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CORPORATE INFORMATION

DIRECTORS

Executive Directors

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

Non-executive Directors

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

REGISTERED OFFICE

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

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

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

COMPANY SECRETARY

Mr. LIU Hoi Keung, Gary, FCCA, AHKSA

LEGAL ADVISORS

Richards Butler
Lovell White Durrant

AUDITORS

Ernst & Young

AUDIT COMMITTEE

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

PRINCIPAL BANKERS

Hang Seng Bank Limited
The Hong Kong and Shanghai Banking Corporation Limited
The Standard Chartered Bank Limited

SHARE REGISTRARS AND TRANSFER OFFICE

In Hong Kong
Tengis Limited
1601 Hutchison House
10 Harcourt Road
Central, Hong Kong

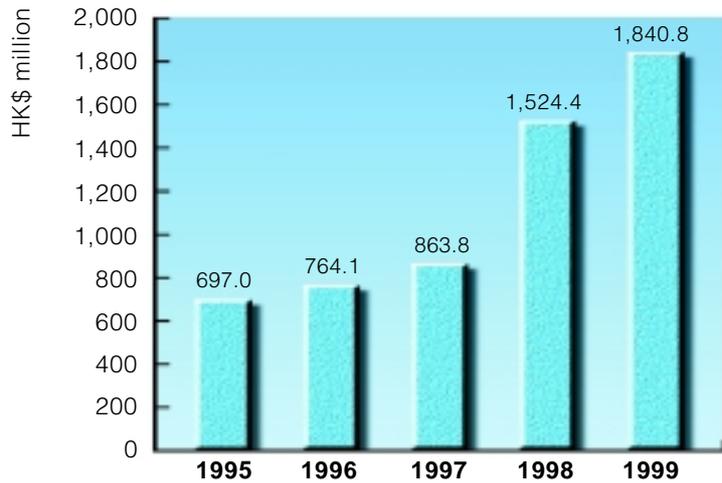
In Cayman Island
Bank of Butterfield International (Cayman) Ltd.
Butterfield House
PO Box 705
George Town
Grand Cayman
Cayman Islands
British West Indies

