

TONIC

TONIC INDUSTRIES HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

Website: <http://www.tonic.com.hk>

ANNOUNCEMENT OF FINAL RESULTS FOR THE YEAR ENDED 31 MARCH 2003

FINANCIAL HIGHLIGHTS

	2003	2002	Amount increase	Percentage increase %
• Turnover (HK\$M)	2,680	2,014	666	33
• EBITDA (HK\$M)*	129	82	47	57
• Net profit for the year (HK\$M)	44	9	35	388
• Basic earnings per share (HK cents)	6.9	1.5	5.4	360
• Total dividend paid and payable (HK\$M)	16	6	10	167

* *EBITDA represents profit before interest, tax, depreciation and amortization*

The directors (“Directors”) of Tonic Industries Holdings Limited (the “Company”) are pleased to announce the audited consolidated results of the Company and its subsidiaries (the “Group”) for the year ended 31 March 2003 (the “Year”) together with the comparative figures for the previous year, as follows:

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i> (Restated)
Turnover (<i>note 2</i>)	2,680,277	2,013,623
Cost of sales	(2,531,652)	(1,929,457)
Gross profit	148,625	84,166
Other revenue	10,721	7,697
Administration expenses	(71,221)	(57,346)
Selling and distribution costs	(7,491)	(10,168)
Other operating expenses (<i>note 3</i>)	(14,437)	(1,740)
Profit from operating activities (<i>note 4</i>)	66,197	22,609
Finance costs	(12,679)	(11,020)
Share of loss of an associate	(23)	(827)

Profit before tax	53,495	10,762
Tax (<i>note 5</i>)	(9,627)	(1,522)
	<hr/>	<hr/>
Net profit for the year	43,868	9,240
	<hr/>	<hr/>
Dividends (<i>note 6</i>)		
Interim	6,353	3,176
Proposed final	9,529	3,176
	<hr/>	<hr/>
	15,882	6,352
	<hr/>	<hr/>
Earnings per share (<i>note 7</i>)		
– Basic	6.9 cents	1.5 cents
	<hr/>	<hr/>
– Diluted	N/A	N/A
	<hr/>	<hr/>

Notes:

1. Adoption of new and revised Hong Kong Statements of Standard Accounting Practice (“SSAPs”)

The following new and revised SSAPs are effective for the first time for the current Year’s financial statements:

- SSAP 1 (Revised): “Presentation of financial statements”
- SSAP 11 (Revised): “Foreign currency translation”
- SSAP 15 (Revised): “Cash flow statements”
- SSAP 34: “Employee benefits”

The new and revised SSAPs have introduced additional and revised disclosure requirements and have been adopted in the Group’s financial statements. Comparative amounts and disclosures for the prior year have been restated in order to achieve a consistent presentation.

2. Turnover and Segment results

The Group is principally engaged in the design, manufacture and trading of consumer audio, video products and components and home appliance products. An analysis of the Group's turnover and segment results is as follows:

	Turnover		Segment results	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000 (Restated)
Principal activities:				
Audio products and components	1,213,044	1,314,548	30,038	12,693
Video products and components	1,239,957	532,821	37,514	2,786
Home appliance products	153,956	123,221	3,373	3,518
Corporate	–	–	(298)	(994)
Others	73,320	43,033	1,079	1,623
	<u>2,680,277</u>	<u>2,013,623</u>	<u>71,706</u>	<u>19,626</u>
Principal markets:				
Europe	1,337,610	700,117		
The United States of America	867,142	708,351		
Asia Pacific countries	456,400	602,858		
Others	19,125	2,297		
	<u>2,680,277</u>	<u>2,013,623</u>		

3. Other operating expenses

The other operating expenses represent

	2003 HK\$'000	2002 HK\$'000
Provision for doubtful debts	11,350	1,740
Impairment of long term investments	2,629	–
Provision for amount due from an associate	458	–
	<u>14,437</u>	<u>1,740</u>

4. Profit from operating activities

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

	2003 HK\$'000	2002 HK\$'000
Depreciation	62,522	57,808
Minimum lease payments under operating leases on land and buildings	2,592	1,740
Auditors' remuneration	670	750
Amortisation of trademarks	251	251
Provision for inventories	4,173	5,781
Staff costs	119,189	114,094
Interest income	(1,234)	(1,627)
Dividend income from listed investments	(107)	(657)

5. Tax

Hong Kong profits tax has been provided at the rate of 16% (2002: 16%) on the estimated assessable profits arising in Hong Kong during the Year. No provision for Mainland China corporate income tax has been made as the Group did not generate any assessable profits in Mainland China during the Year (2002: Nil).

Deferred tax has been provided under the liability method at the rate of 17.5% (2002: 16%) on all significant timing differences to the extent it is probable that the liability will crystallise in the foreseeable future.

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

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Hong Kong		
Provision for the year	9,627	2,514
Deferred	–	(992)
	<hr/>	<hr/>
Tax charge for the year	<u>9,627</u>	<u>1,522</u>

6. Dividends

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Interim – HK1 cent (2002: HK0.5 cent) per ordinary share	6,353	3,176
Proposed final – HK1.5 cents (2002: HK0.5 cent) per ordinary share	9,529	3,176
	<hr/>	<hr/>
	<u>15,882</u>	<u>6,352</u>

7. Earnings per share

The calculation of basic earnings per share is based on the net profit attributable to shareholders for the Year of HK\$43,868,000 (2002: HK\$9,240,000) and the weighted average of 635,259,975 (2002: 635,259,975) ordinary shares in issue during the Year.

