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## THIS PROSPECTUS IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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If you are in any doubt about any aspect of this prospectus or as to the actions to be taken, you should consult your stockbroker or other licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

A copy of this prospectus, having attached thereto the documents specified in the paragraph headed "Documents delivered to the Registrar of Companies" in Appendix II to this prospectus, has been registered by the Registrar of Companies in Hong Kong as required by Section 342C of the Companies Ordinance of Hong Kong. The Registrar of Companies in Hong Kong takes no responsibility for the contents of any of these documents.

If you have sold or transferred all your shares in Tonic Industries Holdings Limited (the "Company"), you should at once hand this prospectus with the accompanying forms to the purchaser or transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

Dealings in the Shares (as defined herein) and, the Rights Shares in their nil-paid form and fully-paid form may be settled through the Central Clearing and Settlement System ("CCASS") and you should consult your stockbroker or other licensed securities dealer or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser for details of those settlement arrangements and how such arrangements may affect your rights and interests.

Subject to the granting of the listing of, and permission to deal in, the Rights Shares in their nil-paid and fully-paid forms on the Stock Exchange (as defined herein) as well as compliance with the stock admission requirements of Hong Kong Securities Clearing Company Limited ("HKSCC"), the Rights Shares in their nil-paid and fully-paid forms will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the respective commencement dates of dealings in the Rights Shares in their nil-paid and fully-paid forms or such other dates as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS on the second trading day thereafter. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

The Stock Exchange and HKSCC take no responsibility for the contents of this prospectus, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this prospectus.

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# TONIC

## TONIC INDUSTRIES HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)  
(Stock code: 978)

### RIGHTS ISSUE OF 317,629,987 RIGHTS SHARES AT HK\$0.20 EACH ON THE BASIS OF ONE RIGHTS SHARE FOR EVERY TWO EXISTING SHARES HELD ON THE RECORD DATE

Financial adviser to the Company



Underwriter

**Success Forever Limited**

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The latest time for acceptance of and payment for the Rights Shares is 4:00 p.m. on Monday, 14 March 2005. The procedure for acceptance or transfer is set out on pages 11 and 12 of this prospectus.

It should be noted that Success Forever may terminate the Underwriting Agreement by notice in writing to the Company if at any time prior to 4:00 p.m. on the Settlement Date if there occurs:

- (a) the introduction of any new regulation or any change in existing law or regulation (or the judicial interpretation thereof) or other occurrence of any nature whatsoever which may in the reasonable opinion of Success Forever materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole; or
- (b) the occurrence of any local, national or international event or change, whether or not forming part of a series of events or changes occurring or continuing before, and/or after the date hereof, of a political, military, financial, economic or other nature (whether or not ejusdem generis with any of the foregoing), or in the nature of any local, national or international outbreak or escalation of hostilities or armed conflict, or affecting local securities markets which may, in the reasonable opinion of Success Forever materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole; or
- (c) this prospectus or announcements of the Company published since the date of the Underwriting Agreement when published contain information (either as to business prospects or the condition of the Group or as to its compliance with any laws or the Listing Rules or any applicable regulations) which has not prior to the date thereof been publicly announced or published by the Company and which may in the reasonable opinion of Success Forever be material to the Group as a whole and is likely to affect materially and adversely the success of the Rights Issue or might cause a prudent investor not to accept the Rights Shares provisionally allotted to it.

In the event that the Underwriting Agreement shall have been terminated, the Rights Issue will not proceed.

It should also be noted that the Shares have been dealt with on an ex-rights basis from Wednesday, 16 February 2005 and that the Rights Shares are expected to be dealt with in their nil-paid form from Tuesday, 1 March 2005 to Wednesday, 9 March 2005 (both dates inclusive). Such dealings will take place when the conditions of the Rights Issue remained unfulfilled. Any person dealing in the securities of the Company from now up to the date on which all such conditions are fulfilled or waived and any person dealing in the nil-paid Rights Shares from Tuesday, 1 March 2005 to Wednesday, 9 March 2005 (being the first and last days of dealing in the nil-paid Rights Shares respectively) will accordingly bear the risk that the Rights Issue may not become unconditional and may not proceed. Any person dealing or contemplating any dealing in the securities of the Company and/or the Rights Shares in their nil-paid form during this period who is in any doubt about his or her position is recommended to consult his or her own professional adviser.

25 February 2005

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## CONTENTS

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	<i>Page</i>
<b>Definitions</b> .....	1
<b>Summary of the Rights Issue</b> .....	4
<b>Termination of the Underwriting Agreement</b> .....	5
<b>Expected timetable</b> .....	6
<b>Letter from the Board</b> .....	7
<b>Appendix I – Financial information on the Group</b> .....	17
<b>Appendix II – General information</b> .....	73

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## DEFINITIONS

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*In this prospectus, the following expressions have the following meanings, unless the context requires otherwise:*

“Announcement”	the announcement dated 28 January 2005 issued by the Company in relation to the Rights Issue
“associates”	has the meaning ascribed to this term under the Listing Rules
“Board”	the board of Directors
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“Company”	Tonic Industries Holdings Limited (stock code: 978), a company incorporated in the Cayman Islands with limited liability, the issued Shares of which are listed on the Main Board of the Stock Exchange
“Companies Ordinance”	the Companies Ordinance, Chapter 32 of the Laws of Hong Kong
“Director(s)”	director(s) of the Company
“EHL”	EganaGoldpfeil (Holdings) Limited (stock code: 048), a company incorporated in the Cayman Islands with limited liability, the issued shares of which are listed on the Main Board of the Stock Exchange; EHL is beneficially interested in approximately 20.40% of the issued share capital of the Company as at the Latest Practicable Date
“Group”	the Company and its subsidiaries
“HKSCC”	Hong Kong Securities Clearing Company Limited
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Independent Third Parties”	independent third parties who, to the best of the Directors’ knowledge and information and after having made all reasonable enquiries, are not connected persons (within the meaning of the Listing Rules) of the Company and are independent of and not connected with the Company and its connected persons (within the meaning of the Listing Rules)
“Latest Practicable Date”	21 February 2005, being the latest practicable date for ascertaining certain information contained in this prospectus

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## DEFINITIONS

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“Listing Committee”	the listing sub-committee of the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Mr. Ling Siu Man, Simon”	Mr. Ling Siu Man, Simon, the Managing Director and Chairman of the Company, who is beneficially interested in approximately 50.04% of the issued share capital of the Company as at the Latest Practicable Date
“Qualifying Shareholder(s)”	Shareholder(s) whose name(s) appear on the register of members of the Company as at the close of business on the Record Date
“Record Date”	Thursday, 24 February 2005, the record date to determine entitlements to the Rights Issue
“Rights Issue”	the issue of 317,629,987 Rights Shares at the Subscription Price on the basis of one Rights Share for every two existing Shares held on the Record Date payable in full on acceptance
“Rights Issue Documents”	this prospectus, the provisional allotment letters and the forms of application for excess Rights Shares
“Rights Share(s)”	new Share(s) to be allotted and issued in respect of the Rights Issue
“Settlement Date”	16 March 2005, the date being the second business day following the latest time for acceptance of, and payment for, the Rights Shares and application for excess Rights Shares
“SFO”	the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong
“Share(s)”	ordinary share(s) of HK\$0.10 each in the share capital of the Company
“Share Options”	options granted by the Company under the share option scheme conditionally adopted by the Company on 18 September 1997
“Shareholder(s)”	holder(s) of the Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscription Price”	the subscription price of HK\$0.20 per Rights Share

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## DEFINITIONS

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“Success Forever”	Success Forever Limited, a company incorporated in the British Virgin Islands with limited liability and is wholly and beneficially owned by Mr. Ling Siu Man, Simon, which is beneficially interested in approximately 50.04% of the issued share capital of the Company as at the Latest Practicable Date
“Trading Day”	a day on which the Stock Exchange is open for trading
“Underwriting Agreement”	the underwriting agreement entered into between the Company and Success Forever dated 28 January 2005 in relation to the Rights Issue
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“%”	per cent.

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## SUMMARY OF THE RIGHTS ISSUE

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*The following information is derived from, and should be read in conjunction with, the full text of this prospectus:*

Number of Rights Shares to be issued:	317,629,987 Rights Shares
Basis of the Rights Issue:	One Rights Share for every two existing Shares held on the Record Date
Subscription Price:	HK\$0.20 per Rights Share, payable in full upon acceptance
Basis of entitlement:	The Rights Shares will be allotted in the proportion of one Rights Share for every two existing Shares held by the Qualifying Shareholders on the Record Date
Right of excess application:	The Qualifying Shareholders will have the right to apply for excess Rights Shares in addition to their provisional allotments
Amount to be raised by the Rights Issue:	Approximately HK\$64 million before expenses and approximately HK\$62 million after expenses
Latest time for acceptance of and payment for Rights Shares and application for excess Rights Shares:	4:00 p.m. on Monday, 14 March 2005

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## TERMINATION OF THE UNDERWRITING AGREEMENT

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It should be noted that Success Forever may terminate the Underwriting Agreement by notice in writing to the Company if at any time prior to 4:00 p.m. on the Settlement Date if there occurs any force majeure events which include:

- (a) the introduction of any new regulation or any change in existing law or regulation (or the judicial interpretation thereof) or other occurrence of any nature whatsoever which may in the reasonable opinion of Success Forever materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole; or
- (b) the occurrence of any local, national or international event or change, whether or not forming part of a series of events or changes occurring or continuing before, and/or after the date hereof, of a political, military, financial, economic or other nature (whether or not ejusdem generis with any of the foregoing), or in the nature of any local, national or international outbreak or escalation of hostilities or armed conflict, or affecting local securities markets which may, in the reasonable opinion of Success Forever materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole; or
- (c) this prospectus or announcements of the Company published since the date of the Underwriting Agreement when published contain information (either as to business prospects or the condition of the Group or as to its compliance with any laws or the Listing Rules or any applicable regulations) which has not prior to the date thereof been publicly announced or published by the Company and which may in the reasonable opinion of Success Forever is material to the Group as a whole and is likely to affect materially and adversely the success of the Rights Issue or might cause a prudent investor not to accept the Rights Shares provisionally allotted to it.

In the event that the Underwriting Agreement shall have been terminated, the Rights Issue will not proceed.

It should also be noted that the Shares have been dealt with on an ex-rights basis from Wednesday, 16 February 2005 and that the Rights Shares are expected to be dealt with in their nil-paid form from Tuesday, 1 March 2005 to Wednesday, 9 March 2005 (both dates inclusive). Such dealings will take place when the conditions of the Rights Issue remained unfulfilled. Any person dealing in the securities of the Company from now up to the date on which all such conditions are fulfilled or waived and any person dealing in the nil-paid Rights Shares from Tuesday, 1 March 2005 to Wednesday, 9 March 2005 (being the first and last days of dealing in the nil-paid Rights Shares respectively) will accordingly bear the risk that the Rights Issue may not become unconditional and may not proceed. Any person dealing or contemplating any dealing in the securities of the Company and/or the Rights Shares in their nil-paid form during this period who is in any doubt about his or her position is recommended to consult his or her own professional adviser.

It is expected that the conditions referred to in the section headed "Conditions of the Rights Issue" in this prospectus are to be fulfilled by 4:00 p.m. Hong Kong time on Wednesday, 16 March 2005. If the conditions referred to in that section are not fulfilled or waived by Success Forever on or before 4:00 p.m. on Wednesday, 16 March 2005 or the Underwriting Agreement has been terminated in accordance with the terms thereof, the Rights Issue will not proceed.

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## EXPECTED TIMETABLE

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2005

Register of members closes . . . . .	Friday, 18 February to Thursday, 24 February (both dates inclusive)
Record Date . . . . .	Thursday, 24 February
Register of members re-opens . . . . .	Friday, 25 February
Despatch of the Rights Issue Documents . . . . .	Friday, 25 February
First day of dealings in nil-paid Rights Shares . . . . .	Tuesday, 1 March
Latest time for splitting nil-paid Rights Shares . . . . .	4:00 p.m. on Friday, 4 March
Last day of dealings in nil-paid Rights Shares . . . . .	Wednesday, 9 March
Latest time for acceptance of, and payment for, the Rights Shares and application for excess Rights Shares . . . . .	4:00 p.m. on Monday, 14 March
Latest time for termination of the Underwriting Agreement . . . . .	4:00 p.m. on Wednesday, 16 March
Announcement of results of the Rights Issue on newspapers . . . . .	Thursday, 17 March
Refund cheques in respect of wholly or partially unsuccessful applications for excess Rights Shares expected to be posted on or before . . . . .	Thursday, 17 March
Certificates for the Rights Shares to be despatched on or before . . . . .	Thursday, 17 March
Dealings in fully-paid Rights Shares to commence on . . . . .	Monday, 21 March

*Note:* All times in this prospectus refer to Hong Kong time.

Dates and times specified in this prospectus are indicative only and are subject to change in accordance with the agreement between the Company and Success Forever. The Company will notify the Shareholders of any changes to the expected timetable as and when appropriate.



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LETTER FROM THE BOARD

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# TONIC

## TONIC INDUSTRIES HOLDINGS LIMITED

*(Incorporated in the Cayman Islands with limited liability)*

(Stock code: 978)

*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

Mr. LAM Kwai Wah

*Registered office:*

P.O. Box 309 GT  
Ugland House  
South Church Street  
George Town  
Grand Cayman  
Cayman Islands  
British West Indies

*Non-executive Director:*

Mr. WONG Wai Kwong, David

*Head office and principal place  
of business in Hong Kong:*

Unit B, 10th Floor  
Summit Building  
30 Man Yue Street  
Hung Hom  
Kowloon  
Hong Kong

*Independent non-executive Directors:*

Mr. HO Fook Hong, Ferdinand

Mr. PANG Hon Chung

Mr. CHENG Tsang Wai

25 February 2005

*To the Qualifying Shareholders*

Dear Sir or Madam,

**RIGHTS ISSUE OF 317,629,987 RIGHTS SHARES  
AT HK\$0.20 EACH ON THE BASIS OF ONE RIGHTS SHARE FOR  
EVERY TWO EXISTING SHARES HELD ON THE RECORD DATE**

### INTRODUCTION

The Directors announced on 28 January 2005 that the Company proposed to raise not less than approximately HK\$64 million and not more than approximately HK\$68 million before expenses by way of a rights issue of not less than 317,629,987 Rights Shares and not more than 341,754,987 Rights Shares at a price of HK\$0.20 per Rights Share on the basis of one Rights Share for every two existing Shares held on the Record Date. The Company will provisionally allot to the Qualifying Shareholders one Rights Share in nil-paid form for every two existing Shares held on the Record Date.

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## LETTER FROM THE BOARD

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The purpose of this prospectus is to provide you with further details regarding the Rights Issue, including information on dealings in and transfers and acceptances of the Rights Shares, and certain financial and other information in respect of the Group.

### THE RIGHTS ISSUE

#### Issue Statistics

Basis of the Rights Issue:	One Rights Share for every two existing Shares held on the Record Date
Subscription Price:	HK\$0.20 per Rights Share
Number of Shares in issue:	635,259,975 Shares as at the Record Date
Number of authorised Shares:	1,200,000,000 Shares as at the Record Date
Number of Rights Shares:	317,629,987 Rights Shares
Underwriter:	Success Forever

Under the Rights Issue, 317,629,987 nil-paid Rights Shares (based on a total number of 635,259,975 issued Shares as at the Record Date) would be provisionally allotted, representing approximately 50% of the issued share capital of the Company as at the Record Date and approximately 33% of the issued share capital of the Company as enlarged by the issue of 317,629,987 Rights Shares.