WEBSITE

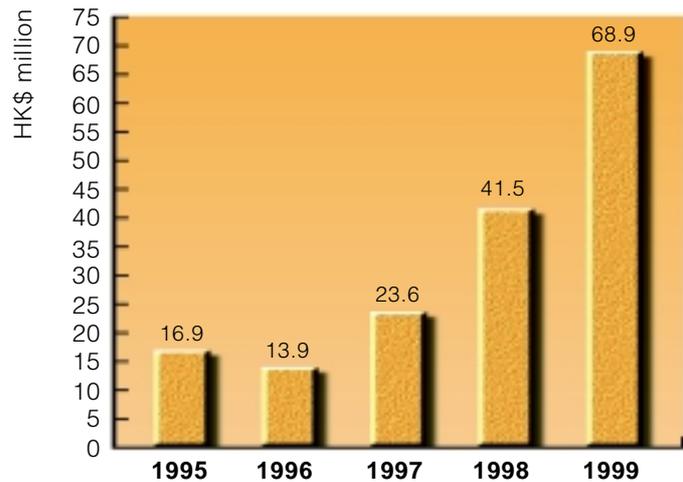
www.irasia.com/listco/hk/tonic

FINANCIAL HIGHLIGHTS

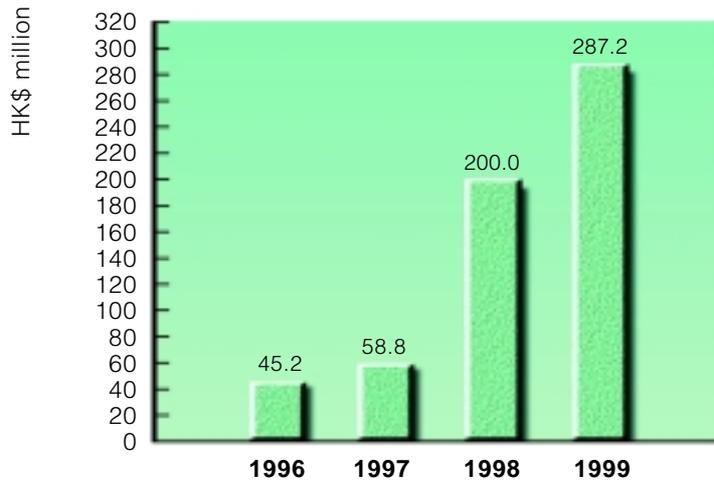
TURNOVER



NET PROFIT ATTRIBUTABLE TO SHAREHOLDERS

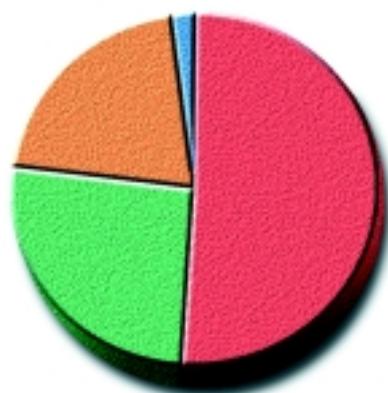


SHAREHOLDERS EQUITY



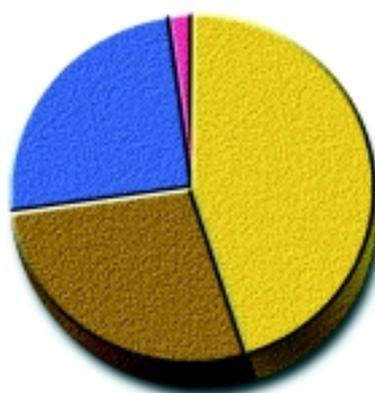
FINANCIAL HIGHLIGHTS

TURNOVER by GEOGRAPHICAL REGION



- The United States of America - 51%
- Europe - 26%
- Asia Pacific - 21%
- Others - 2%

TURNOVER by PRODUCT CATEGORY



- CD portables - 45%
- Portable CD/cassette recorders - 28%
- Mini and Micro compo system - 25%
- Others - 2%

MAJOR FINANCIAL INDICATORS AND RATIOS

	1998	1999
Gearing Ratio	0.61	0.51
Current Ratio	0.99	0.93
Inventory Turnover	54 days	28 days
Accounts Receivable Turnover	21 days	10 days
Basic Earnings Per Share	11.9 cents	17.1 cents

CHAIRMAN'S STATEMENT



Mr. LING Siu Man, Simon
Chairman and Managing Director

Dear Shareholders,

I am pleased to present to you the annual report of Tonic Industries Holdings Limited and its subsidiaries (the "Group") for the year ended 31 March 1999. This is the second report of the Group after its listing on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on October, 1997 and the Group has again achieved a remarkable result.

RESULTS

Summary of the financial results of the Group for the year ended 31 March 1999 and the comparison with 1998 are as follows:

- Turnover was HK\$1,841 million, represented an increase of approximately 21%;
- Profit before taxation was HK\$76 million, Represented an increase of approximately 70%;
- Profit attributable to shareholders was HK\$69 million, represented an increase of approximately 66%;
- Basic earnings per share was HK17.1 cents, represented an increase of approximately 44%; and
- Dividend per share was HK6.5 cents, represented an increase of approximately 124%.

DIVIDEND AND DISTRIBUTIONS

The Directors have recommended the payment of a final dividend of HK5 cents per share for the year ended 31 March 1999 to shareholders whose names appear on the Company's Register of Members on 28 September 1999 (the "Proposed Final Dividend"). Together with the interim dividend of HK1.5 cents per share already paid, the Company's total dividends for the whole year will be HK6.5 cents. The Proposed Final Dividend will be paid on or before 13 October 1999.

The Directors have also recommended a bonus issue of new shares (the "Proposed Bonus Share Issue") to shareholders whose names appear on the Register of Members on 28 September 1999. The Proposed

CHAIRMAN'S STATEMENT

Bonus Share Issue will be made on the basis of 2 bonus shares for every 5 existing shares held by the shareholders. The bonus shares will be credited as fully paid at par and will rank pari passu with the existing shares in all respects, except that they will not rank for the Proposed Final Dividend and the Proposed Bonus Share Issue.