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

FINAL DIVIDEND

The Board has recommended the payment of a final dividend of HK1.5 cents for the Year (2002: HK0.5 cent) per share. Together with the interim dividend of HK1 cent per share paid on 8 January 2003, total dividend for the Year will amount to HK2.5 cents per share. Subject to the approval of the Company's members at the forthcoming Annual General Meeting, the final dividend will be paid on or before 7 October 2003 to the registered shareholders.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 16 September 2003 to 18 September 2003, 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 G/F, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong not later than 4:30 p.m., on 15 September 2003 in order to qualify for the proposed final dividend.

BUSINESS REVIEW AND OUTLOOK

The Group has successfully accomplished our two years plan to transform from an audio products manufacturing specialist to an expert in producing digital video products such as DVD players, MP3 players, satellite receivers, internet set-top boxes, video phones etc. Major capital expenditures have been invested in the construction of new factory buildings, a staff dormitory and the addition of automated machinery in the last two years. More than HK\$100 million has been spent each year for the last two years ended 31 March 2002. The resulting production facilities equip the Group with the ability and capacity to handle the increase in demand expected in digital products for the next few years.

The Group's competencies have been strengthened through the earlier research and development of digital products. Our product and engineering departments in Hong Kong, Shenzhen and Dongguan work very closely with solution providers and component suppliers. As such, Tonic is committed to manufacturing competitive products with total quality and reliability, superb features and a trendy outlook. The investments have started to make positive contribution during the Year, with approximately 50% of the Group's sales coming from the digital and related businesses, demonstrating the growing market and tremendous popularity of these products. We are pleased to see the significant growth in turnover and profit this Year.

We are pleased to see the encouraging growth in the business of the Home Appliance Division. The division concentrates on developing high end and unique home appliance products including steam stations, air purifiers, wine cellars, espresso/cappuccino makers etc. After several years of business experience with OEM/ODM customers, the home appliance division is now in the process of developing its own brand name products. During the Year, two marketing offices were opened, one in Japan and the other in the United States. Talented marketing people have been recruited to commence the promotion of new products directly to retail outlets. We anticipate a continuous increase in business in the coming years as the two new marketing offices become fully operational.

Looking ahead in 2003, the market environment will remain difficult. Affected by the geopolitical events earlier this year, consumers are more cautious in their spending. The effect of SARS and the subsequent travel restrictions have also delayed the conclusion of business deals for the second quarter to a certain extent. However we are delighted to see that consumer demand has rapidly picked up in recent months. While the overall global economy is still uncertain we are confident that demand for consumer electronics will remain strong in the next few years, in particular when most analogue products are going through a transition to digital products. In view of the competitive prices at which these products are available, they have become items of necessity, being least affected by any downturns in the economy. Research has shown that there will be at least 10% growth per year in demand for digital products over the next few years. As we have enhanced our production facilities in terms of product development, production ability and capacity, we are confident that the Group will achieve sustained growth.

MANAGEMENT DISCUSSION AND ANALYSIS

As at 31 March 2003, the Group had total borrowings of approximately HK\$390 million as compared to HK\$278 million last year, of this HK\$264 million were short term bank borrowings, HK\$110 million were long term loans and HK\$16 million were obligations under finance leases. The long term loans are mainly bank loans with a three year repayment term. The Group's borrowings were denominated in Hong

Kong dollars and bear interest mainly at floating rates. Bank balances and cash amounted to HK\$207 million (2002: HK\$121 million) were mainly denominated in Hong Kong dollars. The Group had a comfortable level of borrowings and the gearing ratio was 0.45 calculated based on net interest bearing borrowings over shareholders' fund.

The Group is not exposed to material currency fluctuation risks, as most of its receivables are in US dollars and payables in US and Hong Kong dollars. Whenever we expect to receive a large US dollar payment, we may purchase long term contracts to hedge against possible currency fluctuation. The further depreciation of US dollars to the Euro has had a positive effect on sales to European customers. There is more room in price negotiations as our customers can benefit from the currency appreciation.

Prices of most of the raw materials decreased during the Year except metals and plastics. Shortage of supply and import restriction in Mainland China caused the prices of many metal parts to increase by more than 30%. In addition, prices of plastic materials began to increase from the latter half of last year, and about 20% increase was noted since then. However the prices of major components continue to decrease and therefore the overall profit margin can be maintained.

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 in respect of the prior years, starting from the year 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 to date, the Directors are of the opinion that there is no material unprovided tax at the balance sheet date.

As at 31 March, 2003, the Group had 130 staff stationed in Hong Kong and 9,500 staff and workers working in the two Mainland China factories. Total salaries and wages amounted to approximately HK\$117 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 bonuses, a provident fund, medical insurance and training.

PURCHASE, SALE OR REDEMPTION OF SHARES

During the Year, there was no purchase, sale or redemption of the shares of the Company by the Company or any of its subsidiaries.

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 to the Listing Rules of the Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the Year.

PUBLICATION OF ANNUAL RESULTS ON THE STOCK EXCHANGE

Information required by paragraph 45(1) to 45(3) inclusive of Appendix 16 to the Listing Rules, will be published on the website of the Hong Kong Stock Exchange in due course.

On behalf of the Board
Simon Ling Siu Man
Chairman & Managing Director

Hong Kong, 22 July 2003

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT an Annual General Meeting of the Members of Tonic Industries Holdings Limited (the “Company”) will be held at Rose Room, Lower Level II, Kowloon Shangri-La, 64 Mody Road, Tsimshatsui East, Kowloon, Hong Kong on Thursday, 18 September 2003 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 2003.
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 with 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, 22 July 2003

Notes:

- (a) The Register of Members of the Company will be closed from Tuesday, 16 September 2003 to Thursday, 18 September 2003 (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 G/F, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Monday, 15 September 2003.
- (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 G/F, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, 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 2003 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.