



# TONIC INDUSTRIES HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

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

## INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2002

### FINANCIAL HIGHLIGHTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2002

- Turnover amounted to HK\$1,378,692,000, growth of 10%.
- Net profit attributable to shareholders amounted to HK\$23,854,000, growth of 28%.
- Basic earnings per share amounted to HK3.8 cents, growth of 31%.
- Interim dividend amounted to HK\$6,353,000, growth of 100%.
- Shareholders equity as at 30 September 2002 amounted to HK\$407,018,000, growth of 7%.

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 2002 (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	
		2002	2001
	Notes	Unaudited HK\$'000	Unaudited HK\$'000
Turnover	2	1,378,692	1,253,066
Cost of sales		(1,291,370)	(1,176,438)
Gross profit		87,322	76,628
Other revenue		3,066	3,153
Selling and distribution costs		(21,227)	(11,824)
Administrative expenses		(37,141)	(37,809)
Profit from operating activities		32,020	30,148
Finance costs		(5,892)	(9,859)
Share of loss of an associate		(200)	–
Profit before tax	3	25,928	20,289
Tax	4	(2,074)	(1,623)
Net Profit attributable to shareholders		23,854	18,666
Interim dividend		6,353	3,176
Interim dividend per share		1 cent	0.5 cent
Earnings per share	5		
– Basic		3.8 cents	2.9 cents
– Diluted		N/A	N/A

## CONDENSED CONSOLIDATED BALANCE SHEET

		<b>30 September 2002 Unaudited HK\$'000</b>	<b>31 March 2002 Audited HK\$'000</b>
	<i>Notes</i>		
<b>NON-CURRENT ASSETS</b>			
Fixed assets		479,000	466,419
Long term investments		22,076	22,076
Deposits for acquisition of fixed assets		19,460	15,035
Intangible assets		7,285	6,234
Other non-current assets		1,210	2,890
		<u>529,031</u>	<u>512,654</u>
<b>CURRENT ASSETS</b>			
Cash and bank balances		203,908	121,122
Accounts and other receivables	6	342,891	94,940
Inventories		451,759	183,857
		<u>998,558</u>	<u>399,919</u>
<b>CURRENT LIABILITIES</b>			
Accounts and other payables	7	775,931	241,201
Borrowings due within one year		272,175	201,480
Tax payable		4,751	3,162
		<u>1,052,857</u>	<u>445,843</u>
<b>NET CURRENT LIABILITIES</b>		<u>(54,299)</u>	<u>(45,924)</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		474,732	466,730
<b>NON-CURRENT LIABILITIES</b>			
Long term borrowings		(58,106)	(76,477)
Deferred tax		(9,608)	(9,608)
		<u>(67,714)</u>	<u>(86,085)</u>
		<u>407,018</u>	<u>380,645</u>
<b>CAPITAL AND RESERVES</b>			
Share capital	8	63,526	63,526
Reserves	9	340,316	313,943
Proposed dividend		3,176	3,176
		<u>407,018</u>	<u>380,645</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 Hong Kong Statement of Standard Accounting Practice ("SSAP") No. 25 "Interim financial reporting" and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

The accounting policies adopted are consistent with those followed in the preparation of the Group's consolidated financial statements for the year ended 31 March 2002, except for the adoption of the following revised and new SSAPs which are effective for the first time for the Period:

SSAP 1 (Revised)	:	Presentation of financial statements
SSAP 11 (Revised)	:	Foreign currency translation
SSAP 15 (Revised)	:	Cash flow statements
SSAP 25 (Revised)	:	Interim financial reporting
SSAP 34	:	Employee benefits

The adoption of these SSAPs has resulted in changes in the format of presentation of the condensed consolidated cash flow statement and the condensed consolidated statement of changes in equity, but has no material effect on the results for the current or prior accounting periods.

## 2. Segmental Information

The principal activities of the Group are the sale and manufacture of consumer video and audio products, electronic components and home appliances products.

The following tables present unaudited revenue for the Group's geographical segments and business segments for the six months ended 30 September.

### Geographical segments

	United States of America		Europe		Asia Pacific countries		Consolidated	
	2002 HK\$000	2001 HK\$000	2002 HK\$000	2001 HK\$000	2002 HK\$000	2001 HK\$000	2002 HK\$000	2001 HK\$000
Segment revenue:								
Sales to external customers	<u>267,809</u>	<u>502,050</u>	<u>685,070</u>	<u>446,743</u>	<u>425,813</u>	<u>304,273</u>	<u>1,378,692</u>	<u>1,253,066</u>
Segment results	<u>8,993</u>	<u>14,278</u>	<u>21,540</u>	<u>11,878</u>	<u>9,330</u>	<u>6,747</u>	<u>39,863</u>	<u>32,903</u>