#### Qualifying Shareholders

To qualify for the Rights Issue, a Shareholder must be registered as a member of the Company on the Record Date whose address as shown on the register of members of the Company is in Hong Kong. As at the Record Date, the Company did not have any Shareholder whose address as shown on the register of members of the Company was outside Hong Kong.

### TERMS OF THE RIGHTS ISSUE

#### Subscription Price for the Rights Shares

HK\$0.20 per Rights Share, payable in full by a Qualifying Shareholder upon acceptance of the provisional allotment of the Rights Shares under the Rights Issue or application for excess Rights Shares or a transferee of nil-paid Rights Shares applies for the Rights Shares.

The Subscription Price represents:

- (i) a discount of approximately 25.9% to the closing price of HK\$0.27 per Share as quoted on the Stock Exchange on 28 January 2005, being the date of the Announcement;

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## LETTER FROM THE BOARD

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- (ii) a discount of approximately 22.9% to the average closing price of HK\$0.2595 per Share for the 10 consecutive trading days up to and including 28 January 2005;
- (iii) a discount of approximately 23.8% to the average closing price of HK\$0.2623 per Share for the 30 consecutive trading days up to and including 28 January 2005;
- (iv) a discount of approximately 18.9% to the theoretical ex-right price of HK\$0.2467 based on the closing price of HK\$0.27 per Share as quoted on the Stock Exchange on 28 January 2005;
- (v) a discount of approximately 13.0% to the closing price of HK\$0.23 per Share as quoted on the Stock Exchange as at the Latest Practicable Date;
- (vi) a discount of approximately 9.1% to the theoretical ex-right price of HK\$0.22 based on the closing price of HK\$0.23 per Share as quoted on the Stock Exchange as at the Latest Practicable Date;
- (vii) a discount of approximately 67.1% to the audited consolidated net tangible assets value per Share of approximately HK\$0.6081 as at 31 March 2004; and
- (viii) a discount of approximately 67.6% to the unaudited consolidated net tangible assets value per Share of approximately HK\$0.6164 as at 30 September 2004.

The Subscription Price was arrived at after arm's length negotiation between the Company and Success Forever with reference to the market price of the Shares under the prevailing market conditions before the date of the Underwriting Agreement. The Directors consider that the terms of the Rights Issue are fair and reasonable and in the best interests of the Group and the Shareholders as a whole.

### **Basis of provisional allotments**

One Rights Share (in nil-paid form) for every two existing Shares held by the Qualifying Shareholders as at the close of business on the Record Date.

### **Status of the Rights Shares**

The Rights Shares (when allotted, issued and fully paid) will rank pari passu with the then existing Shares in issue in all respects. Holders of fully-paid Rights Shares will be entitled to receive all future dividends and distributions which are declared, made or paid after the date of allotment and issue of the Rights Shares.

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## LETTER FROM THE BOARD

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### **Certificates for the Rights Shares and refund cheques**

Share certificates for the fully-paid Rights Shares are expected to be posted on or before Thursday, 17 March 2005 to those Qualifying Shareholders who have accepted and paid for the Rights Shares by ordinary post at their own risk and refund cheques in respect of wholly or partially unsuccessful applications for excess Rights Shares are also expected to be posted on or before Thursday, 17 March 2005 by ordinary post at their own risk.

### **Fractions of Rights Shares**

The Company will not allot and issue and will not accept application for any fraction of the Rights Shares. The Company will sell any nil-paid Rights Shares created by adding fractions of the Rights Shares in the market, if any, and will keep the net proceeds for its own benefit.

### **Applications for excess Rights Shares**

The Qualifying Shareholders shall be entitled to apply for any unsold Rights Shares created by adding together fractions of the Rights Shares and any Rights Shares provisionally allotted but not accepted. Application may be made by the Qualifying Shareholders completing the form of application for excess Rights Shares and lodging the same with a separate remittance for the excess Rights Shares being applied for. The Board will allocate the excess Rights Shares at their discretion, but on a fair and reasonable basis as far as practicable, and will give preference to topping-up odd lots to whole board lots.

The latest time for acceptance of, and payment for, the Rights Shares and application for excess Rights Shares is expected to be at 4:00 p.m. on Monday, 14 March 2005, or such later date as may be agreed between the Company and Success Forever.

### **Application for listing**

The Company has applied to the Listing Committee for the listing of, and permission to deal in, the Rights Shares, in both their nil-paid and fully-paid forms. No part of the equity or debt securities of the Company is listed or dealt in or on which listing or permission to deal is being or is proposed to be sought on any other stock exchange.

Subject to the granting of listing of, and permission to deal in, the Rights Shares in both their nil-paid and fully-paid forms on the Stock Exchange as well as compliance with the stock admission requirements of HKSCC, the Rights Shares in both their nil-paid and fully-paid forms will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the respective commencement dates of dealings in the Rights Shares in their nil-paid and fully-paid forms on the Stock Exchange or such other dates as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS on the second trading day thereafter. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

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## LETTER FROM THE BOARD

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All necessary arrangements will be made to enable the Rights Shares in both their nil-paid and fully-paid forms to be admitted into CCASS.

Nil-paid Rights Shares are expected to be traded in board lots of 2,000 (the Shares are currently traded on the Stock Exchange in board lots of 2,000). Dealing in the Rights Shares (in both nil-paid and fully-paid forms) will be subject to the payment of stamp duty, Stock Exchange trading fee, Securities and Futures Commission transaction levy, investor compensation levy or any other applicable fees and charges in Hong Kong.

### **Indication of Success Forever**

Success Forever has indicated to the Company that the 317,886,782 Shares beneficially owned by it will remain registered in the same name on the Record Date and that it will accept or procure the acceptance of 158,943,391 Rights Shares to be provisionally allotted to it or its nominee as the holder of such Shares pursuant to the Rights Issue.

### **PROCEDURE FOR ACCEPTANCE AND PAYMENT OR TRANSFER**

A provisional allotment letter which entitles the Qualifying Shareholders to take up the number of the Rights Shares shown therein is enclosed with this prospectus. If the Qualifying Shareholders wish to accept all the Rights Shares provisionally allotted to them as specified in the provisional allotment letter, the Qualifying Shareholders must lodge the provisional allotment letter in accordance with the instructions printed thereon, together with a remittance for the full amount payable on acceptance, with the Company's branch share registrars in Hong Kong, Tengis Limited, at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong, by no later than 4:00 p.m. on Monday, 14 March 2005. All remittances must be made in Hong Kong dollars. Cheques must be drawn on an account with, or cashier's orders must be issued by, a licensed bank in Hong Kong and made payable to "**TONIC INDUSTRIES HOLDINGS LIMITED – RIGHTS ISSUE ACCOUNT**" and crossed "**ACCOUNT PAYEE ONLY**".

It should be noted that unless the provisional allotment letter, together with the appropriate remittance, have been lodged with the branch share registrars of the Company in Hong Kong, Tengis Limited, by 4:00 p.m. on Monday, 14 March 2005, whether by the original allottee or any person to whom the rights have been validly transferred, the relevant provisional allotment and all rights thereunder will be deemed to have been declined and will be cancelled.

The provisional allotment letter contains full information regarding the procedures to be followed. If the Qualifying Shareholders wish to accept only part of the provisional allotment or if the Qualifying Shareholders wish to transfer all or part of their provisional allotment to more than one person, the provisional allotment letter must be surrendered by no later than 4:00 p.m. on or before Friday, 4 March 2005 to the Company's branch share registrars in Hong Kong, Tengis Limited, which will cancel the original provisional allotment letter and issue a new provisional allotment letter in the denominations required.

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## LETTER FROM THE BOARD

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All cheques and cashier's orders will be presented for payment following receipt and all interest earned on such monies will be retained for the benefit of the Company. Any provisional allotment letter in respect of which the accompanying cheque or cashier's order is dishonoured on first presentation is liable to be rejected, and in that event the relevant provisional allotment and all rights thereunder will be deemed to have been declined and will be cancelled.

If Success Forever exercises its right to terminate its obligations under the Underwriting Agreement before 4:00 p.m. on the Settlement Date, which is expected to be Wednesday, 16 March 2005, and/or if any of the conditions of the Underwriting Agreement are not fulfilled or waived by 4:00 p.m. on Wednesday, 16 March 2005, the monies received in respect of acceptances of the Rights Shares will be returned to the Qualifying Shareholders or such other persons to whom the Rights Shares in their nil-paid form shall have been validly transferred without interest, by means of cheques crossed "ACCOUNT PAYEE ONLY" despatched by ordinary post to their registered address and in the case of joint applicants to the registered address of the applicant whose name first appears on the register of members or the transfer form at the risk of such Qualifying Shareholders or such other persons on or about Thursday, 17 March 2005.

### **APPLICATION BY QUALIFYING SHAREHOLDERS FOR EXCESS RIGHTS SHARES**

Any unsold Rights Shares created by adding together the fractions of Rights Shares and any Rights Shares allotted provisionally but not accepted will be available for application through the form of application for excess Rights Shares by the Qualifying Shareholders.

If the Qualifying Shareholders wish to apply for any Rights Shares in addition to their provisional allotment, they must complete and sign the enclosed form of application for excess Rights Shares in accordance with the instructions printed thereon and lodge it, together with a separate remittance for the full amount payable on application in respect of the excess Rights Shares with Tengis Limited at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong by no later than 4:00 p.m. on Monday, 14 March 2005. All remittances must be made by cheque or cashier's order in Hong Kong dollars. Cheques must be drawn on account with, or cashier's order must be issued by, a licensed bank in Hong Kong and made payable to "**TONIC INDUSTRIES HOLDINGS LIMITED – EXCESS APPLICATION ACCOUNT**" and crossed "**ACCOUNT PAYEE ONLY**". Tengis Limited will notify you of any allotment of excess Rights Shares made to you, the allotment of which will be allocated on a fair and reasonable basis to be decided at the sole discretion of the Directors by reference to the number of excess Rights Shares applied for by each Qualifying Shareholder, but the Directors will give preference to topping-up odd lots to whole board lots.

All cheques and cashier's orders will be presented for payment following receipt and all interest earned on such monies shall be retained for the benefit of the Company. Any form of application for excess Rights Shares in respect of which the accompanying cheque or cashier's order is dishonored on first presentation is liable to be rejected and cancelled.

If Success Forever exercises the right to terminate its obligations under the Underwriting Agreement at any time prior to 4:00 p.m. on the Settlement Date, which is expected to be Wednesday, 16 March 2005, and/or if any of the conditions of the Underwriting Agreement are not fulfilled or waived by 4:00

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## LETTER FROM THE BOARD

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p.m. on Wednesday, 16 March 2005, the monies received in respect of applications for excess Rights Shares will be returned to the Qualifying Shareholders or, in the case of joint applicants, to the first-named person without interest, by means of cheques despatched by ordinary post at the risk of such Qualifying Shareholders on or before Thursday, 17 March 2005.

### UNDERWRITING ARRANGEMENTS

#### Underwriting Agreement

Date:	28 January 2005
Underwriter:	Success Forever, the controlling Shareholder, which is interested in 317,886,782 Shares (representing approximately 50.04% of the issued share capital of the Company) as at the Latest Practicable Date
Number of the Rights Shares underwritten:	317,629,987 Rights Shares
Commission:	2.0% of the aggregate Subscription Price of the Rights Shares other than the Rights Shares to be provisionally allotted to Success Forever and/or its nominee(s) pursuant to the Rights Issue (i.e. 158,686,596 Rights Shares)

Success Forever is a company incorporated in the British Virgin Islands with limited liability and is wholly and beneficially owned by Mr. Ling Siu Man, Simon, the Managing Director and Chairman of the Company. Success Forever is an investment holding company whose ordinary course of business does not include underwriting of securities.

#### Termination of the Underwriting Agreement

**It should be noted that the Underwriting Agreement contains provisions granting Success Forever the right to terminate its obligations on the occurrence of force majeure prior to 4:00 p.m. on the Settlement Date. For this purpose, force majeure includes:**

- (a) **the introduction of any new regulation or any change in existing law or regulation (or the judicial interpretation thereof) or other occurrence of any nature whatsoever which may in the reasonable opinion of Success Forever materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole; or**
- (b) **the occurrence of any local, national or international event or change, whether or not forming part of a series of events or changes occurring or continuing before, and/or after the date hereof, of a political, military, financial, economic or other nature (whether or not ejusdem**

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## LETTER FROM THE BOARD

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generis with any of the foregoing), or in the nature of any local, national or international outbreak or escalation of hostilities or armed conflict, or affecting local securities markets which may, in the reasonable opinion of Success Forever materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole; or

- (c) this prospectus or announcements of the Company published since the date of the Underwriting Agreement when published contain information (either as to business prospects or the condition of the Group or as to its compliance with any laws or the Listing Rules or any applicable regulations) which has not prior to the date thereof been publicly announced or published by the Company and which may in the reasonable opinion of Success Forever is material to the Group as a whole and is likely to affect materially and adversely the success of the Rights Issue or might cause a prudent investor not to accept the Rights Shares provisionally allotted to it.

If Success Forever exercises such right, the Rights Issue will not proceed.

### SHAREHOLDING STRUCTURE OF THE COMPANY

The changes in shareholding structure of the Company before and immediately after completion of the Rights Issue are as follows:

	As at the Latest Practicable Date		Immediately after completion of the Rights Issue on the assumption as set out in Note 1		Immediately after completion of the Rights Issue on the assumption as set out in Note 2	
	<i>No. of Shares</i>	<i>%</i>	<i>No. of Shares</i>	<i>%</i>	<i>No. of Shares</i>	<i>%</i>
Success Forever	317,886,782	50.04	476,830,173	50.04	635,516,769	66.69
EHL ( <i>Note 3</i> )	129,602,869	20.40	194,404,303	20.40	129,602,869	13.60
Other executive Directors	2,141,920	0.34	3,212,880	0.34	2,141,920	0.22
Sub-total	449,631,571	70.78	674,447,356	70.78	767,261,558	80.51
Public Shareholders	185,628,404	29.22	278,442,606	29.22	185,628,404	19.49
<b>Total</b>	<b><u>635,259,975</u></b>	<b><u>100.00</u></b>	<b><u>952,889,962</u></b>	<b><u>100.00</u></b>	<b><u>952,889,962</u></b>	<b><u>100.00</u></b>

*Notes:*

- Assuming all Shareholders take up their respective provisional allotments of the Rights Shares in full.
- Assuming (i) all Shareholders (save for Success Forever) do not take up any provisional allotments of the Rights Shares; and (ii) the provisional allotments of the Rights Shares of all Shareholders (save for Success Forever) are taken up by Success Forever pursuant to the Underwriting Agreement.
- EHL's shareholding interest in the Company is held through its two wholly-owned subsidiaries, namely Glorious Concept Limited and Eco-Haru Mfr. Holdings Limited.



