
		<hr/>	<hr/>
		521,221	469,956
CURRENT ASSETS			
Cash and bank balances		90,946	48,382
Time deposits		30,000	–
Accounts and other receivables	6	280,512	99,745
Inventories		322,290	262,492
		<hr/>	<hr/>
		723,748	410,619
CURRENT LIABILITIES			
Accounts and other payables	7	587,459	316,273
Borrowings due within one year		193,875	154,190
Dividend payable		3,175	–
		<hr/>	<hr/>
		784,509	470,463
NET CURRENT LIABILITIES			
		<hr/>	<hr/>
		(60,761)	(59,844)
TOTAL ASSETS LESS CURRENT LIABILITIES			
		<hr/>	<hr/>
		460,460	410,112
NON-CURRENT LIABILITIES			
Long term borrowings		(53,946)	(21,765)
Deferred tax		(10,600)	(10,600)
		<hr/>	<hr/>
		(64,546)	(32,365)
CAPITAL AND RESERVES			
Share capital	8	63,526	63,526
Reserves	9	332,388	311,045
Proposed dividend		–	3,176
		<hr/>	<hr/>
		395,914	377,747
		<hr/>	<hr/>
		395,914	377,747

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	For the six months ended 30 September	
	2001	2000
	Unaudited	Unaudited
	<i>HK\$'000</i>	<i>HK\$'000</i>
Net cash inflow from operating activities	114,095	82,536
Net cash outflow from return on investments and servicing of finance	(8,605)	(3,982)
Taxes paid	(838)	(860)
Net cash outflow from investing activities	(80,526)	(75,821)
Net cash inflow from financing activities	24,729	52,269
Increase in cash and cash equivalents	48,855	54,142
Cash and cash equivalents at 1 April	(83,678)	30,321
Cash and cash equivalents at 30 September	<u>(34,823)</u>	<u>84,463</u>
Analysis of balances of cash and cash equivalents		
Cash and bank balances	90,946	128,365
Time deposits with original maturity of less than three months when acquired	30,000	163,385
Trust receipt loans with maturity of less than three months	(155,769)	(207,287)
	<u>(34,823)</u>	<u>84,463</u>

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Significant Accounting Policies

The unaudited condensed consolidated interim financial statements of the Group are prepared in accordance with Statement of Standard Accounting Practice ("SSAP") No. 25 "interim financial reporting" and the Listing Rules of The Stock Exchange of Hong Kong Limited. In prior years, dividends proposed or declared after the balance sheet date in respect of an accounting period were recognised as a liability at the balance sheet date. In order to comply with SSAP 9 (revised) "Events after the balance sheet date", the Group does not recognise a liability for dividends in the accounting period in which they are declared or proposed and approved by shareholders. The new accounting policy has been adopted retrospectively, with the retained profits as at 1 April 2001 adjusted for the amounts relating to final dividend declared for the year ended 31 March 2001.

Except for the above, the accounting policies and basis of preparation are the same as those used in the annual financial statements for the year ended 31 March 2001. Figures for the year ended 31 March 2001 are extracted from the Group's annual financial statements for that year.

2. Segmental Information

The principal activities of the Group are the manufacture of consumer video and audio products. A geographical analysis of the Group's turnover by market is as follows:

	Turnover	
	For the six months ended 30 September	
	2001	2000
	Unaudited	Unaudited
	<i>HK\$'000</i>	<i>HK\$'000</i>
Asia Pacific countries	304,273	514,462
Americas	502,050	472,748
Europe	446,743	403,226
	<hr/>	<hr/>
Total	<u>1,253,066</u>	<u>1,390,436</u>

An analysis of the turnover by principal activities are as follows:

	Turnover	
	For the six months	
	ended 30 September	
	2001	2000
	Unaudited	Unaudited
	<i>HK\$'000</i>	<i>HK\$'000</i>
Manufacture of audio products	876,028	1,368,948
Manufacture of video products	340,678	–
Others	36,360	21,488
	<u>1,253,066</u>	<u>1,390,436</u>