### Business segments

	Audio products		Video products and components		Home appliance products		Others		Consolidated	
	2002 HK\$000	2001 HK\$000	2002 HK\$000	2001 HK\$000	2002 HK\$000	2001 HK\$000	2002 HK\$000	2001 HK\$000	2002 HK\$000	2001 HK\$000
Segment revenue:										
Sales to external customers	650,239	876,028	660,457	340,678	66,503	35,787	1,493	573	1,378,692	1,253,066
Other revenue	<u>159</u>	<u>1,141</u>	<u>111</u>	<u>246</u>	<u>48</u>	<u>–</u>	<u>2,436</u>	<u>–</u>	<u>2,754</u>	<u>1,387</u>
Total	<u>650,398</u>	<u>877,169</u>	<u>660,568</u>	<u>340,924</u>	<u>66,551</u>	<u>35,787</u>	<u>3,929</u>	<u>573</u>	<u>1,381,446</u>	<u>1,254,453</u>
Segment results	<u>17,281</u>	<u>21,754</u>	<u>19,094</u>	<u>8,884</u>	<u>3,447</u>	<u>2,230</u>	<u>41</u>	<u>35</u>	<u>39,863</u>	<u>32,903</u>
Interest income and unallocated income									312	1,766
Unallocated expenses									<u>(8,155)</u>	<u>(4,521)</u>
Profit from operating activities									32,020	30,148
Finance costs									<u>(5,892)</u>	<u>(9,859)</u>
Share of loss of an associate									<u>(200)</u>	<u>–</u>
Profit before tax									25,928	20,289
Tax									<u>(2,074)</u>	<u>(1,623)</u>
Net profit attributable to shareholders									<u>23,854</u>	<u>18,666</u>

### 3. Profit before Tax

	For the six months ended 30 September	
	2002 Unaudited HK\$'000	2001 Unaudited HK\$'000
Profit before tax is arrived at after charging/(crediting):		
Amortisation of trademarks	125	125
Amortisation of research and development costs	1,250	350
Depreciation	30,774	28,876
Interest on borrowings	<u>5,892</u>	<u>9,859</u>
Interest income	<u>(308)</u>	<u>(889)</u>

### 4. Tax

Hong Kong profits tax has been provided at the applicable rate of 16% (2001: 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 tax 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\$23,854,000 (2001: HK\$18,666,000) and the weighted average of 635,259,975 shares (2001: 635,259,975 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\$331,226,000 (31 March 2002: HK\$80,533,000), the aging analysis of which is as follows:

	30 September 2002 Unaudited HK\$'000	31 March 2002 Audited HK\$'000
0-30 days	231,562	62,993
31-60 days	83,390	4,198
Over 60 days	<u>16,274</u>	<u>13,342</u>
	<u>331,226</u>	<u>80,533</u>

The majority of the Group's sales are on terms of L/C at sight and the others on 45 days open account basis.

### 7. Accounts and other payables

Included in accounts and other payables are accounts payable of HK\$716,346,000 (31 March 2002: HK\$207,834,000), the aging analysis of which is as follows:

	30 September 2002 Unaudited HK\$'000	31 March 2002 Audited HK\$'000
0-30 days	279,694	104,416
31-60 days	196,711	30,292
61-90 days	171,573	39,525
Over 90 days	<u>68,368</u>	<u>33,601</u>
	<u>716,346</u>	<u>207,834</u>

The majority of the Group's purchases are on 90 days open account basis.

## 8. Share capital

	<b>30 September 2002 Unaudited HK\$'000</b>	<b>31 March 2002 Audited HK\$'000</b>
<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 2002: 635,259,975) ordinary shares of HK\$0.10 each	<u>63,526</u>	<u>63,526</u>

## 9. Reserves

	<b>Share premium HK\$'000</b>	<b>Contributed surplus HK\$'000</b>	<b>Exchange fluctuation reserve HK\$'000</b>	<b>Asset revaluation reserve HK\$'000</b>	<b>Retained profits HK\$'000</b>	<b>Total HK\$'000</b>
Balance at 1 April 2002	28,735	280	(9,308)	109,103	185,133	313,943
Exchange difference on translation of overseas subsidiaries' financial statements	–	–	2,519	–	–	2,519
Net profit for the period	–	–	–	–	23,854	23,854
	<u>28,735</u>	<u>280</u>	<u>(6,789)</u>	<u>109,103</u>	<u>208,987</u>	<u>340,316</u>

## 10. Contingencies

- (a) Contingent liabilities in respect of bills discounted with recourse at 30 September 2002 was HK\$18,499,637 (31 March 2002: HK\$15,624,000).
- (b) The Hong Kong Inland Revenue Department challenged the appropriateness of the filling of tax returns by the Group on a consolidated basis, rather than on an individual company basis, starting from the years of assessment 1998/99 (the "Prior Years"). The final assessment of the Prior Years had not yet been issued, and the potential tax liabilities cannot be reliably estimated. However, based on information available at the date of this interim report, the Directors are of the opinion that there is no material unprovided tax at the balance sheet date.