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## LETTER FROM THE BOARD

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### CONDITIONS OF THE RIGHTS ISSUE

The Rights Issue is conditional, among other matters, upon the following conditions:

- (a) the filing and registration of all documents relating to the Rights Issue required by law with the Registrar of Companies in Hong Kong;
- (b) the posting of the Rights Issue Documents to the Qualifying Shareholders;
- (c) the Listing Committee granting or agreeing to grant (subject to allotment) and not having withdrawn or revoked listing of and permission to deal in all the Rights Shares (in their nil-paid and fully-paid forms); and
- (d) the obligations of Success Forever as the underwriter of the Rights Issue becoming unconditional and that the Underwriting Agreement is not terminated in accordance with its terms.

If all the conditions of the Right Issue are not fulfilled or waived by 4:00 p.m. on the Settlement Date which is expected to be on Wednesday, 16 March 2005 (or such later time or date as Success Forever may agree with the Company in writing), the Rights Issue will not proceed.

### WARNING OF THE RISKS OF DEALING IN SHARES AND THE NIL-PAID RIGHTS SHARES

**Existing Shares have been dealt with on an ex-rights basis from Wednesday, 16 February 2005. The Rights Shares will be dealt with in their nil-paid form from Tuesday, 1 March 2005 to Wednesday, 9 March 2005 (both dates inclusive). If prior to 4:00 p.m. Wednesday, 16 March 2005 (or such later date as Success Forever may agree with the Company), Success Forever terminates the Underwriting Agreement (see sub-section headed “Termination of the Underwriting Agreement” above) or all the conditions of the Rights Issue (see sub-section headed “Conditions of the Rights Issue” above) cannot be fulfilled (or, if appropriate, waived), the Rights Issue will not proceed.**

**Any dealings in the Shares from the date of the Announcement up to the date on which all the conditions of the Rights Issue are fulfilled or waived, and any dealings in the Rights Shares in their nil-paid form between Tuesday, 1 March 2005 to Wednesday, 9 March 2005, both dates inclusive, will accordingly bear the risk that the Rights Issue may not become unconditional or may not proceed. Any Shareholders or other persons contemplating any dealings in the Shares or the Rights Shares in their nil-paid forms are recommended to consult with their own professional advisers.**

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## LETTER FROM THE BOARD

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### REASONS FOR THE RIGHTS ISSUE AND USE OF PROCEEDS

The Group is principally engaged in the sale and manufacture of consumer electronic products and components and home appliances products.

The Board believes that it is in the best interests of the Group and the Shareholders as a whole to enlarge the capital base of the Company through the Rights Issue in order to support the continuing development of the Group's existing business activities. The Rights Issue enables the Company to carry out the fund raising exercise while the Qualifying Shareholders are given the opportunity to maintain their respective pro rata shareholding interests in the Company by participating in the Rights Issue.

The estimated net proceeds of the Rights Issue is approximately HK\$62 million, which is intended to be used for as to approximately HK\$30 million for the purchase of plant and machinery for the Group's factories and as to approximately HK\$32 million for the general working capital of the Group.

The Group did not have any equity fund raising activities in the past 12 months immediately before the Latest Practicable Date.

### ADJUSTMENTS IN RELATION TO THE SHARE OPTIONS

As at the Record Date, the Company had outstanding Share Options entitling the holders thereof to subscribe for up to an aggregate of 48,250,000 Shares at the subscription price of HK\$0.70 per Share (subject to adjustments). The issuance of the Rights Shares will cause an adjustment to each of the subscription price and the number of Shares to be issued pursuant to the exercise of the Share Options. Further announcement will be issued by the Company in relation to the aforesaid adjustment.

### TAXATION

The Qualifying Shareholders are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of holding, disposing of or dealing in the Rights Shares. It is emphasised that none of the Company, the Directors or any other parties involved in the Rights Issue accepts responsibility for any tax effects or liabilities of holders of the Rights Shares resulting from the purchase, holding, disposal of, or dealing in the Rights Shares (in their nil-paid and/or fully-paid forms).

### FURTHER INFORMATION

Your attention is drawn to the further information set out in the appendices to this prospectus.

Yours faithfully,  
for and on behalf of  
**Tonic Industries Holdings Limited**  
**LING Siu Man, Simon**  
*Chairman & Managing Director*

## 1. FINANCIAL SUMMARY

Set out below is a summary of (i) the audited consolidated profit and loss accounts and balance sheets of the Group for each of the three financial years ended 31 March 2002, 2003 and 2004, as extracted from the annual reports of the Company for the respective years; and (ii) the unaudited condensed consolidated profit and loss accounts and balance sheets of the Group for the six months ended 30 September 2003 and 2004, as extracted from the interim reports of the Company for the respective periods (as restated to comply with the current period accounting requirements):

	RESULTS OF THE GROUP				
	For the financial year ended 31 March			For the six months ended 30 September	
	2002	2003	2004	2003	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	2,013,623	2,680,277	2,074,140	913,627	1,384,071
Cost of sales	(1,929,457)	(2,531,652)	(1,969,624)	(842,213)	(1,331,159)
Gross profit	84,166	148,625	104,516	71,414	52,912
Other revenue	7,697	10,721	10,025	1,403	9,674
Selling and distribution costs	(10,168)	(7,491)	(11,899)	(3,180)	(8,287)
Administrative expenses	(57,346)	(71,221)	(73,215)	(36,447)	(36,574)
Other operating expenses	(1,740)	(14,437)	(318)	–	–
Profit from operating activities	22,609	66,197	29,109	33,190	17,725
Finance costs	(11,020)	(12,679)	(9,144)	(4,632)	(5,242)
Share of loss of an associate	(827)	(23)	–	(100)	–
Profit before tax	10,762	53,495	19,965	28,458	12,483
Tax	(2,499)	(10,194)	5,634	(1,656)	(618)
Net profit attributable to Shareholders	<u>8,263</u>	<u>43,301</u>	<u>25,599</u>	<u>26,802</u>	<u>11,865</u>
Dividends	<u>6,352</u>	<u>15,882</u>	<u>9,529</u>	<u>6,353</u>	<u>–</u>
Earnings per Share – basic (HK cents)	<u>1.5</u>	<u>6.8</u>	<u>4.0</u>	<u>4.2</u>	<u>1.9</u>
Dividend per Share (HK cents)	<u>2.0</u>	<u>2.5</u>	<u>1.5</u>	<u>1.0</u>	<u>–</u>

	ASSETS AND LIABILITIES OF THE GROUP				
	As at 31 March			As at 30 September	
	2002	2003	2004	2003	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Non-current assets					
Fixed assets	466,419	465,426	529,031	461,714	586,200
Intangible assets	6,234	7,358	10,264	6,416	12,955
Interest in an associate	273	192	74	192	74
Long term investments	22,076	19,447	18,592	18,592	18,592
Non-current portion of loans receivable	2,617	844	656	750	562
Deposits for acquisition of fixed assets	15,035	21,338	34,343	18,091	16,914
	<u>512,654</u>	<u>514,605</u>	<u>592,960</u>	<u>505,755</u>	<u>635,297</u>
Current assets					
Inventories	183,857	273,888	400,843	324,927	590,378
Accounts receivable	80,533	116,555	256,270	298,124	305,796
Current portion of loans receivable	4,696	188	188	188	188
Prepayments, deposits and other receivables	4,247	5,659	17,744	5,676	16,431
Tax recoverable	5,464	5,654	750	5,556	735
Cash and bank balances	121,122	207,226	194,161	59,161	110,199
	<u>399,919</u>	<u>609,170</u>	<u>869,956</u>	<u>693,632</u>	<u>1,023,727</u>
Total assets	<u>912,573</u>	<u>1,123,775</u>	<u>1,462,916</u>	<u>1,199,387</u>	<u>1,659,024</u>
Non-current liabilities					
Non-current portion of finance lease payables	14,130	7,841	2,148	6,166	2,170
Non-current portion of long term bank loans	62,347	50,427	235,830	49,487	183,330
Deferred tax	29,510	28,976	28,900	28,900	28,900
	<u>105,987</u>	<u>87,244</u>	<u>266,878</u>	<u>84,553</u>	<u>214,400</u>
Current liabilities					
Trust receipt loans	141,379	264,289	178,509	130,710	92,207
Accounts payable	207,834	259,253	448,061	403,417	737,349
Accrued liabilities and other payables	33,367	46,635	51,577	46,852	66,962
Current portion of finance lease payables	8,781	8,592	8,333	8,975	5,965
Current portion of long term bank loans	51,320	58,920	110,261	97,934	134,763
Tax payable	3,162	12,161	2,758	13,406	2,830
	<u>445,843</u>	<u>649,850</u>	<u>799,499</u>	<u>701,294</u>	<u>1,040,076</u>
Total liabilities	<u>551,830</u>	<u>737,094</u>	<u>1,066,377</u>	<u>785,847</u>	<u>1,254,476</u>
Net assets	<u>360,743</u>	<u>386,681</u>	<u>396,539</u>	<u>413,540</u>	<u>404,548</u>

## 2. AUDITED FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 MARCH 2004

Set out below is the audited financial statements of the Group for the financial year ended 31 March 2004 together with the comparative figures for the financial year ended 31 March 2003 which were extracted from the annual report of the Company for the financial year ended 31 March 2004.

**CONSOLIDATED PROFIT AND LOSS ACCOUNT***Year ended 31 March 2004*

	<i>Notes</i>	<b>2004</b> <i>HK\$'000</i>	<b>2003</b> <i>HK\$'000</i> (Restated)
TURNOVER	5	2,074,140	2,680,277
Cost of sales		<u>(1,969,624)</u>	<u>(2,531,652)</u>
Gross profit		104,516	148,625
Other revenue	5	10,025	10,721
Selling and distribution costs		(11,899)	(7,491)
Administrative expenses		(73,215)	(71,221)
Other operating expenses	6	<u>(318)</u>	<u>(14,437)</u>
PROFIT FROM OPERATING ACTIVITIES	6	29,109	66,197
Finance costs	9	(9,144)	(12,679)
Share of loss of an associate		<u>–</u>	<u>(23)</u>
PROFIT BEFORE TAX		19,965	53,495
Tax	10	<u>5,634</u>	<u>(10,194)</u>
NET PROFIT ATTRIBUTABLE TO SHAREHOLDERS	11	<u><u>25,599</u></u>	<u><u>43,301</u></u>
DIVIDENDS	12		
Interim		6,353	6,353
Proposed final		<u>3,176</u>	<u>9,529</u>
		<u><u>9,529</u></u>	<u><u>15,882</u></u>
EARNINGS PER SHARE	13		
– Basic		<u>4.0 cents</u>	<u>6.8 cents</u>
– Diluted		<u>N/A</u>	<u>N/A</u>

## CONSOLIDATED BALANCE SHEET

31 March 2004

	<i>Notes</i>	<b>2004</b> <i>HK\$'000</i>	<b>2003</b> <i>HK\$'000</i> (Restated)
<b>NON-CURRENT ASSETS</b>			
Fixed assets	<i>14</i>	529,031	465,426
Intangible assets	<i>15</i>	10,264	7,358
Interest in an associate	<i>18</i>	74	192
Long term investments	<i>19</i>	18,592	19,447
Non-current portion of loans receivable	<i>20</i>	656	844
Deposits for acquisition of fixed assets		34,343	21,338
		<u>592,960</u>	<u>514,605</u>
<b>CURRENT ASSETS</b>			
Inventories	<i>21</i>	400,843	273,888
Accounts receivable	<i>22</i>	256,270	116,555
Current portion of loans receivable	<i>20</i>	188	188
Prepayments, deposits and other receivables		17,744	5,659
Tax recoverable		750	5,654
Cash and bank balances		194,161	207,226
		<u>869,956</u>	<u>609,170</u>
<b>CURRENT LIABILITIES</b>			
Trust receipt loans	<i>23</i>	178,509	264,289
Accounts payable	<i>24</i>	448,061	259,253
Accrued liabilities and other payables		51,577	46,635
Current portion of finance lease payables	<i>25</i>	8,333	8,592
Current portion of long term bank loans	<i>23</i>	110,261	58,920
Tax payable		2,758	12,161
		<u>799,499</u>	<u>649,850</u>
<b>NET CURRENT ASSETS/(LIABILITIES)</b>		<u>70,457</u>	<u>(40,680)</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		663,417	473,925
<b>NON-CURRENT LIABILITIES</b>			
Non-current portion of finance lease payables	<i>25</i>	2,148	7,841
Non-current portion of long term bank loans	<i>23</i>	235,830	50,427
Deferred tax	<i>26</i>	28,900	28,976
		<u>266,878</u>	<u>87,244</u>
		<u>396,539</u>	<u>386,681</u>
<b>CAPITAL AND RESERVES</b>			
Issued capital	<i>27</i>	63,526	63,526
Reserves	<i>29(a)</i>	329,837	313,626
Proposed final dividend	<i>12</i>	3,176	9,529
		<u>396,539</u>	<u>386,681</u>

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 March 2004

	Notes	Issued share capital HK\$'000	Share premium account HK\$'000	Contributed surplus HK\$'000	Exchange fluctuation reserve HK\$'000	Asset revaluation reserve HK\$'000	Retained profits HK\$'000	Proposed final dividend HK\$'000	Total HK\$'000
At 1 April 2002									
As previously reported		63,526	28,735	280	(9,308)	109,103	185,133	3,176	380,645
Prior year adjustment: SSAP 12 – restatement of deferred tax	26	-	-	-	-	(12,625)	(7,276)	-	(19,901)
As restated		63,526	28,735	280	(9,308)	96,478	177,857	3,176	360,744
Final 2002 dividend declared		-	-	-	-	-	-	(3,176)	(3,176)
Deferred tax credited to equity	26	-	-	-	-	1,100	-	-	1,100
Revaluation deficit on fixed assets	14	-	-	-	-	(11,345)	-	-	(11,345)
Exchange realignment		-	-	-	2,410	-	-	-	2,410
Net gains and losses not recognised in the profit and loss account		-	-	-	2,410	(10,245)	-	-	(7,835)
Net profit for the year (restated)		-	-	-	-	-	43,301	-	43,301
Interim 2003 dividend	12	-	-	-	-	-	(6,353)	-	(6,353)
Final 2003 dividend proposed	12	-	-	-	-	-	(9,529)	9,529	-
Balance at 31 March 2003		<u>63,526</u>	<u>28,735*</u>	<u>280*</u>	<u>(6,898)*</u>	<u>86,233*</u>	<u>205,276*</u>	<u>9,529</u>	<u>386,681</u>

**APPENDIX I**
**FINANCIAL INFORMATION ON THE GROUP**

		Issued share capital	Share premium account	Contributed surplus	Exchange fluctuation reserve	Asset revaluation reserve	Retained profits	Proposed final dividend	Total
	Notes	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 April 2003									
As previously reported		63,526	28,735	280	(6,898)	97,758	213,119	9,529	406,049
Prior year adjustment:									
SSAP 12 – restatement of deferred tax	26	-	-	-	-	(11,525)	(7,843)	-	(19,368)
As restated		63,526	28,735	280	(6,898)	86,233	205,276	9,529	386,681
Final 2003 dividend declared		-	-	-	-	-	-	(9,529)	(9,529)
Deferred tax credited to equity	26	-	-	-	-	87	-	-	87
Exchange realignment		-	-	-	54	-	-	-	54
Net gains and losses not recognised in the profit and loss account		-	-	-	54	87	-	-	141
Net profit for the year		-	-	-	-	-	25,599	-	25,599
Interim 2004 dividend	12	-	-	-	-	-	(6,353)	-	(6,353)
Final 2004 dividend proposed	12	-	-	-	-	-	(3,176)	3,176	-
Balance at 31 March 2004		<u>63,526</u>	<u>28,735*</u>	<u>280*</u>	<u>(6,844)*</u>	<u>86,320*</u>	<u>221,346*</u>	<u>3,176</u>	<u>396,539</u>

\* These reserve accounts comprise the consolidated reserves of HK\$329,837,000 (2003: HK\$313,626,000) in the consolidated balance sheet.



## CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 March 2004

	<i>Notes</i>	<b>2004</b> <i>HK\$'000</i>	<b>2003</b> <i>HK\$'000</i>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Profit before tax		19,965	53,495
Adjustments for:			
Finance costs	9	9,144	12,679
Share of loss of an associate		–	23
Interest income	6	(291)	(1,234)
Dividend income	6	(911)	(107)
Gain on disposal of fixed assets	6	(331)	(87)
Depreciation	6	63,607	62,522
Amortisation of trademarks	6	258	251
Amortisation of deferred development costs	6	3,224	3,224
Provision/(write-back of provision)			
for inventories	6	(876)	4,173
Provision for doubtful debts	6	–	11,350
Provision for amount due from an associate	6	318	458
Impairment of long term investments	6	–	2,629
		<hr/>	<hr/>
Operating profit before working capital changes		94,107	149,376
Increase in amount due from an associate		(200)	(400)
Increase in inventories		(126,079)	(93,387)
Increase in accounts receivable		(139,715)	(45,220)
Increase in prepayments, deposits and other receivables		(12,085)	(1,412)
Increase/(decrease) in trust receipt loans		(85,780)	122,910
Increase in accounts payable		188,808	51,419
Increase in accrued liabilities and other payables		4,942	11,147
		<hr/>	<hr/>
Cash generated from/(used in) operations		(76,002)	194,433
Interest received		291	1,234
Interest paid		(8,933)	(12,280)
Interest element on finance lease rental payments		(211)	(399)
Net Hong Kong profits tax refunded		1,230	–
Overseas taxes paid		(84)	(818)
		<hr/>	<hr/>
Net cash inflow/(outflow) from operating activities		(83,709)	182,170
		<hr/>	<hr/>

**APPENDIX I****FINANCIAL INFORMATION ON THE GROUP**

	<b>2004</b>	<b>2003</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Net cash inflow/(outflow) from operating activities	<u>(83,709)</u>	<u>182,170</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of fixed assets	(117,716)	(70,319)
Proceeds from disposal of fixed assets	3,295	8,238
Proceeds from disposal of investments	855	–
Dividends received	911	107
Additions of intangible assets	(6,388)	(4,599)
Decrease in loans receivable	188	4,129
Deposits paid for fixed assets	<u>(21,812)</u>	<u>(10,087)</u>
Net cash outflow from investing activities	<u>(140,667)</u>	<u>(72,531)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
New bank loans	300,000	42,000
Repayment of bank loans	(63,256)	(46,320)
Capital element of finance lease rental payments	(9,518)	(9,752)
Dividends paid	<u>(15,882)</u>	<u>(9,529)</u>
Net cash inflow/(outflow) from financing activities	<u>211,344</u>	<u>(23,601)</u>
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>		
Cash and cash equivalents at beginning of year	207,226	121,122
Effect of foreign exchange rate changes, net	<u>(33)</u>	<u>66</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<u><u>194,161</u></u>	<u><u>207,226</u></u>
<b>ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS</b>		
Cash and bank balances	<u><u>194,161</u></u>	<u><u>207,226</u></u>

**BALANCE SHEET***31 March 2004*

	<i>Notes</i>	<b>2004</b> <i>HK\$'000</i>	<b>2003</b> <i>HK\$'000</i>
<b>NON-CURRENT ASSETS</b>			
Interests in subsidiaries	<i>17</i>	156,224	172,230
<b>CURRENT ASSETS</b>			
Cash and bank balances		136	135
Prepayments and other receivables		–	157
		136	292
<b>CURRENT LIABILITIES</b>			
Accrued liabilities and other payables		6	169
<b>NET CURRENT ASSETS</b>			
		130	123
		<u>156,354</u>	<u>172,353</u>
<b>CAPITAL AND RESERVES</b>			
Issued capital	<i>27</i>	63,526	63,526
Reserves	<i>29(b)</i>	89,652	99,298
Proposed final dividend	<i>12</i>	3,176	9,529
		<u>156,354</u>	<u>172,353</u>

**NOTES TO THE FINANCIAL STATEMENTS***31 March 2004***1. CORPORATION INFORMATION**

The principal activity of the Company is investment holding. The subsidiaries are engaged in the design, manufacture and trading of consumer electronic products and components and home appliance 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 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 12 (Revised) : "Income taxes"
- SSAP 35 : "Accounting for government grants and disclosure of government assistance"

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 adopting these SSAPs are summarised as follows:

SSAP 12 (Revised) prescribes the accounting for income taxes payable or recoverable, arising from the taxable profit or loss for the current period (current tax); and income taxes payable or recoverable in future periods, principally arising from taxable and deductible temporary differences and the carryforward of unused tax losses (deferred tax).

The principal impact of the revision of this SSAP on these financial statements is described below:

**Measurement and recognition:**

- deferred tax assets and liabilities relating to the differences between capital allowances for tax purposes and depreciation for financial reporting purposes and other taxable and deductible temporary differences are generally fully provided for, whereas previously the deferred tax was recognised for timing differences only to the extent that it was probable that the deferred tax asset or liability would crystallise in the foreseeable future;
- a deferred tax liability has been recognised for the deferred development costs; and
- a deferred tax liability has been recognised for the asset revaluation reserve.

**Disclosures:**

- deferred tax assets and liabilities are presented separately on the balance sheet, whereas previously they were presented on a net basis; and
- the related note disclosures are now more extensive than previously required. These disclosures are presented in notes 10 and 26 to the financial statements and include a reconciliation between the accounting profit and the tax expense for the year.

Further details of these changes and the prior year adjustments arising from them are included in the accounting policy for deferred tax in notes 3 and 26 to the financial statements.

SSAP 35 prescribes the accounting for government grants and other forms of government assistance. The adoption of this SSAP has had no significant impact for these financial statements on the amounts recorded for government grants, however, additional disclosures are now required and are detailed in notes 3 and 6 to the financial statements.

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### **Basis of preparation**

These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice, 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**

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 March 2004. 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 results of subsidiaries are included in the Company's profit and loss account to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

#### **Associates**

An associate is a company, not being a subsidiary or a jointly-controlled entity, in which the Group has a long term interest of generally 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 an associate is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interest in its 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.

Prior to the adoption of SSAP 30 “Business combinations” in 2001, goodwill arising on acquisitions was eliminated against consolidated reserves in the year of acquisition. On the adoption of SSAP 30, the Group applied the transitional provision of the SSAP that permitted such goodwill to remain eliminated against consolidated reserves. Goodwill on acquisitions subsequent to the adoption of the SSAP is treated according to the SSAP 30 goodwill 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.

#### **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.

Depreciation is calculated to write off the cost or valuation of each asset over its estimated useful life at the following rates per annum:

Leasehold land	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 Mainland China not yet ready for their intended use. Construction in progress is stated at cost less any impairment losses. Depreciation is provided upon its transfer to other fixed assets accounts, when it is ready for its 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.

#### **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.

#### **Leased assets**

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as 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 shorter of the lease terms and 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 of charge 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.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets and rentals receivable under operating leases are credited to the profit and loss account on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

**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.

**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 a decline in the fair value of a security below its carrying amount has occurred, unless there is evidence that the decline is temporary, the carrying amount of the security is reduced to its fair value, as estimated by the directors. The amount of the impairment is charged to the profit and loss account for the period in which it arises. 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 amount of the impairment previously charged is credited to the profit and loss account to the extent of the amount 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.

**Income tax**

Income tax comprises current and deferred tax. Income tax is recognised in the profit and loss account or in equity if it relates to items that are recognised in the same or a different period, directly in equity.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences:

- except where the deferred tax liability arises from goodwill or the initial recognition of an asset or liability and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries and associates, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.



Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax assets and unused tax losses can be utilised:

- except where the deferred tax asset relating to the deductible temporary differences arises from negative goodwill or the initial recognition of an asset or liability and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

#### **Government grants**

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate.

#### **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 and handling fee services, when the 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) dividend income, when the shareholders' right to receive payment has been established.

**Dividends**

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the capital and reserves section of 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.

**Foreign currencies**

Foreign currency transactions are recorded at the applicable exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable exchange rates 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 using the net investment method. The profit and loss accounts of overseas subsidiaries are translated into Hong Kong dollars at the weighted average exchange rates for the year, and their balance sheets are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. The resulting translation differences are dealt with in the exchange fluctuation reserve.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

**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.

**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.

**Cash and cash equivalents**

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheet, cash and bank balances comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

**Employee benefits***Employment Ordinance long service payments*

Certain of the Group's employees have completed the required number of years of service to the Group in order to be eligible for long service payments under the Hong Kong Employment Ordinance in the event of the termination of their employment. The Group is liable to make such payments in the event that such a termination of employment meets the circumstances specified in the Employment Ordinance.

A provision is recognised in respect of the probable future long service payments expected to be made. The provision is based on the best estimate of the probable future payments which have been earned by the employees from their service to the Group to the balance sheet date.

*Pension scheme*

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute a percentage of their payroll costs to the central pension scheme. The contributions are charged to the profit and loss account as they become payable in accordance with the rules of the central pension scheme.

*Share option scheme*

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The financial impact of share options granted under the share option scheme is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the profit and loss account or balance sheet for their cost. Upon the exercise of share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which are cancelled prior to their exercise date, or which lapse, are deleted from the register of outstanding options.

**4. SEGMENT INFORMATION**

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.

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 the other business segments. Summary details of the business segments are as follows:

- (a) the electronic products and components segment consists of the design, manufacture and sale of audio and video products and components;
- (b) the home appliance products segment consists of the design, manufacture and sale of home appliance products;
- (c) the corporate segment comprises corporate income and expense items; and
- (d) the "others" segment consists of the subcontracting of audio products and sale of other products.

To accord with the presentation adopted in the current year, which in the opinion of the directors, better reflects the business segment information, audio products segment and video products segment in the prior year have been grouped under electronic products and components segment.

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.

There were no intersegment sales and transfer during the year (2003: Nil).

## (a) Business segments

The following tables present revenue, profit/(loss) and certain asset, liability and expenditure information of the Group's business segments.

**Group**

	Electronic products and components		Home appliance products		Corporate		Others		Consolidated		
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
											(Restated)
Segment revenue											
Sales to external customers	1,860,003	2,453,001	214,137	153,956	-	-	-	73,320	2,074,140	2,680,277	
Other segment revenue	7,953	9,181	531	109	-	-	-	3	8,484	9,293	
Total	<u>1,867,956</u>	<u>2,462,182</u>	<u>214,668</u>	<u>154,065</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>73,323</u>	<u>2,082,624</u>	<u>2,689,570</u>	
Segment results	<u>32,003</u>	<u>67,552</u>	<u>3,301</u>	<u>3,373</u>	<u>(125)</u>	<u>(298)</u>	<u>-</u>	<u>1,079</u>	35,179	71,706	
Interest income and unallocated income									1,541	1,428	
Unallocated expenses									(7,611)	(6,937)	
Profit from operating activities									29,109	66,197	
Finance costs									(9,144)	(12,679)	
Share of loss of an associate									-	(23)	
Profit before tax									19,965	53,495	
Tax									5,634	(10,194)	
Net profit attributable to shareholders									<u>25,599</u>	<u>43,301</u>	

## Group

	Electronic products and components		Home appliance products		Corporate		Others		Consolidated	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Restated)									
Segment asset	1,313,648	996,245	111,156	73,472	124	279	-	24,710	1,424,928	1,094,706
Interest in an associate	-	-	-	-	-	-	74	192	74	192
Unallocated assets	-	-	-	-	-	-	-	-	37,914	28,877
<b>Total assets</b>	<b>1,313,648</b>	<b>996,245</b>	<b>111,156</b>	<b>73,472</b>	<b>124</b>	<b>279</b>	<b>74</b>	<b>24,902</b>	<b>1,462,916</b>	<b>1,123,775</b>
Segment liabilities	457,609	277,406	41,263	22,807	-	168	-	4,909	498,872	305,290
Unallocated liabilities	-	-	-	-	-	-	-	-	567,505	431,804
<b>Total liabilities</b>	<b>457,609</b>	<b>277,406</b>	<b>41,263</b>	<b>22,807</b>	<b>-</b>	<b>168</b>	<b>-</b>	<b>4,909</b>	<b>1,066,377</b>	<b>737,094</b>
Other segment information:										
Capital expenditure	128,001	69,784	16,426	17,194	-	-	5,055	1,301	149,482	88,279
Depreciation and amortisation	57,124	58,351	9,442	5,791	-	-	523	1,855	67,089	65,997
Provision/(write-back of provision) for inventories	(955)	4,173	79	-	-	-	-	-	(876)	4,173
Provision for doubtful debts	-	9,198	-	-	-	-	-	2,152	-	11,350
Provision for amount due from an associate	-	-	-	-	-	-	318	458	318	458
Impairment of long term investments	-	-	-	-	-	-	-	2,629	-	2,629

**(b) Geographical segments**

The following table presents revenue and certain asset and expenditure information for the Group's geographical segments.

**Group**

	United States of America		Europe		Asia-Pacific countries		Others		Consolidated	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
	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>469,956</u>	<u>867,142</u>	<u>1,252,280</u>	<u>1,337,610</u>	<u>314,235</u>	<u>456,400</u>	<u>37,669</u>	<u>19,125</u>	<u>2,074,140</u>	<u>2,680,277</u>
Other segment information:										
Segment assets										
- Hong Kong									540,036	414,822
- Mainland China									922,880	708,953
Total									<u>1,462,916</u>	<u>1,123,775</u>
Capital expenditure										
- Hong Kong									3,574	8,775
- Mainland China									145,908	79,504
Total									<u>149,482</u>	<u>88,279</u>

**5. TURNOVER AND REVENUE**

Turnover represents the invoiced value of goods sold, net of discounts and returns, after elimination of all significant intra-group transactions.

An analysis of turnover and other revenue is as follows:

	<b>2004</b> <i>HK\$'000</i>	<b>2003</b> <i>HK\$'000</i>
<b>Turnover</b>		
Manufacture and sale of electronic products and components	1,860,003	2,453,001
Manufacture and sale of home appliance products	214,137	153,956
Others	—	73,320
	<u>2,074,140</u>	<u>2,680,277</u>
<b>Other revenue</b>		
Handling fee income	5,293	6,443
Interest income	291	1,234
Others	4,441	3,044
	<u>10,025</u>	<u>10,721</u>

## 6. PROFIT FROM OPERATING ACTIVITIES

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

	<i>Notes</i>	<b>2004</b> <i>HK\$'000</i>	<b>2003</b> <i>HK\$'000</i>
Depreciation	<i>14</i>	63,607	62,522
Minimum lease payments under operating leases on land and buildings		3,014	2,592
Auditors' remuneration		720	670
Amortisation of trademarks*	<i>15</i>	258	251
Research and development costs:			
Deferred development costs amortised*	<i>15</i>	3,224	3,224
Current year expenditure		567	1,599
Provision/(write-back of provision) for inventories		(876)	4,173
Staff costs (including directors' remuneration – <i>note 7</i> ):			
Wages and salaries		133,557	131,587
Pension scheme contributions		2,461	2,083
<i>Less: Forfeited contributions**</i>		(45)	(120)
Net pension contributions		<u>2,416</u>	<u>1,963</u>
		<u>135,973</u>	<u>133,550</u>
Other operating expenses:			
Provision for doubtful debts		–	11,350
Impairment of long term investments ( <i>note 19</i> )		–	2,629
Provision for amount due from an associate ( <i>note 18</i> )		318	458
		<u>318</u>	<u>14,437</u>
Gain on disposal of fixed assets		(331)	(87)
Exchange (gains)/losses, net		(1,830)	1,182
Interest income		(291)	(1,234)
Gross and net rental income from land and buildings		(84)	(102)
Dividend income from listed investments		(911)	(107)
Government grant***		<u>(458)</u>	<u>–</u>

*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 consolidated profit and loss account.