An analysis of the profit from operating activities by principal activities are as follows:

	Profit from operating	
	activities	
	For the six months	
	ended 30 September	
	2001	2000
	Unaudited	Unaudited
	<i>HK\$'000</i>	<i>HK\$'000</i>
Manufacture of audio products	21,749	38,326
Manufacture of video products	6,135	–
Others	2,264	1,536
	<u>30,148</u>	<u>39,862</u>

Contribution to profit from operating activities by geographical region is not presented as the contribution from each region is substantially in line with the overall ratio of profit from operating activities to turnover of the Group.

3. Profit before Taxation

	For the six months ended 30 September	
	2001	2000
	Unaudited	Unaudited
	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit before taxation is arrived at after charging/(crediting)		
Depreciation	28,876	25,456
Interest on borrowings	9,859	11,230
	<u> </u>	<u> </u>
Interest income	(889)	(4,047)
	<u> </u>	<u> </u>

4. Taxation

Hong Kong profits tax has been provided at the applicable rate of 16% (2000: 16%) on the estimated assessable profits arising in Hong Kong during the Period. Taxes on profits assessable in the People's Republic of China ("PRC") have been provided at the rates of taxation prevailing in the PRC based on existing legislations, interpretations and practices in respect thereof.

5. Earnings per share

The calculation of basic earnings per share for the Period is based on the net profit attributable to shareholders of HK\$18,666,000 (2000: HK\$26,889,000) and the weighted average of 635,259,975 shares (2000: 589,598,398 shares) in issue during the Period.

There is no diluted earnings per share for the Period since the Company has no dilutive potential ordinary share.

6. Accounts and Other Receivables

Included in accounts and other receivables are accounts receivable of HK\$265,378,000 (31 March 2001: HK\$89,486,000), the aging analysis of which is as follows:

	30 September 2001	31 March 2001
	Unaudited	Audited
	<i>HK\$'000</i>	<i>HK\$'000</i>
0-30 days	168,990	67,978
31-60 days	82,299	7,266
Over 60 days	14,089	14,242
	<u> </u>	<u> </u>
	265,378	89,486
	<u> </u>	<u> </u>

The majority of the Group's sales are on terms of L/C at sight and the others on open account basis.

7. Accounts and Other Payables

Included in accounts and other payables are accounts payable of HK\$546,891,000 (31 March 2001: HK\$284,967,000), the aging analysis of which is as follows:

	30 September 2001 Unaudited HK\$'000	31 March 2001 Audited HK\$'000
0-30 days	155,987	129,993
31-60 days	191,704	78,723
61-90 days	140,727	32,243
Over 90 days	58,473	44,008
	<u>546,891</u>	<u>284,967</u>

8. Share Capital

	30 September 2001 Unaudited HK\$'000	31 March 2001 Audited HK\$'000
<i>Authorised:</i>		
1,200,000,000 ordinary shares of HK\$0.10 each	<u>120,000</u>	<u>120,000</u>
<i>Issued and fully paid:</i>		
635,259,975 (31 March 2001: 635,259,975) ordinary shares of HK\$0.10 each	<u>63,526</u>	<u>63,526</u>

9. Reserves

	Share premium HK\$'000	Contributed surplus HK\$'000	Exchange fluctuation reserve HK\$'000	Asset revaluation reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
Balance at 1 April 2001	28,735	280	(9,318)	109,103	182,245	311,045
Exchange difference on translation of overseas subsidiaries' financial statements	-	-	2,677	-	-	2,677
Net profit for the period	-	-	-	-	18,666	18,666
Balance at 30 September 2001	<u>28,735</u>	<u>280</u>	<u>(6,641)</u>	<u>109,103</u>	<u>200,911</u>	<u>332,388</u>