## 11. Commitments

- (a) Capital commitments in respect of fixed assets

	<b>30 September 2002 Unaudited HK\$'000</b>	<b>31 March 2002 Audited HK\$'000</b>
Contracted for but not provided in the financial statements	9,651	20,518
Authorised but not contracted for	–	–
	<u>9,651</u>	<u>20,518</u>

- (b) Commitments to buy and sell foreign currencies amounted to HK\$113,489,300 and HK\$nil respectively (31 March 2002: HK\$46,788,000 and HK\$127,591,000 respectively).

## **INTERIM DIVIDEND**

The Directors have resolved to declare an interim dividend of HK1 cent per share (2001: HK0.5 cent per share) payable to shareholders whose names appear on the Company's Register of Members at the close of business on 8 January 2003. Dividend warrants will be sent to shareholders on or before 17 January 2003.

## **CLOSURE OF REGISTER OF MEMBERS**

The Register of Members of the Company will be closed from Monday, 6 January 2003 to Wednesday, 8 January 2003, 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, 3 January 2003.

## **BUSINESS REVIEW AND OUTLOOK**

The Group's turnover for the Period was HK\$1,378,692,000, representing a 10% increase from the corresponding period last year. Profit attributable to shareholders for the Period was HK\$23,854,000, an increase of 28% from last year. The increase was mainly attributable to the popular demand for the Group's new collections of products, which have higher selling prices and enjoy higher margins.

The general market economy gradually recovered after the "911" events last year and consumers demand has gradually increased after the second quarter this year. Our new products have been meeting increasing customer demand for new features and product qualities. Further increases in sales are expected in the second half of the financial year.

While the performance of the Audio and Video Divisions has improved, there has been continuous business growth in the Home Appliance Division. The Group has committed significant resources in the Home Appliance Division and as a result turnover for the Period increased approximately 86% to HK\$67 million. The Division's net profit also greatly increased by 37% for the Period. Apart from manufacturing of products, the Group is also involved in the design, research & development, mould manufacturing and direct marketing of home appliance products. The Group has recently set up two marketing offices in Japan and United States to carry out direct marketing of the Group's products. The two offices are expected to start generating business in the middle of next year.

The Group has 25 years of experience in the sourcing of electronic components. The Group maintains good relationships with vendors and is able to obtain quality products at competitive prices. The large volume quantities that we purchase also help to further lower purchase prices. During the Period, the Group engaged procurement of electronic components to service other manufacturers due to our technical know-how and capabilities. In addition, we also assemble and manufacture electronic components for other customers. This new business is expected to contribute to the improvement of the Group's financial performance in the future.

The Group purchased fixed assets amounted to approximately HK\$45 million during the Period. Less than HK\$90 million is expected to be spent for the whole year. It represents more than 20% decrease in capital expenditure from previous years. The capital expenditure including automated insertion machinery, new factory blocks and heavy oil electricity generators incurred in previous years have accommodated the increase in business demand in a timely manner. The current set up will also meet further increases in business for the next two years.

As at 30 September 2002, the Group had bank balances mostly denominated in Hong Kong dollar currency totalling HK\$204 million, an increase of 68% compared to 31 March 2002. The Group's gearing ratio was 45% (31 March 2002: 42%) calculated using all outstanding loans divided by capital, reserves and all outstanding loans. The gearing ratio is expected to be lowered with the Group's improved performance for the year. The Group's borrowings are denominated in Hong Kong dollars and bear floating interest rates. The Group also has no plans for any fund raising activities in the short term. The debtors turnover period was 44 days and creditors turnover period was 100 days for the Period. September is the peak season for the Group and activities are much higher as compared to March which is the slack season. Inventories, accounts receivables and payables are therefore higher in September as compared to March. These turnover ratios are reasonable with regard to the Group's nature of business and credit terms. The management continuously monitored its treasury and financial policy, which includes the utilisation of cash resources to the best interest of the Group.

As at 30 September 2002, the Group had 150 staff stationed in Hong Kong and approximately 10,000 staff and workers in the PRC factories. Total salary and wages amounted to approximately HK\$53 million for the Period. The Group provides year end double pay, discretionary bonuses, a provident fund scheme, medical insurance and training to commensurate the performance of staff.

Over the years, the Group is committed to provide quality service to customers through continuous improvement. With the application of advanced production techniques and machinery, coupled with dedicated and experienced staff, we managed to manufacture products at a standard that exceeds the expectation of customers. We are confident that the turnover and profits attributable to shareholders will continue to improve in the coming years.

#### **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 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 with management.

#### **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 ended 30 September 2002 covered by the interim report in compliance with the Code of Best Practice as set out in Appendix 14 of the Listing Rules.

#### **PUBLICATION OF DETAILED INTERIM RESULTS ANNOUNCEMENT ON THE STOCK EXCHANGE'S WEBSITE**

A detailed interim results announcement containing all the information required by paragraphs 46(1) to 46(6) of Appendix 16 of the Listing Rules will be published on the Stock Exchange's website (<http://www.hkex.com.hk>) in due course.

On behalf of the Board

**Simon Ling Siu Man**

*Chairman and Managing Director*

Hong Kong, 12 December 2002