\*\* As at 31 March 2004, the Group had no forfeited contributions available to offset its future employers' contributions (2003: Nil).

\*\*\* Government grants have been received for employment of qualified employees in Japan. There are no unfulfilled conditions or contingencies relating to these grants.



**7. DIRECTORS' REMUNERATION**

	<b>2004</b> <i>HK\$'000</i>	<b>2003</b> <i>HK\$'000</i>
Fees – non-executive directors	195	195
Other emoluments – executive directors:		
Salaries and allowances	14,166	14,166
Pension scheme contributions	535	534
	<u>14,896</u>	<u>14,895</u>

The number of directors whose remuneration fell within the following bands is set out below.

	<b>Number of directors</b>	
	<b>2004</b>	<b>2003</b>
Nil – HK\$1,000,000	4	4
HK\$1,500,001 – HK\$2,000,000	–	–
HK\$2,000,001 – HK\$2,500,000	4	4
HK\$4,500,001 – HK\$5,000,000	<u>1</u>	<u>1</u>

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2003: Nil).

**8. FIVE HIGHEST PAID EMPLOYEES**

The five highest paid employees during the year comprised five (2003: five) directors, details of whose remuneration are set out in note 7 above.

**9. FINANCE COSTS**

	<b>2004</b> <i>HK\$'000</i>	<b>2003</b> <i>HK\$'000</i>
Interest on:		
Bank loans and facilities wholly repayable within five years	8,933	12,280
Finance leases	211	399
Total interest	<u>9,144</u>	<u>12,679</u>

**10. TAX**

Hong Kong profits tax has been provided at the rate of 17.5% (2003: 16%) on the estimated assessable profits arising in Hong Kong during the year. The increased Hong Kong profits tax rate became effective from the year of assessment 2003/2004, and so is applicable to the assessable profits arising in Hong Kong for the whole of the year ended 31 March 2004. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	2004 HK\$'000	2003 HK\$'000 (Restated)
Group:		
Current – Hong Kong		
Charge for the year	2,462	9,627
Overprovision in prior years	(8,543)	–
Current – Elsewhere		
Charge for the year	436	–
Deferred ( <i>note 26</i> )	11	567
	<u>          </u>	<u>          </u>
Tax charge/(credit) for the year	<u><u>(5,634)</u></u>	<u><u>10,194</u></u>

A reconciliation of the tax expense applicable to profit before tax using the statutory rates for the countries in which the Company, its subsidiaries and associates are domiciled to the tax charge/(credit) at the effective tax rate, and a reconciliation of the applicable rate (i.e., the statutory tax rates) to the effective tax rate, are as follows:

**Group**

	2004		2003	
	HK\$'000	%	HK\$'000	%
Profit before tax	<u><u>19,965</u></u>		<u><u>53,495</u></u>	
Tax at the statutory tax rate	3,494	17.5	8,559	16.0
Higher tax rate for other countries	236	1.2	62	0.1
Effect on deferred tax of increase in rates	–	–	2,466	4.6
Profit not subject to tax, due to concession	(1,396)	(7.0)	(578)	(1.1)
Adjustments in respect of current tax of previous periods	(8,543)	(42.8)	–	–
Income not subject to tax	(386)	(1.9)	(235)	(0.4)
Expenses not deductible for tax	922	4.6	939	1.8
Adjustment in respect of deferred tax of previous periods	1,610	8.1	–	–
Tax loss agreed and utilised in current year	(2,017)	(10.1)	–	–
Tax loss not recognised	145	0.7	46	0.1
Deferred tax not recognised, due to concession	41	0.2	(2,303)	(4.3)
Others	260	1.3	1,238	2.3
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Tax charge/(credit) at the Group's effective rate	<u><u>(5,634)</u></u>	<u><u>(28.2)</u></u>	<u><u>10,194</u></u>	<u><u>19.1</u></u>

**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 2004 was HK\$117,000 (2003: HK\$152,000 note 29(b)).

**12. DIVIDENDS**

	<b>2004</b> <i>HK\$'000</i>	<b>2003</b> <i>HK\$'000</i>
Interim – HK1 cent (2003: HK1 cent) per ordinary share	6,353	6,353
Proposed final – HK0.5 cent (2003: HK1.5 cents) per ordinary share	<u>3,176</u>	<u>9,529</u>
	<u><u>9,529</u></u>	<u><u>15,882</u></u>

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

**13. EARNINGS PER SHARE**

The calculation of basic earnings per share is based on the net profit attributable to shareholders for the year of HK\$25,599,000 (2003 (restated): HK\$43,301,000) and the weighted average of 635,259,975 (2003: 635,259,975) ordinary shares in issue during the year.

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

## 14. FIXED ASSETS

## Group

	Leasehold land and buildings <i>HK\$'000</i>	Con- struction in progress <i>HK\$'000</i>	Leasehold improve- ments <i>HK\$'000</i>	Furniture and fixtures <i>HK\$'000</i>	Equipment and tools <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Moulds <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost or valuation:								
At beginning of year	225,130	–	55,397	25,098	315,189	11,831	113,043	745,688
Additions	5,006	72,696	1,456	2,510	12,429	1,022	34,970	130,089
Disposals	(1,220)	–	–	(121)	(5,401)	–	(39)	(6,781)
Exchange realignment	–	–	50	36	24	–	–	110
At 31 March 2004	228,916	72,696	56,903	27,523	322,241	12,853	147,974	869,106
Analysis of cost or valuation:								
At cost	5,006	72,696	56,903	27,523	322,241	12,853	147,974	645,196
At 31 March 2003 valuation	223,910	–	–	–	–	–	–	223,910
	228,916	72,696	56,903	27,523	322,241	12,853	147,974	869,106
Accumulated depreciation:								
At beginning of year	–	–	25,577	18,970	150,912	9,070	75,733	280,262
Provided during the year	7,743	–	6,283	1,712	27,246	942	19,681	63,607
Disposals	(29)	–	–	(105)	(3,678)	–	(5)	(3,817)
Exchange realignment	–	–	10	8	5	–	–	23
At 31 March 2004	7,714	–	31,870	20,585	174,485	10,012	95,409	340,075
Net book value:								
At 31 March 2004	221,202	72,696	25,033	6,938	147,756	2,841	52,565	529,031
At 31 March 2003	225,130	–	29,820	6,128	164,277	2,761	37,310	465,426

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

	Hong Kong <i>HK\$'000</i>	Mainland China <i>HK\$'000</i>	Total <i>HK\$'000</i>
At valuation:			
Held under long term leases	1,650	–	1,650
Held under medium term leases	36,130	191,136	227,266
	37,780	191,136	228,916

The Group's leasehold land and buildings, other than the current year's additions were revalued at 31 March 2003 by Sallmanns (Far East) Limited, an independent firm of professional valuers, on an open market, existing use basis at HK\$225,130,000. No professional valuation of such land was made as at 31 March 2004 because the directors are of the opinion that the value of such land and buildings at 31 March 2004 is not significantly different from the carrying amount at 31 March 2003 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 2004 because the directors are of the opinion that the value of such land and buildings as 31 March 2004 is not significantly different from the carrying amount as 31 March 2004.

Had the whole class of 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\$142,927,000 (2003: HK\$142,910,000).

The Group is applying for land use right certificates in respect of certain of the Group's leasehold land and construction in progress in Mainland China. These pieces of land had an aggregate net book value of approximately HK\$16,969,000 at 31 March 2004 (2003: HK\$2,849,000).

Included in the total amount of equipment and tools at 31 March 2004 are assets held under finance leases with a net book value of HK\$17,027,000 (2003: HK\$23,376,000).

## 15. INTANGIBLE ASSETS

### Group

	<b>Trademarks</b>	<b>Deferred development cost</b>	<b>Total</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Cost:			
At beginning of year	2,508	9,672	12,180
Additions	111	6,277	6,388
	<u>          </u>	<u>          </u>	<u>          </u>
At 31 March 2004	2,619	15,949	18,568
	<u>          </u>	<u>          </u>	<u>          </u>
Accumulated amortisation:			
At beginning of year	753	4,069	4,822
Provided during the year	258	3,224	3,482
	<u>          </u>	<u>          </u>	<u>          </u>
At 31 March 2004	1,011	7,293	8,304
	<u>          </u>	<u>          </u>	<u>          </u>
Net book value:			
At 31 March 2004	<u>1,608</u>	<u>8,656</u>	<u>10,264</u>
At 31 March 2003	<u>1,755</u>	<u>5,603</u>	<u>7,358</u>

## 16. GOODWILL

As detailed in note 3 to the financial statements, on the adoption of SSAP 30 in 2001, the Group applied the transitional provision of SSAP 30 that permitted goodwill in respect of acquisitions which occurred prior to the adoption of the SSAP, to remain eliminated against consolidated reserves.

The amount of goodwill remaining eliminated against consolidated retained profits, arising from the acquisition of a subsidiary prior to 1 April 2001, was HK\$2,000 as at 31 March 2004 (2003: HK\$2,000).

## 17. INTERESTS IN SUBSIDIARIES

	Company	
	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Unlisted shares, at cost	58,812	58,812
Due from subsidiaries	97,412	113,418
	156,224	172,230

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		Principal
			Direct	Indirect	
Agility Investments Limited	British Virgin Islands	US\$1	100	–	Investment holding
Dongguan Gold Beam Electronics Co., Ltd.#	Mainland China	HK\$22,220,000*	–	100	Manufacture of electronic components and home appliance products
Dongguan Tonic Electronics Co., Ltd.#	Mainland China	HK\$22,200,000	–	100	Manufacture of electronic products
Gold Beam Developments Limited	Hong Kong	HK\$2	100	–	Trading and manufacture of components
Tonic Appliances Limited	Hong Kong	HK\$2	100	–	Trading of home appliance products
Tonic Electronics (B.V.I.) Limited	British Virgin Islands	HK\$1	100	–	Investment holding

**APPENDIX I**
**FINANCIAL INFORMATION ON THE GROUP**

Company	Place of incorporation/ registration and operations	Nominal value of issued/ registered paid-up capital	Percentage of equity attributable to the Company		Principal
			Direct	Indirect	
Tonic Electronics Limited	Hong Kong	Ordinary HK\$200 Non-voting deferred ## HK\$300,000	–	100	Trading and manufacture of electronic products
Tonic Digital Products Limited **	Hong Kong	HK\$100	–	100	Trading of digital products
Tonic Enterprises Limited	British Virgin Islands	US\$1	–	100	Dormant
Tonic International Limited	British Virgin Islands/ Mainland China	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	Investment holding
Tonic Plastic Limited	British Virgin Islands/ Mainland China	US\$0.01	–	100	Provision of quality control services
Tonic Trading Development Limited	Hong Kong	HK\$100	–	100	Trading of electronic products and components
Tonic Technology Limited	Hong Kong	HK\$10,000	100	–	Investment holding
Panatone Licensing Limited	British Virgin Islands	US\$1	–	100	Holding of patents
Tonic Appliances Ltd. (USA) LLC	United States of America	–	–	100	Marketing
deviceSTYLE Corporation	Japan	Yen10,000,000	–	100	Marketing
Tonic Technology (Shenzhen) Ltd# ***	Mainland China	RMB10,500,000*	–	100	Research and development

\* The registered capital of Dongguan Gold Beam Electronics Co., Ltd. and Tonic Technology (Shenzhen) Ltd. are HK\$22,220,000 and RMB10,500,000 (equivalent to HK\$9,905,660), out of which the Group had paid up HK\$20,864,540 and HK\$4,750,000 of the capital at 31 March 2004. The unpaid capital of HK\$1,355,460 and HK\$5,155,660 have been disclosed as the Company's commitment in note 33 to the financial statements.

\*\* Not audited by Ernst & Young Hong Kong or other Ernst & Young International member firms.

\*\*\* Incorporated during the year.

# Wholly foreign-owned enterprise.

## 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	
	2004 HK\$'000	2003 HK\$'000
Share of net assets	–	–
Due from an associate	850	650
	<hr/>	<hr/>
	850	650
Provision for amount due from an associate	(776)	(458)
	<hr/>	<hr/>
	74	192
	<hr/> <hr/>	<hr/> <hr/>

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

Particulars of the associate are as follows:

Name	Business structure	Place of incorporation/ and operations	Percentage of ownership interest attributable to the Group	Principal activities
E-Global Electronics Trading Platform Limited	Corporate	Hong Kong	25	Provision of electronics procurement services

The Group's share of accumulated losses of the associate at 31 March 2004 was HK\$850,000 (2003: HK\$850,000).



## 19. LONG TERM INVESTMENTS

	Group	
	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
At cost:		
Hong Kong listed equity investments	21,221	21,221
Overseas unlisted equity investments	—	855
	<u>21,221</u>	<u>22,076</u>
Provision for impairment	(2,629)	(2,629)
	<u>18,592</u>	<u>19,447</u>
Market value of listed equity investments at balance sheet date	<u>24,080</u>	<u>20,020</u>

## 20. LOANS RECEIVABLE

The loans receivable represents unsecured and interest-free advances to certain staff members of the Group.

The terms of the loans receivable are analysed as follows:

	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Repayable within one year	188	188
Repayable by equal monthly instalments over five years (2003: six years)	656	844
	<u>844</u>	<u>1,032</u>
Portion classified as current assets	(188)	(188)
Non-current portion	<u>656</u>	<u>844</u>

## 21. INVENTORIES

	Group	
	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Raw materials	197,830	114,474
Work in progress	126,085	83,386
Finished goods	76,928	76,028
	<u>400,843</u>	<u>273,888</u>

The carrying amount of inventories carried at net realisable value included in the above balance was HK\$25,259,000 (2003: HK\$3,115,000) as at the balance sheet date.