10. Contingencies and Commitments

- (a) Contingent liabilities in respect of bills discounted with recourse at 30 September 2001 was HK\$41,535,000 (31 March 2001: HK\$13,999,000).
- (b) Capital commitments in respect of fixed assets

	30 September 2001	31 March 2001
	Unaudited	Audited
	<i>HK\$'000</i>	<i>HK\$'000</i>
Contracted for but not provided in the financial statements	15,500	31,936
Authorised but not contracted for	—	—
	<u>15,500</u>	<u>31,936</u>

- (c) Commitments to buy and sell foreign currencies amounted to HK\$46,800,000 and HK\$124,800,000 respectively (31 March 2001: HK\$140,052,000 and Nil respectively).

11. Related Party Transactions

During the Period, the Group had the following related party transactions:

- (a) The Group sold audio products and related components amounting to HK\$887,858 (six months ended 30 September 2000: HK\$806) to Pioneer Ventures Limited ("PVL"), a wholly-owned subsidiary of EganaGoldpfeil (Holdings) Limited which is a substantial shareholder of the Company.

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

- (b) The Group paid HK\$15,000 (six months period ended 30 September 2000: HK\$25,500) to International Taxation Advisory Services Limited, of which Wong Wai Kwong, David, a non-executive director of the Company, is a director, for corporate advisory services rendered. The directors consider that the above corporate advisory services charges were paid according to the published prices and conditions similar to those offered by other external consultants of the Group.

12. Comparative figures

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

INTERIM DIVIDEND

The Directors have resolved to declare an interim dividend of HK0.5 cent per share payable to shareholders whose names appear on the Company's Register of Members at the close of business on 9 January 2002. Dividend warrants will be sent to shareholders on or before 17 January 2002.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from Monday, 7 January 2002 to Wednesday, 9 January 2002, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the interim dividend, all transfer documents, accompanied by the relevant share certificates must be lodged with the Company's Branch Registrar in Hong Kong – Tengis Limited, 4th Floor Hutchison House, 10 Harcourt Road, Central, Hong Kong not later than 4:00 p.m. on Friday, 4 January 2002.

BUSINESS REVIEW AND OUTLOOK

The Group's profit attributable to shareholders for the Period was HK\$18,666,000, representing a 31% decrease from the previous corresponding period. Turnover for the Period decreased approximately 10% to HK\$1,253 million.

The market remained competitive and the world economy sluggish during the Period. Decreases in worldwide demand led to a decrease in product selling prices as well as raw material costs. However, the Group's broad customer base helped to maintain overall turnover. Sales to the United States accounted for approximately 40%, sales to Europe accounted for approximately 35% and Asia accounted for 25% of total turnover. Profit margin of regular items was further driven down by the low demand. Whereas new and higher end products can still enjoy a higher margin by making use of the lower raw materials cost. The Group's new products such as MP3 players, DVD players, CD-RW, internet set top box and satellite receivers were all launched during the Period. It is expected that the increase in sales of these products in future will greatly improve the Group's financial performance.

While the Electronic Division is suffering a tough time, the Group is pleased to see the continuous growth of the business in the Home Appliance Division. Turnover for the division increased to approximately HK\$40 million during the Period and is expected to further increase in the years ahead. Products have been diversified to include air purifiers, steam stations, electric ovens as well as various new models of coffee making machine.

As a leading consumer electronics manufacturer, the Group continues to invest in the research and development of new and constantly improving products. During the Period the Group opened two new R&D centres, one in Japan and the other in Shenzhen. These two centres support and compliment our existing R&D departments in Hong Kong and the Dongguan factory. Experienced Japanese and Chinese engineers have been recruited for these facilities. The Japan office mainly deals with new product development while the Shenzhen office mainly provides software support solutions.

The new factory block 9 and dormitory saw their final stages of construction being completed during the Period. Total production area now exceeds 1,500,000 square feet, an increase of almost 50% as compared to the year 1999. Production capabilities have also been greatly enhanced as a result of the purchase of additional sets of SMT (Surface Mounted Technology) machines and automated insertion machines. The Group now operates 18 fully automated production lines, as compared to 6 in the year 1999. These production lines not only increase production efficiencies and improve product quality, they will also ensure the manufacture and production of the next generation of digital products.

