

CORPORATE INFORMATION

DIRECTORS

Executive Directors

Mr. LING Siu Man, Simon
(Chairman and Managing Director)
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

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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
		Unaudited	Unaudited
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
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 STATEMENT OF CHANGES IN EQUITY

	For the six months ended 30 September	
	2002 Unaudited <i>HK\$'000</i>	2001 Unaudited <i>HK\$'000</i>
Total equity at 1 April	380,645	374,571
Exchange differences on translation of financial statements of overseas subsidiaries not recognised in the income statement	2,519	2,677
Net profit attributable to shareholders	<u>23,854</u>	<u>18,666</u>
Total equity at 30 September	<u>407,018</u>	<u>395,914</u>

CONDENSED CONSOLIDATED BALANCE SHEET

		30 September 2002 Unaudited HK\$'000	31 March 2002 Audited HK\$'000
	<i>Notes</i>		
NON-CURRENT ASSETS			
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
		<hr/>	<hr/>
		529,031	512,654
CURRENT ASSETS			
Cash and bank balances		203,908	121,122
Accounts and other receivables	6	342,891	94,940
Inventories		451,759	183,857
		<hr/>	<hr/>
		998,558	399,919
CURRENT LIABILITIES			
Accounts and other payables	7	775,931	241,201
Borrowings due within one year		272,175	201,480
Tax payable		4,751	3,162
		<hr/>	<hr/>
		1,052,857	445,843
NET CURRENT LIABILITIES		<hr/>	<hr/>
		(54,299)	(45,924)
TOTAL ASSETS LESS CURRENT LIABILITIES		<hr/>	<hr/>
		474,732	466,730
NON-CURRENT LIABILITIES			
Long term borrowings		(58,106)	(76,477)
Deferred tax		(9,608)	(9,608)
		<hr/>	<hr/>
		(67,714)	(86,085)
		<hr/>	<hr/>
		407,018	380,645
CAPITAL AND RESERVES			
Share capital	8	63,526	63,526
Reserves	9	340,316	313,943
Proposed dividend		3,176	3,176
		<hr/>	<hr/>
		407,018	380,645
		<hr/>	<hr/>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	For the six months ended 30 September	
	2002	2001
	Unaudited	Unaudited
	<i>HK\$'000</i>	<i>HK\$'000</i>
Net cash inflow from operating activities	86,080	114,095
Net cash outflow from returns on investments and servicing of finance	(5,477)	(8,605)
Taxes paid	(604)	(838)
Net cash outflow from investing activities	(48,347)	(80,526)
Net cash inflow from financing activities	(24,109)	24,729
Increase in cash and cash equivalents	7,543	48,855
Cash and cash equivalents at 1 April	(20,257)	(83,678)
Effect of foreign exchange rate changes, net	(1,190)	–
Cash and cash equivalents at 30 September	<u>(13,904)</u>	<u>(34,823)</u>
Analysis of balances of cash and cash equivalents		
Cash and bank balances	203,908	90,946
Time deposits with original maturity of less than three months when acquired	–	30,000
Bank overdrafts	(1,078)	–
Trust receipt loans with maturity of less than three months	(216,734)	(155,769)
	<u>(13,904)</u>	<u>(34,823)</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	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	650,239	876,028	660,457	340,678	66,503	35,787	1,493	573	1,378,692	1,253,066
Other revenue	159	1,141	111	246	48	-	2,436	-	2,754	1,387
	<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>
Total										
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									(8,155)	(4,521)
Profit from operating activities									32,020	30,148
Finance costs									(5,892)	(9,859)
Share of loss of an associate									(200)	-
Profit before tax									25,928	20,289
Tax									(2,074)	(1,623)
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	2001
	Unaudited	Unaudited
	<i>HK\$'000</i>	<i>HK\$'000</i>
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	5,892	9,859
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	31 March 2002
	Unaudited	Audited
	<i>HK\$'000</i>	<i>HK\$'000</i>
0-30 days	231,562	62,993
31-60 days	83,390	4,198
Over 60 days	16,274	13,342
	<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	31 March 2002
	Unaudited	Audited
	<i>HK\$'000</i>	<i>HK\$'000</i>
0-30 days	279,694	104,416
31-60 days	196,711	30,292
61-90 days	171,573	39,525
Over 90 days	68,368	33,601
	<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

	30 September 2002	31 March 2002
	Unaudited	Audited
	<i>HK\$'000</i>	<i>HK\$'000</i>
<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

	Share premium	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>
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
Balance at 30 September 2002	<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

	30 September 2002 Unaudited HK\$'000	31 March 2002 Audited HK\$'000
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.

DIRECTORS' INTERESTS IN SECURITIES

At 30 September 2002, 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 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 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

Apart from the interests disclosed under the heading "Director's interests in securities" above and "Share option scheme" below, 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.

SHARE OPTION SCHEME

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 share options to employees and executive directors of the Group to subscribe for shares of the Company.

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

	At 1 April 2002	At 30 September 2002	Date of grant of share options	Exercise period of share options	Exercise price of each share option <i>HK\$</i>
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
	<hr/>	<hr/>			
	19,050,000	19,050,000			
Other employees					
In aggregate	29,200,000	29,200,000	07-04-00	10-04-00 to 09-04-10	0.70
	<hr/>	<hr/>			
	48,250,000	48,250,000			

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

With effect from 1 September 2001, The Stock Exchange of Hong Kong Limited (the "Stock Exchange") requires that the exercise price of share 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 share options on or after 1 September 2001.

SUBSTANTIAL SHAREHOLDERS

At 30 September 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 Mfr. Holdings Limited ("Eco-Haru") (<i>Note 2</i>)	121,100,869	19.06
Glorious Concept Limited ("Glorious Concept") (<i>Note 2</i>)	33,902,000	5.34
EganaGoldpfeil (Holdings) Limited ("EganaGoldpfeil") (<i>Note 2</i>)	155,002,869	24.40
Peninsula International Limited ("Peninsula") (<i>Note 3</i>)	155,002,869	24.40

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 39.46% 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 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.

On behalf of the Board

Ling Siu Man, Simon

Chairman and Managing Director

Hong Kong, 12 December 2002