**22. ACCOUNTS RECEIVABLE**

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

	<b>2004</b>		<b>2003</b>	
	<i>HK\$'000</i>	<i>Percentage</i>	<i>HK\$'000</i>	<i>Percentage</i>
0 – 30 days	212,944	83	41,383	36
31 – 60 days	28,617	11	11,143	10
61 – 90 days	3,246	1	62,262	53
Over 90 days	11,463	5	1,767	1
	<u>256,270</u>	<u>100</u>	<u>116,555</u>	<u>100</u>

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

**23. BANK BORROWINGS**

	<b>Group</b>	
	<b>2004</b> <i>HK\$'000</i>	<b>2003</b> <i>HK\$'000</i>
Long term bank loans repayable:		
Within one year	110,261	58,920
In the second year	109,997	43,760
In the third to fifth years, inclusive	<u>125,833</u>	<u>6,667</u>
	346,091	109,347
Portion classified as current liabilities	<u>(110,261)</u>	<u>(58,920)</u>
Non-current portion	<u>235,830</u>	<u>50,427</u>

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

As at 31 March 2004, all the Group's bank borrowings were secured by a corporate guarantee granted by the Company and cross corporate guarantees among certain subsidiaries and the Company. As disclosed in note 34(c) to the financial statements, under the terms of the syndicated loan agreement, the chairman of the Company, Mr. Ling Siu Man, Simon, being the single largest shareholder and is actively involved in the management and business of the Group, is required to maintain at least 40% of the beneficial interests in shareholdings in the Company.

## 24. ACCOUNTS PAYABLE

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

	2004		2003	
	<i>HK\$'000</i>	<i>Percentage</i>	<i>HK\$'000</i>	<i>Percentage</i>
0 – 30 days	205,743	46	73,618	28
31 – 60 days	134,891	30	68,416	27
61 – 90 days	43,472	10	38,730	15
Over 90 days	63,955	14	78,489	30
	<u>448,061</u>	<u>100</u>	<u>259,253</u>	<u>100</u>

## 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 one to three years. At 31 March 2004, the total future minimum lease payments under finance leases and their present values were as follows:

<b>Group</b>	<b>Minimum lease payments 2004</b>	<b>Minimum lease payments 2003</b>	<b>Present value of minimum lease payments 2004</b>	<b>Present value of minimum lease payments 2003</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Amounts payable:				
Within one year	8,494	9,043	8,333	8,592
In the second year	1,924	7,309	1,896	7,157
In the third to fifth years, inclusive	<u>253</u>	<u>687</u>	<u>252</u>	<u>684</u>
Total minimum finance lease payments	10,671	17,039	<u>10,481</u>	<u>16,433</u>
Future finance charges	<u>(190)</u>	<u>(606)</u>		
Total net finance lease payables	10,481	16,433		
Portion classified as current liabilities	<u>(8,333)</u>	<u>(8,592)</u>		
Non-current portion	<u>2,148</u>	<u>7,841</u>		

## 26. DEFERRED TAX

The movement in deferred tax liabilities and assets during the year is as follows:

**Deferred tax liabilities**

Group	2004					
	Accelerated tax depreciation <i>HK\$'000</i>	Development costs <i>HK\$'000</i>	Revaluation of properties <i>HK\$'000</i>	Losses available for offset against future taxable profit <i>HK\$'000</i>	Others <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 April 2003						
As previously reported	9,608	-	-	-	-	9,608
Prior year adjustment:						
SSAP 12 – restatement of deferred tax	11,902	638	11,525	(3,087)	(1,610)	19,368
As restated	21,510	638	11,525	(3,087)	(1,610)	28,976
Deferred tax charged/ (credited) to the profit and loss account during the year ( <i>note 10</i> )	551	138	-	(2,288)	1,610	11
Deferred tax debited to equity during the year	-	-	(87)	-	-	(87)
Deferred tax liabilities at 31 March 2004	<u>22,061</u>	<u>776</u>	<u>11,438</u>	<u>(5,375)</u>	<u>-</u>	<u>28,900</u>

Group	2003					
	Accelerated tax depreciation <i>HK\$'000</i>	Development costs <i>HK\$'000</i>	Revaluation of properties <i>HK\$'000</i>	Losses available for offset against future taxable profit <i>HK\$'000</i>	Others <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 April 2002						
As previously reported	9,608	-	-	-	-	9,608
Prior year adjustment: SSAP 12 – restatement of deferred tax	7,722	440	12,625	(886)	-	19,901
As restated	17,330	440	12,625	(886)	-	29,509
Deferred tax charged/ (credited) to the profit and loss account during the year ( <i>note 10</i> )	4,180	198	-	(2,201)	(1,610)	567
Deferred tax debited to equity during the year	-	-	(1,100)	-	-	(1,100)
Deferred tax liabilities at 31 March 2003	<u>21,510</u>	<u>638</u>	<u>11,525</u>	<u>(3,087)</u>	<u>(1,610)</u>	<u>28,976</u>

At 31 March 2004, there was no significant unrecognised deferred tax liability (2003: Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries or associates as the Group has no liability to additional tax should such amounts be remitted.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

SSAP 12 (revised) was adopted during the year, as further explained in note 2 to the financial statements. This change in accounting policy has resulted in an increase in the Group's deferred tax liabilities as at 31 March 2004 and 2003 by HK\$19,292,000 and HK\$19,368,000. As a consequence, the net profits attributable to shareholders for the years ended 31 March 2004 and 2003 have been decreased by HK\$11,000 and HK\$567,000 respectively. As detailed in the consolidated statement of changes in equity, the consolidated retained profits at 1 April 2002 and 2003 have been decreased by HK\$7,276,000 and HK\$7,843,000, respectively and the asset revaluation reserve at 1 April 2002 and 2003 have been decreased by HK\$12,625,000 and HK\$11,525,000, respectively.

## 27. SHARE CAPITAL

	Company	
	2004	2003
	<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 ordinary shares of HK\$0.10 each	<u>63,526</u>	<u>63,526</u>

## 28. 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.

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. 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.

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

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

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 a grant of options is HK\$1.00.

With effect from 1 September 2001, the Stock Exchange requires that the exercise price of options is at least the higher of the closing price of the shares on the Stock Exchange on the date of grant and the average of the 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.

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

	At 1 April 2003 and 31 March 2004	Date of grant of share options	Exercise period of share options	Exercise price of share options HK\$
<i>Directors:</i>				
Ling Siu Man, Simon	10,000,000	07-04-00	10-04-00 to 09-04-10	0.70
Lee Ka Yue, Peter	1,810,000	07-04-00	10-04-00 to 09-04-10	0.70
Wong Ki Cheung	1,810,000	07-04-00	10-04-00 to 09-04-10	0.70
Li Fung Ching, Catherine	1,810,000	07-04-00	10-04-00 to 09-04-10	0.70
Au Wai Man	1,810,000	07-04-00	10-04-00 to 09-04-10	0.70
Liu Hoi Keung, Gary	1,810,000	07-04-00	10-04-00 to 09-04-10	0.70
	<u>19,050,000</u>			
<i>Other employees:</i>				
In aggregate	29,200,000	07-04-00	10-04-00 to 09-04-10	0.70
	<u><u>48,250,000</u></u>			

## 29. RESERVES

### (a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 30 to 31 the financial statements.

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 shares on The Stock Exchange of Hong Kong Limited, over the nominal value of the share capital of the Company issued in exchange therefor.

## (b) 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 2002	28,735	58,794	27,803	115,332
Net loss for the year	–	–	(152)	(152)
Interim 2003 dividend	–	–	(6,353)	(6,353)
Proposed final 2003 dividend	–	–	(9,529)	(9,529)
At 1 April 2003	28,735	58,794	11,769	99,298
Net loss for the year	–	–	(117)	(117)
Interim 2004 dividend	–	–	(6,353)	(6,353)
Proposed final 2004 dividend	–	–	(3,176)	(3,176)
At 31 March 2004	<u>28,735</u>	<u>58,794</u>	<u>2,123</u>	<u>89,652</u>

The Company's contributed surplus represents the excess of the fair value of the shares of the subsidiaries acquired pursuant to the reorganisation referred to in note 29(a), over the nominal value of the Company's shares issued in exchange therefor.

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 the Company's 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.

## 30. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

## (a) 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\$3,566,000 (2003: HK\$3,274,000).
- (ii) During the year, deposits for the acquisition of fixed assets of HK\$8,807,000 (2003: HK\$3,784,000) was utilised as part of the considerations paid for the purchases of the fixed assets.



## 31. CONTINGENT LIABILITIES

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

	Group		Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Bills discounted with recourse	1,079	7,478		–
Guarantees for general banking facilities of subsidiaries*	–	–	1,142,125	830,000
Shipping guarantees	2,744	–		–
	<u>3,823</u>	<u>7,478</u>	<u>1,142,125</u>	<u>830,000</u>

\* At 31 March 2004, HK\$530,763,000 (2003: HK\$373,636,000) of the general banking facilities were utilised by the subsidiaries.

## 32. OPERATING LEASE ARRANGEMENTS

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

At 31 March 2004, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2004 HK\$'000	2003 HK\$'000
Within one year	1,959	2,344
In the second to fifth years, inclusive	3,093	4,321
	<u>5,052</u>	<u>6,665</u>

At balance sheet date, the Company had no operating lease arrangements (2003: Nil).

**33. COMMITMENTS**

In addition to the operating lease commitments detailed in note 32 above, the Group had the following commitments at the balance sheet date:

**(a) Capital commitments**

	<b>Group</b>	
	<b>2004</b>	<b>2003</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Contracted, but not provided for:		
Equipment and tools	28,532	7,116
Moulds	67	5,058
Construction in progress in Mainland China	24,238	–
Leasehold improvements	14	–
	<u>52,851</u>	<u>12,174</u>

**(b) Commitments under forward foreign exchange contracts**

	<b>Group</b>	
	<b>2004</b>	<b>2003</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Commitments to purchase foreign currencies	46,302	–
Commitments to sell foreign currencies	<u>–</u>	<u>39,038</u>

At balance sheet date, the Company capital commitment of approximately HK\$6,511,000 in respect of investment in a subsidiary as detailed in note 17 to the financial statements.

**34. RELATED PARTY TRANSACTIONS AND CONNECTED TRANSACTIONS**

In addition to the transactions and balances detailed elsewhere in these 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\$24,649,000 (2003: HK\$19,001,000) to Pioneer Ventures Limited (“PVL”), a wholly-owned subsidiary of EganaGoldpfeil (Holdings) Limited (“EG”), which is a substantial shareholder of the Company.

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

- (b) The Group paid HK\$397,000 (2003: HK\$598,300) 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.

- (c) During the year, the Group signed a term loan facility agreement for a syndicated loan. Under the terms of the agreement, the chairman of the Company, Mr. Ling Siu Man, Simon, being the single largest shareholder and is actively involved in the management and business of the Group, is required to maintain at least 40% of the beneficial interests in shareholdings in the Company.
- (d) In the prior year, Tonic Electronics Limited, a wholly-owned subsidiary of the Company, purchased parts and movements amounting to HK\$70,838,000 from Junghans Uhren GmbH and its subsidiaries (collectively as “Junghans”). Junghans is wholly-owned by EG. No such purchase was made in the current year.

The above transactions are related party transactions, of which items (a) and (d) also constitute connected transactions under the Listing Rules.

### **35. COMPARATIVE AMOUNTS**

As further explained in note 2 to the financial statements, due to the adoption of two new/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 restated to conform with the current year’s presentation.

### **36. APPROVAL OF THE FINANCIAL STATEMENTS**

The financial statements were approved and authorised for issue by the board of directors on 16 July 2004.

## 3. UNAUDITED INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2004

Set out below is the unaudited condensed consolidated financial statements of the Group for the six months ended 30 September 2004 together with the comparative figures for the corresponding period in the previous year:

## CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

	Notes	For six months ended 30 September	
		2004 Unaudited HK\$'000	2003 Unaudited HK\$'000
Turnover	2	1,384,071	913,627
Cost of sales		<u>(1,331,159)</u>	<u>(842,213)</u>
Gross profit		52,912	71,414
Other revenue		9,674	1,403
Selling and distribution costs		(8,287)	(3,180)
Administrative expenses		<u>(36,574)</u>	<u>(36,447)</u>
Profit from operating activities		17,725	33,190
Finance costs		(5,242)	(4,632)
Share of loss of an associate		<u>–</u>	<u>(100)</u>
Profit before tax	3	12,483	28,458
Tax	4	<u>(618)</u>	<u>(1,645)</u>
Net profit attributable to shareholders		<u>11,865</u>	<u>26,813</u>
Interim dividend		<u>Nil</u>	<u>6,353</u>
Interim dividend per share		<u>N/A</u>	<u>1 cent</u>
Earnings per share	5		
– Basic		<u>1.9 cents</u>	<u>4.2 cents</u>
– Diluted		<u>N/A</u>	<u>N/A</u>

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	For six months ended 30 September	
	2004 Unaudited <i>HK\$'000</i>	2003 Unaudited <i>HK\$'000</i>
Total equity at 1 April	396,539	406,049
Exchange differences on translation of financial statements of overseas subsidiaries not recognised in the income statement	(680)	(30)
Dividends	(3,176)	–
Net profit attributable to shareholders	11,865	26,813
Total equity at 30 September	<u>404,548</u>	<u>432,832</u>

## CONDENSED CONSOLIDATED BALANCE SHEET

		<b>30 September 2004 Unaudited HK\$'000</b>	<b>31 March 2004 Audited HK\$'000</b>	<b>30 September 2003 Unaudited HK\$'000</b>
	<i>Notes</i>			
<b>NON-CURRENT ASSETS</b>				
Fixed assets		586,200	529,031	461,714
Long term investments		18,592	18,592	18,592
Deposits for acquisition of fixed assets		16,914	34,343	18,091
Intangible assets		12,955	10,264	6,416
Other non-current assets		636	730	942
		<u>635,297</u>	<u>592,960</u>	<u>505,755</u>
<b>CURRENT ASSETS</b>				
Cash and bank balances		110,199	194,161	59,161
Accounts and other receivables	6	323,150	274,952	309,544
Inventories		590,378	400,843	324,927
		<u>1,023,727</u>	<u>869,956</u>	<u>693,632</u>
<b>CURRENT LIABILITIES</b>				
Accounts and other payables	7	804,311	499,638	450,269
Borrowings due within one year		232,935	297,103	237,619
Tax payable		2,830	2,758	13,406
		<u>1,040,076</u>	<u>799,499</u>	<u>701,294</u>
<b>NET CURRENT ASSETS/ (LIABILITIES)</b>		<u>(16,349)</u>	<u>70,457</u>	<u>(7,662)</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		618,948	663,417	498,093
<b>NON-CURRENT LIABILITIES</b>				
Long term borrowings		(185,500)	(237,978)	(55,653)
Deferred tax		(28,900)	(28,900)	(9,608)
		<u>(214,400)</u>	<u>(266,878)</u>	<u>(65,261)</u>
		<u>404,548</u>	<u>396,539</u>	<u>432,832</u>
<b>CAPITAL AND RESERVES</b>				
Share capital	8	63,526	63,526	63,526
Reserves	9	341,022	329,837	359,774
Proposed dividend		-	3,176	9,532
		<u>404,548</u>	<u>396,539</u>	<u>432,832</u>

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	For six months ended 30 September	
	2004	2003
	Unaudited <i>HK\$'000</i>	Unaudited <i>HK\$'000</i>
Net cash inflow/(outflow) from operating activities	26,888	(161,646)
Net cash outflow from investing activities	(77,743)	(23,153)
Net cash (outflow)/inflow from financing activities	(32,445)	35,383
Decrease in cash and cash equivalents	(83,300)	(149,416)
Cash and cash equivalents at 1 April	194,161	207,226
Effect of foreign exchange rate changes, net	(662)	(48)
Cash and cash equivalents at 30 September	<u>110,199</u>	<u>57,762</u>
Analysis of balances of cash and cash equivalents		
Cash and bank balances	110,199	59,161
Bank overdrafts	–	(1,399)
	<u>110,199</u>	<u>57,762</u>

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

**1. Basis of preparation**

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 2004.