Four of six heavy oil electric generators have been installed and are now fully operational. The remaining two generators will be installed early next year. With the much cheaper fuel oil available, electricity costs have been reduced by nearly HK\$1 million a month. The investment is expected to return within the next three to four years.

As at 30 September 2001, the Group had bank balances and deposits totaling HK\$120 million. Lower balances were maintained as compared to last corresponding period as most of the budgeted capital expenditure has been paid for and we do not expect any significant capital expenditure next year. Unutilised short term and long term bank facilities amounted to HK\$250 million.

As at 30 September 2001, the Group had 125 staff stationed in Hong Kong and 9,500 staff and workers working in the PRC factories. Total salary and wages amounted to approximately HK\$63 million for the Period. The Group provides year end double pay, discretionary bonuses, a provident fund scheme, medical insurance and training. Gearing ratio was 0.63 (31 March 2001: 0.47) calculated using all outstanding loans divided by the capital and reserve.

During the last two years, the Group has seen a consolidation period, taking the opportunity to expand production capacities, improve production capabilities to cope with the needs of the future, carry out thorough review of production efficiencies and enhance product research and development. Although there is no indication of when the recession will be over, the Group is confident that it will benefit from the many opportunities to flourish once the recession is over.

DIRECTORS' INTERESTS IN SECURITIES

At 30 September 2001, the interests of Directors or their associates in the issued share capital of the Company and its associated corporation, as recorded in the register maintained by the Company under Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") were as follows:

(a) The Company

Name of Directors	Nature of interest	Number of ordinary shares held
Ling Siu Man, Simon	Corporate (<i>Note</i>)	317,886,782
Wong Ki Cheung	Personal	938,000
Li Fung Ching, Catherine	Personal	1,200,000
Liu Hoi Keung, Gary	Personal	3,920
Pang Hon Chung	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 30 September 2001, Ling Siu Man, Simon personally held 2,850 non-voting deferred shares of HK\$100 each of Tonic Electronics Limited, a subsidiary of the Company.

Save as disclosed above, and other than certain shares of the Company's subsidiaries held by certain Directors in trust for the Group, none of the Directors or any of 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

Under a Share Option Scheme adopted by the Company on 18 September 1997, the Directors of the Company may, at any time during ten years, grant options to employees and executive directors of the Group to subscribe for shares of the Company.

At 30 September 2001, the details of share options, exercisable at HK\$0.70 per share, granted to each director were as follows:

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

None of the above share options was exercised during the Period.

Apart from the foregoing, at no time during the Period 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.

SUBSTANTIAL SHAREHOLDERS

At 30 September 2001, the following interests of 10% or more of the issued share capital of the Company were recorded in the register of interests kept by the Company pursuant to Section 16(1) of the SDI Ordinance:

Name	Number of ordinary shares held	Percentage of issued share capital (%)
Success Forever Limited (<i>Note 1</i>)	317,886,782	50.04
Eco-Haru Manufacturing Holdings Limited (“Eco-Haru”) (<i>Note 2</i>)	121,100,869	19.06
Glorious Concept Limited (“Glorious Concept”) (<i>Note 2</i>)	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 38.76% 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.

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

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

AUDIT COMMITTEE

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

CODE OF BEST PRACTICE

None of the Directors of the Company is aware of any information that would reasonably indicate that the Company had not been for any part of the accounting period covered by the interim report in compliance with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

APPRECIATION

On behalf of the Board, I would like to extend my sincere gratitude to our shareholders, customers, suppliers and bankers for their continued support. I would also like to thank my fellow directors and our staff for their dedication and contribution to the Group.

On behalf of the Board

Simon Ling Siu Man

Chairman and Managing Director

Hong Kong, 12 December 2001