**2. Segmental Information**

The principal activities of the Group are the sale and manufacture of consumer electronic products and 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	
	2004	2003	2004	2003	2004	2003	2004	2003
	HK\$’000	HK\$’000	HK\$’000	HK\$’000	HK\$’000	HK\$’000	HK\$’000	HK\$’000
Segment revenue:								
Sales to external customers	510,943	201,356	656,796	583,079	216,332	129,192	1,384,071	913,627



*Business segments*

	Electronic products and components		Home appliance products		Corporate		Others		Consolidated	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
	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	1,253,239	824,399	130,832	89,228	-	-	-	-	1,384,071	913,627
Other revenue	8,618	1,978	39	74	-	-	-	-	8,657	2,052
Total	<u>1,261,857</u>	<u>826,377</u>	<u>130,871</u>	<u>89,302</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,392,728</u>	<u>915,679</u>
Segment results	<u>22,276</u>	<u>32,311</u>	<u>(2,489)</u>	<u>1,239</u>	<u>(3)</u>	<u>(125)</u>	<u>-</u>	<u>-</u>	<u>19,784</u>	<u>33,425</u>
Interest income and unallocated income									1,017	46
Unallocated expenses									(3,076)	(281)
Profit from operating activities									17,725	33,190
Finance costs									(5,242)	(4,632)
Share of loss of an associate									-	(100)
Profit before tax									12,483	28,458
Tax									(618)	(1,645)
Net profit attributable to shareholders									<u>11,865</u>	<u>26,813</u>

**3. Profit before Tax**

	<b>For the six months ended 30 September</b>	
	<b>2004</b>	<b>2003</b>
	<b>Unaudited</b>	<b>Unaudited</b>
	<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	2,352	1,754
Depreciation	34,823	30,333
Interest on borrowings	5,242	4,632
Interest income	(19)	(73)

**4. Tax**

Hong Kong profits tax has been provided at the applicable rate of 17.5% (2003: 17.5%) 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\$11,865,000 (2003: HK\$26,813,000) and the weighted average of 635,259,975 shares (2003: 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\$305,796,000 (31 March 2004: HK\$256,270,000; 30 September 2003: HK\$298,124,000), the aging analysis of which is as follows:

	<b>30 September</b>	<b>31 March</b>	<b>30 September</b>
	<b>2004</b>	<b>2004</b>	<b>2003</b>
	<b>Unaudited</b>	<b>Audited</b>	<b>Unaudited</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
0 – 30 days	158,387	212,944	221,895
31 – 60 days	81,873	28,617	25,426
Over 60 days	65,536	14,709	50,803
	<u>305,796</u>	<u>256,270</u>	<u>298,124</u>

The majority of the Group's sales are on terms of L/C at sight and the others on 60 days open account basis.

## 7. Accounts and other payables

Included in accounts and other payables are accounts payable of HK\$737,349,000 (31 March 2004: HK\$448,061,000; 30 September 2003: HK\$403,417,000), the aging analysis of which is as follows:

	30 September 2004 Unaudited HK\$'000	31 March 2004 Audited HK\$'000	30 September 2003 Unaudited HK\$'000
0 – 30 days	369,869	205,743	190,383
31 – 60 days	176,061	134,891	108,784
61 – 90 days	114,993	43,472	62,154
Over 90 days	76,426	63,955	42,096
	<u>737,349</u>	<u>448,061</u>	<u>403,417</u>

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

## 8. Share capital

	30 September 2004 Unaudited HK\$'000	31 March 2004 Audited HK\$'000	30 September 2003 Unaudited HK\$'000
<i>Authorised:</i>			
1,200,000,000 ordinary shares of HK\$0.10 each	<u>120,000</u>	<u>120,000</u>	<u>120,000</u>
<i>Issued and fully paid:</i>			
635,259,975 (31 March 2004: 635,259,975) ordinary shares of HK\$0.10 each	<u>63,526</u>	<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 2004	28,735	280	(6,844)	86,320	221,346	329,837
Exchange difference on translation of overseas subsidiaries' financial statements	–	–	(680)	–	–	(680)
Net profit for the period	–	–	–	–	11,865	11,865
Balance at 30 September 2004	<u>28,735</u>	<u>280</u>	<u>(7,524)</u>	<u>86,320</u>	<u>233,211</u>	<u>341,022</u>

**10. Contingencies**

Contingent liabilities in respect of bills discounted with recourse at 30 September 2004 was HK\$64,507,000 (31 March 2004: HK\$1,079,000; 30 September 2003: HK\$15,698,000).

**11. Commitments**

(a) Capital commitments in respect of fixed assets

	<b>30 September 2004 Unaudited HK\$'000</b>	<b>31 March 2004 Audited HK\$'000</b>	<b>30 September 2003 Unaudited HK\$'000</b>
Contracted for but not provided in the financial statements	2,033	52,851	7,943
Authorised but not contracted for	—	—	—
	<u>2,033</u>	<u>52,851</u>	<u>7,943</u>

(b) Commitments to buy and sell foreign currencies amounted to HK\$163,737,000 and Nil respectively (31 March 2004: HK\$46,302,000 and Nil respectively; 30 September 2003: HK\$77,950,000 and HK\$40,738,100 respectively).

**4A. UNAUDITED PRO FORMA STATEMENT OF ADJUSTED NET TANGIBLE ASSETS**

The following unaudited pro forma statement of adjusted net tangible assets of the Group is prepared based on the published unaudited interim results of the Group for the six months ended 30 September 2004 as shown in the “Unaudited interim results for the six months ended 30 September 2004” as set out in this appendix and adjusted for the effect of the Rights Issue.

The unaudited pro forma statement of adjusted net tangible assets has been prepared to illustrate the effect of the Rights Issue on the net tangible assets of the Group as at 30 September 2004 as if it had taken place on 30 September 2004. This unaudited pro forma statement of adjusted net tangible assets has been prepared for illustrative purposes only and, because of its nature, it may not give a true picture of the financial position of the Group following the Rights Issue.

	<b>Unaudited net tangible assets of the Group as at 30 September 2004 (HK\$'000)</b>	<b>Estimated net proceeds from the Rights Issue (HK\$'000) (Note 2)</b>	<b>Pro forma adjusted unaudited net tangible assets (HK\$'000)</b>
Based on the Subscription			
Price of HK\$0.20 per Rights Share	<u>391,593</u>	<u>62,000</u>	<u>453,593</u>
Unaudited net tangible assets of the Group per Share (Note 1)	<u>HK\$0.62</u>		<u>HK\$0.48</u>

*Notes:*

1. The unaudited net tangible assets of the Group per Share as at 30 September 2004 is approximately HK\$0.62 which is calculated based on 635,259,975 Shares in issue as at 30 September 2004.

The pro forma adjusted unaudited net tangible assets per Share is arrived at after the adjustment referred to in the preceding paragraph and on the basis that 635,259,975 Shares in issue and 317,629,987 Rights Shares to be issued pursuant to the Rights Issue.

2. The estimated net proceeds from the issue of Rights Shares are based on the Subscription Price of HK\$0.20 per Rights Share and derived from deducting the related expenses of approximately HK\$2 million.

**4B. LETTER ON UNAUDITED PRO FORMA STATEMENT OF ADJUSTED NET TANGIBLE ASSETS**

*The following is the text of a letter from Ernst & Young to the Directors dated 25 February 2005 prepared for the purpose of inclusion in this prospectus.*



25 February 2005

The Directors  
Tonic Industries Holdings Limited  
Unit B, 10th Floor Summit Building  
30 Man Yue Street  
Hung Hom  
Kowloon  
Hong Kong

Dear Sirs,

**Tonic Industries Holdings Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group”)**

We report on the unaudited pro forma statement of adjusted net tangible assets of the Group set out on page 67 under the heading of “Unaudited Pro Forma Statement of Adjusted Net Tangible Assets” in Section 4A of Appendix I to the Company’s prospectus dated 25 February 2005 in connection with the rights issue of 317,629,987 rights shares on the basis of one rights share for every two existing shares (the “Rights Issue”). The unaudited pro forma statement of adjusted net tangible assets has been prepared by the directors of the Company, for illustrative purposes only, to provide information about how the Rights Issue might have affected the net tangible assets of the Group.

**RESPONSIBILITIES**

It is the responsibility solely of the directors of the Company to prepare the unaudited pro forma statement of adjusted net tangible assets of the Group in accordance with Rule 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“the Listing Rules”).

It is our responsibility to form an opinion, as required by the Listing Rules, on the unaudited pro forma statement of adjusted net tangible assets and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma statement of adjusted net tangible assets beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

### **BASIS OF OPINION**

We conducted our work in accordance with the Statements of Investment Circular Reporting Standards and Bulletin 1998/8 “Reporting on pro forma financial information pursuant to the Listing Rules” issued by the Auditing Practices Board in the United Kingdom. Our work, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted net tangible assets with the source documents, considering the evidence supporting the adjustments and discussing the unaudited pro forma statement of adjusted net tangible assets with the directors of the Company.

Our work did not constitute an audit or review in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants, and accordingly, we do not express any such audit or review assurance on the unaudited pro forma statement of adjusted net tangible assets of the Group.

The unaudited pro forma statement of adjusted net tangible assets of the Group is for illustrative purpose only and because of its nature, it may not give a true picture of the financial position or results of the Group as at 31 December 2004 or at any future date.

### **OPINION**

In our opinion:

- (a) the unaudited pro forma statement of adjusted net tangible assets of the Group has been properly compiled on the basis stated therein;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the unaudited pro forma statement of adjusted net tangible assets of the Group as disclosed pursuant to Rules 4.29(1) of the Listing Rules.

Yours faithfully,

**Ernst & Young**  
*Certified Public Accountants*  
Hong Kong

**5. MATERIAL ADVERSE CHANGE**

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position or prospects of the Group since 31 March 2004, the date to which the latest audited consolidated financial statements of the Group were made up.

**6. INDEBTEDNESS**

As at 31 December 2004, the Group had outstanding borrowings of approximately HK\$563.6 million, comprising bank loans of approximately HK\$266.2 million, trust receipt loans of approximately HK\$291.4 million and obligations under hire purchase contracts of approximately HK\$6.0 million. In addition, as at 31 December 2004, the Group had contingent liabilities in respect of bills discounted with recourse of approximately HK\$9.5 million.

As at 31 December 2004, all bank borrowings were secured by a corporate guarantee granted by the Company and cross corporate guarantees among certain subsidiaries and the Company. Under the terms of the syndicated loan agreement, the Chairman of the Company, Mr. Ling Siu Man, Simon, being the single largest shareholder, is required to maintain at least 40% of the beneficial interests in shareholdings in the Company.

Save as aforesaid, and apart from intra-group liabilities, the Group did not have at the close of business on 31 December 2004 any outstanding mortgages, charges, debentures or other loan capital or bank overdrafts, loans, debt securities or other similar indebtedness, or any obligations under hire purchase contracts or finance leases payable or any guarantees or other material contingent liabilities.

Foreign currency amounts for the purpose of the calculations in respect of the indebtedness have been translated into HK\$ at the rates of exchange prevailing at the close of business on 31 December 2004.

**7. WORKING CAPITAL**

The Directors are of the opinion that after taking into account the existing banking facilities available, the existing cash and bank balances and the estimated net proceeds from the Rights Issue, the Group has sufficient working capital for its present requirement.



## 8. BUSINESS REVIEW AND OUTLOOK

For the six months ended 30 September 2004, the Group achieved a turnover of approximately HK\$1,384,071,000, an increase of 51.5% as compared with HK\$913,627,000 recorded in the corresponding period last year. The profit attributable to shareholders for the six months ended 30 September 2004 was approximately HK\$11,865,000.

Competition in the consumer electronics market remained fierce and the high cost of materials continued to affect the Group's profit margin. The prices of key components, such as flash memory and RAM (random access memory), rose quickly as demands increased in the second half of last year. The effect of the increased cost carried forward to the second quarter of this year. The prices had started to come down since July. The costs of other materials such as metals and plastics also stayed at high levels. The persistently high costs had adversely affected the Group's margin.

The Group continued to invest resources in the research and development of new digital products so as to keep pace with the rapidly changing market. Our product and engineering departments in Hong Kong, Shenzhen and Dongguan work very closely with solution providers and component suppliers. Most of the major new products including digital amusement centre, digital satellite receivers, cable set top boxes, LCD TV and DVD recorders were launched this year and we expect them to generate significant and constant contributions to the Group in the coming years.

The marketing division for digital satellite receivers saw steady progress. Orders were delivered and initial customer reactions were very encouraging. Our research indicated strong potential demand for these products in the market and discussions with important ODM and OEM customers in Europe and Middle East have been promising. We have confidence that this business will become a significant contributor of the Group in the future.

The business of the Home Appliance Division remained steady and contributed approximately 10% to the Group's turnover. The OEM/ODM segment of the business performed particularly well. However, the own brand business has not made any significant contribution. The Home Appliance Division develops and sells mainly high-end home appliance products including steam stations, air purifiers, wine cellars, espresso/cappuccino makers, etc.

The construction of the new factory in Shek Pai of the People's Republic of China is expected to complete in early 2005 and will boost the Group's production capacity by at least 60%. Although this project imposed on the Group additional financial constraints, we anticipate increase in our turnover and financial resources when the factory becomes fully operational in the middle of next year. In addition, with the price of finished products and materials expected to stabilise next year, the Group anticipates a gradual increase of the margin to a more satisfactory level.

## 9. FINANCIAL REVIEW

The prices of flash memory and RAM increased by more than 30% within a few months during the second half of last financial year up till July this year when they went down rapidly. The phenomenon lowered the Group's normal margin by approximately 2-3%. The prices of metals and plastics also remained high in the period. However, the price increase of these materials was more gradual, thus allowing us to shift a portion of the price increase to the customers and posing a less significant effect on our margin.

Taking advantage of the low interest environment, the Group had on 3 December 2003 signed a 3.5 years term loan facility agreement for HK\$245,000,000 with a syndicate of 11 international and local banks. The loan is on HIBOR basis and repayable by installment one year after drawdown. The syndicated loan will be used to refinance the Group's existing credit facility and the cost of construction of the new factory buildings in Dongguan. Under the terms of the loan agreement, Mr. Ling Siu Man, Simon is required to maintain at least 40% of the shareholdings of the Company, be the single largest Shareholder and be actively involved in the management and business of the Group.

As of 30 September 2004, the Group had total borrowings of approximately HK\$418,435,000, of which HK\$410,300,000 was in terms of bank borrowings and HK\$8,135,000 was in terms of obligations under finance leases. The Group's borrowings are denominated in Hong Kong dollars and bear interest mainly at floating rates. Bank balances and cash amounted to HK\$110,199,000 and are mainly denominated in Hong Kong dollars. Gearing ratio was 76%, calculated based on net borrowings over shareholders funds. The higher gearing ratio was the result of more capital expenditure on new factory buildings. The Group does not anticipate spending material amounts on fixed assets in the next two years.

The Group is not exposed to material currency fluctuation risks, as most of its receivables are in US dollars and payable in Hong Kong and US dollars. The Group will purchase or sell forward contracts with bank to hedge against confirmed US dollars receipts and payments. Except for a few customers whom we offer credit on an open account basis, we transact business with all other customers on letter of credit at sight basis.

## 1. RESPONSIBILITY STATEMENT

This prospectus includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors jointly and severally accept full responsibility for the accuracy of the information contained in this prospectus and confirm having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this prospectus have been arrived at after due and careful consideration and there are no other facts not contained in this prospectus, the omission of which would make any statement in this prospectus misleading.

## 2. SHARE CAPITAL AND OPTIONS

### (a) Share capital

The authorised and issued capital of the Company as at the Record Date were, and immediately following completion of the Rights Issue will be, as follows:

<i>Authorised:</i>	<i>HK\$</i>
<u>1,200,000,000 Shares</u>	<u>120,000,000</u>
<i>Issued and fully paid:</i>	
635,259,975 Shares as at the Record Date	63,525,997
317,629,987 Rights Shares to be issued pursuant to the Rights Issue	31,762,999
<u>952,889,962 Shares immediately upon completion of the Rights Issue</u>	<u>95,288,996</u>

All the issued Shares rank pari passu with each other in all respects including the rights as to voting, dividends and return of capital. The Rights Shares to be allotted and issued will, when issued and fully paid, rank pari passu in all respects with the existing Shares.

No share or loan capital of the Company has been issued or is proposed to be issued for cash or otherwise and no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any such capital since 31 March 2004 (the date to which the latest audited consolidated financial statements of the Company were made up). The Company had no debt securities in issue as at the Latest Practicable Date.

**(b) Share Options**

Details of the outstanding Share Options (subject to adjustment as to the number of underlying Shares and exercise price upon issue of the Rights Shares) as at the Latest Practicable Date were as follows:

	Underlying Shares in respect of the Share Options	Date of grant	Exercise period	Exercise price per Share <i>HK\$</i>
<b>Executive Directors</b>				
Mr. Ling Siu Man, Simon	10,000,000	7 April 2000	10 April 2000 to 9 April 2010	0.70
Mr. Lee Ka Yue, Peter	1,810,000	7 April 2000	10 April 2000 to 9 April 2010	0.70
Mr. Wong Ki Cheung	1,810,000	7 April 2000	10 April 2000 to 9 April 2010	0.70
Ms. Li Fung Ching, Catherine	1,810,000	7 April 2000	10 April 2000 to 9 April 2010	0.70
Mr. Au Wai Man	1,810,000	7 April 2000	10 April 2000 to 9 April 2010	0.70
Mr. Liu Hoi Keung, Gary	1,810,000	7 April 2000	10 April 2000 to 9 April 2010	0.70
Mr. Lam Kwai Wah	1,100,000	7 April 2000	10 April 2000 to 9 April 2010	0.70
	<u>20,150,000</u>			
<b>Other employees of the Group</b>				
In aggregate	28,100,000	7 April 2000	10 April 2000 to 9 April 2010	0.70
	<u><u>48,250,000</u></u>			

The Share Options were granted to each holder at a nominal consideration of HK\$1.

Save as disclosed above, the Company did not have any other options, warrants and other convertible securities or rights affecting the Shares as at the Latest Practicable Date.

### 3. DISCLOSURE OF INTERESTS BY DIRECTORS

As at the Latest Practicable Date, the interests or short positions of each Director and chief executive of the Company in the Shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is taken or deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register maintained by the Company referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

#### (a) Long positions in issued Shares

Name of Directors	Nature of interests	Number of Shares held	Percentage of the Company's issued share capital
Mr. Ling Siu Man, Simon	Corporate (Note)	317,886,782	50.04
Mr. Wong Ki Cheung	Personal	938,000	0.15
Ms. Li Fung Ching, Catherine	Personal	1,200,000	0.19
Mr. Liu Hoi Keung, Gary	Personal	3,920	–

*Note:*

These Shares were held by Success Forever, a company incorporated in the British Virgin Islands, the entire issued share capital of which is beneficially owned by Mr. Ling Siu Man, Simon. In addition to his interest in 317,886,782 Shares, pursuant to Success Forever's underwriting commitment under the Underwriting Agreement, Mr. Ling Siu Man, Simon was deemed to be interested in 317,629,987 Shares by virtue of the SFO, representing approximately 50% of the issued share capital of the Company as at the Record Date.

**(b) Long positions in underlying shares**

Name of Directors	Underlying Shares in respect of the Share Options	Exercise period	Exercise price per Share HK\$
Mr. Ling Siu Man, Simon	10,000,000	10 April 2000 to 9 April 2010	0.70
Mr. Lee Ka Yue, Peter	1,810,000	10 April 2000 to 9 April 2010	0.70
Mr. Wong Ki Cheung	1,810,000	10 April 2000 to 9 April 2010	0.70
Ms. Li Fung Ching, Catherine	1,810,000	10 April 2000 to 9 April 2010	0.70
Mr. Au Wai Man	1,810,000	10 April 2000 to 9 April 2010	0.70
Mr. Liu Hoi Keung, Gary	1,810,000	10 April 2000 to 9 April 2010	0.70
Mr. Lam Kwai Wah	1,100,000	10 April 2000 to 9 April 2010	0.70

**(c) Long positions in the shares of associated corporation**

Mr. Ling Siu Man, Simon personally held 2,850 non-voting deferred shares of HK\$100 each in the capital 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 solely for the purpose of complying with the minimum company membership requirement, as at the Latest Practicable Date, none of the Directors and chief executive of the Company or their respective associates had any interests and short positions in the Shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he/she was taken or deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register maintained by the Company referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules, to be notified to the Company and the Stock Exchange.

**(d) Other Directors' interests**

None of the Directors has, or has had, any direct or indirect interest in any assets which have been acquired, disposed of or leased to or which are proposed to be acquired, disposed of or leased to any member of the Group respectively, since 31 March 2004, the date to which the latest published audited consolidated financial statements of the Group were made up.

As at the Latest Practicable Date, save for the Underwriting Agreement in which Mr. Ling Siu Man, Simon was interested, none of the Directors were materially interested, directly or indirectly, in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to the business of the Group taken as a whole.

**4. DISCLOSURE OF INTERESTS BY SUBSTANTIAL SHAREHOLDERS**

So far as is known to any Director or chief executive of the Company, as at the Latest Practicable Date, persons (other than a Director or chief executive of the Company) who had an interest or a short position in the Shares, underlying shares or debentures of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who were, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group were as follows:

**Long positions in issued Shares**

Name	Nature of interests	Number of Shares of	Percentage of the Company's issued share capital
Success Forever ( <i>Note 1</i> )	Beneficially owned	317,886,782	50.04
Eco-Haru Mfr. Holdings Limited ("Eco-Haru") ( <i>Note 2</i> )	Beneficially owned	121,100,869	19.06
Glorious Concept Limited ("Glorious Concept") ( <i>Note 2</i> )	Beneficially owned	8,502,000	1.34
EHL ( <i>Note 2</i> )	Interests held by a controlled corporation	129,602,869	20.40
Peninsula International Limited ("Peninsula") ( <i>Note 3</i> )	Interests held by a controlled corporation	129,602,869	20.40

*Notes:*

- (1) The entire issued share capital of Success Forever is beneficially owned by Mr. Ling Siu Man, Simon. In addition to its interest in 317,886,782 Shares, pursuant to Success Forever's underwriting commitment under the Underwriting Agreement, Success Forever was deemed to be interested in 317,629,987 Shares by virtue of the SFO, representing approximately 50% of the issued share capital of the Company as at the Record Date.
- (2) The entire issued share capital of each of Eco-Haru and Glorious Concept is beneficially owned by EHL.
- (3) The entire issued share capital of EHL is owned as to 39% by Peninsula.

Save as disclosed above, no person (including the Directors) had an interest or a short position in the Shares, underlying shares or debentures of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or directly or indirectly interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group as at the Latest Practicable Date.

## **5. LITIGATION**

As at the Latest Practicable Date, neither the Company nor any of its subsidiaries were engaged in any litigation or arbitration or claim of material importance and no litigation, arbitration or claim of material importance was known to the Directors to be pending or threatened by or against any member of the Group.

## **6. SERVICE CONTRACTS**

As at the Latest Practicable Date, none of the Directors had any existing nor proposed service contract with any member of the Group (other than contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)).

## **7. QUALIFICATION AND CONSENT OF EXPERT**

The following is the qualification of the expert who has given opinion or advice which is contained in this prospectus:

<b>Name</b>	<b>Qualification</b>
Ernst & Young	Certified public accountants

Ernst & Young has given and has not withdrawn its written consent to the issue of this prospectus with the inclusion of its letter as set out in this prospectus and references to its name in the form and context in which they appear respectively.

As at the Latest Practicable Date, Ernst & Young did not have any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

As at the Latest Practicable Date, Ernst & Young did not have any direct or indirect interest in any assets which have been acquired, disposed of or leased to or which are proposed to be acquired, disposed of or leased to any member of the Group respectively, since 31 March 2004, the date to which the latest published audited consolidated financial statements of the Group were made up.



**8. MATERIAL CONTRACT**

Save for the Underwriting Agreement, no members of the Group have entered into any other contracts within two years immediately preceding the date of this prospectus, which are not in the ordinary course of business and which are or may be material.

**9. CORPORATE INFORMATION**

<b>Registered office of the Company</b>	P.O. Box 309 GT Ugland House South Church Street George Town Grand Cayman Cayman Islands British West Indies
<b>Head office and principal place of business of the Company in Hong Kong</b>	Unit B, 10th Floor Summit Building 30 Man Yue Street Hung Hom Kowloon Hong Kong
<b>Authorised representatives</b>	Mr. LING Siu Man, Simon Mr. LIU Hoi Keung, Gary
<b>Company secretary</b>	Mr. LIU Hoi Keung, Gary <i>Msc, FCCA, CPA</i>
<b>Qualified accountant</b>	Mr. LIU Hoi Keung, Gary <i>Msc, FCCA, CPA</i>
<b>Financial adviser to the Company in relation to the Rights Issue</b>	Tai Fook Capital Limited 25th Floor New World Tower 16-18 Queen's Road Central Hong Kong
<b>Legal advisers to the Company in relation to the Rights Issue</b>	<i>As to Hong Kong Law:</i> Michael Li & Co. 14th Floor Printing House 6 Duddell Street Central Hong Kong

	<i>As to Cayman Islands Law:</i> Maples and Calder 1504 One International Finance Centre 1 Harbour View Street Hong Kong
<b>Auditors</b>	Ernst & Young 10th Floor Tower 2 The Gateway 25-27 Canton Road Kowloon
<b>Principal share registrars and transfer office</b>	Bank of Butterfield International (Cayman) Ltd. Butterfield House PO Box 705 George Town Grand Cayman Cayman Islands British West Indies
<b>Hong Kong branch share registrars</b>	Tengis Limited Ground Floor Bank of East Asia Harbour View Centre 56 Gloucester Road Wanchai Hong Kong
<b>Principal bankers</b>	Hang Seng Bank Limited 83 Des Voeux Road Central Hong Kong  The Hongkong and Shanghai Banking Corporation Limited 2nd Floor 673 Nathan Road Mongkok Kowloon  Standard Chartered Bank (Hong Kong) Limited 10th Floor Standard Chartered Bank Building 4-4A Des Voeux Road Central Hong Kong

**10. EXPENSES**

The expenses in connection with the Rights Issue, including financial and legal advisory fees, underwriting commission, printing and translation expenses are estimated to be approximately HK\$2 million and will be payable by the Company.

**11. PARTICULARS OF DIRECTORS****Executive Directors**

**Mr. LING Siu Man, Simon**, aged 55, is the Chairman and Managing Director of the Company. Mr. Ling founded the business of the Group in 1976 and has over 28 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 58, was appointed to the Board following the investment of EHL 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 EHL and the Group. He is also an executive director of EHL and has over 33 years experience in the timepiece and jewellery businesses as well as in the consumer electronics industry.

**Mr. WONG Ki Cheung**, aged 55, joined the Group in 1976 and is responsible for the Group's overall management, purchasing and materials control functions. He has over 25 years experience in the electronics component industry.

**Ms. LI Fung Ching, Catherine**, aged 51, joined the Group in 1976 and is responsible for the management of the accounting, treasury and administrative functions of the Group. She has over 25 years experience in the electronics industry.

**Mr. AU Wai Man**, aged 59, 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 30 years experience in electronics product engineering.

**Mr. LIU Hoi Keung, Gary**, aged 40, joined the Group in 1997 and is responsible for the financial management and company secretarial matters of the Group. He is an associate of Hong Kong Institute of Certified Public Accountants and a fellow of the Association of Chartered Certified Accountants. He also holds a Master of Science degree from The University of Hong Kong. Prior to joining the Group, he has over nine years experience in accounting, auditing and taxation.

**Mr. LAM Kwai Wah**, aged 40, joined the Group in 1998 and is mainly responsible for the Group's marketing activities in Europe. He has over 19 years experience in marketing of electronics products and home appliances. Mr. Lam obtained a higher certificate in marketing and sales management from The Hong Kong Polytechnic University.

**Non-executive Director**

**Mr. WONG Wai Kwong, David**, aged 47, has over 23 years experience in finance, accounting, corporate and taxation affairs. He is a fellow of The Association of Chartered Certified Accountants, and an associate of Hong Kong Institute of Certified Public Accountants, the Australian Association of Practising Accountants and the Australian Association of Secretaries and Managers. He is a director of Incutech Investment Ltd and an executive director of EHL, both of which are companies listed on the Main Board of the Stock Exchange. Mr. Wong is also a non-executive director of seven other Hong Kong listed companies.

**Independent non-executive Directors**

**Mr. PANG Hon Chung**, aged 53, holds a master's degree in business administration, and is a member of the Association of Chartered Certified Accountants and Hong Kong Institute of Certified Public 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, a company listed on the Main Board of the Stock Exchange.

**Mr. HO Fook Hong, Ferdinand**, aged 56, holds a bachelor's degree in science and a master's degree in business administration from The University of Hong Kong and has been admitted as 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, both of which are companies listed on the Main Board of the Stock Exchange.

**Mr. CHENG Tsang Wai**, aged 49, has over 27 years experience in the garment industry and is a director and major shareholder of Vicka Limited which is a sweater manufacturing company.

**12. BINDING EFFECT**

This prospectus shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all of the provisions (other than the penal provisions) of sections 44A and 44B of the Companies Ordinance so far as applicable.

**13. DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES**

A copy of each of the Rights Issue Documents, having attached thereto the written consent referred to under the heading “Qualification and consent of expert” in this appendix, have been registered with the Registrar of Companies in Hong Kong as required by section 342C of the Companies Ordinance.

**14. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents will be available for inspection during normal business hours at the Company’s head office and principal place of business in Hong Kong at Unit B, 10th Floor, Summit Building, 30 Man Yue Street, Hung Hom, Kowloon, Hong Kong from the date of this prospectus up to and including Friday, 11 March 2005:

- (a) the memorandum and articles of association of the Company;
- (b) the annual reports of the Company for the two years ended 31 March 2003 and 31 March 2004 and the interim report of the Company for the six months ended 30 September 2004;
- (c) the letter from Ernst & Young dated 25 February 2005 on the unaudited pro forma statement of adjusted net tangible assets of the Group, the text of which is set out on pages 68 and 69 of this prospectus;
- (d) the material contract referred to under the paragraph headed “Material contract” in this appendix; and
- (e) the written consent referred to in paragraph headed “Qualification and consent of expert” in this appendix.