The Proposed Bonus Share Issue will result in an adjustment to the subscription price of the Company's outstanding warrants. Subject to the Proposed Bonus Share Issue becoming unconditional, details of the price adjustment will be contained in a press announcement to be issued by the Company as soon as practicable.

The Proposed Bonus Share Issue are conditional upon:

- (a) the passing of the relevant ordinary resolution to approve the Proposed Bonus Share Issue at the annual general meeting of the Company; and
- (b) the Listing Committee of the Stock Exchange granting listings of, and permission to deal in the bonus shares on the Stock Exchange.

Subject to fulfillment of the above conditions, certificates for the bonus shares are expected to be despatched to shareholders on 13 October 1999. A circular setting out further details of the Proposed Bonus Share Issue will be despatched to shareholders and warrant holders (for information only) of the Company as soon as practicable.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from Friday, 24 September 1999 to Tuesday, 28 September 1999, both days inclusive, during which period no transfer of shares will be effected and no

shares will be allotted and issued on the exercise of the subscription rights attaching to the outstanding warrants and share options issued/granted by the Company. All transfer documents accompanied by the relevant share certificates and, in the case of warrant holders, all duly completed subscription forms accompanied by the relevant warrant certificates and the appropriate subscription monies must be lodged with the Company's Branch Registrars in Hong Kong, Tengis Limited at 1601 Hutchison House, 10 Harcourt Road, Hong Kong not later than 4:00 p.m. on Thursday, 23



CHAIRMAN'S STATEMENT



September 1999 in order to qualify for the Proposed Final Dividend and the Proposed Bonus Share Issue.

BUSINESS REVIEW AND OUTLOOK

The audio manufacturing industry is characterised by intense competition and low profit margin, but the Group is able to achieve the predetermined objectives of maintaining a continuous growth in turnover, profit and

shareholders' fund. Being a leading manufacturer of high quality audio-visual products, the Group's strength can be examined in terms of its customers, products, manufacturing ability and the vision of management.

The Group's customers include prestigious Japanese audio manufacturers such as Kenwood, Sanyo and Pioneer. These companies possess advance technique in manufacturing audio products and their products lead the trend of the world. Through the cooperation with them, the Group has been benefited from obtaining the updated market information and latest technology in audio manufacturing. The Group's other customers are well known American importers such as RCA, Emerson and GPX and European importers such as Medion, Alba and Bush etc. These importers' customers are national chain stores and superstores. The orders from these customers are significant and these customers contribute a steady stream of income flow to the Group. The Group's businesses are appropriately diversified throughout the world and the customers have shown a strong and sustained demand throughout the year. The percentage of sales to the United States of America, Europe and the rest of the World are approximately 51%, 26% and 23% respectively.

The products manufactured by the Group are well received for its good quality and innovative design; major items include Discman, mini Hi-Fi and portable CD/cassette recorder. In March 1999, the Group commenced production for its first MD product for Kenwood, a mini Hi Fi with MD, CD, cassette and radio. The market response for this product line is very well and we expect this item to



contribute significantly to our business in the coming years. We are also planning to manufacture our own MD Hi-Fi and players later this year and have already signed a licensing agreement with Sony

CHAIRMAN'S STATEMENT



Corporation which entitles the Group to manufacture its own MD products. With the more advanced features of MD, the selling price and profit margin of the product are much higher.

The Group acquired a new factory in Qi Shi, Dongguan, the PRC in August 1998 and this factory has been fully operational now. This factory contributes an additional 300,000 square feet production space, complementing the existing 1,000,000 square feet production space at the Tong Xia factory plant. The Qi Shi factory is primarily

manufacturing components for the use of the Group; these components include plastic, metal, printed circuit board and adaptor. Vertical integration has the advantage of saving cost, controlling of product quality, ensuring timely delivery and shortening the production cycle. The Group has been benefiting from vertical integration and is able to generate a reasonable return.

Quality management and effective internal control system are the key factors for the Group to stay competitive. The Group achieved the recognition of ISO9002 within 5 months and was granted the award in October 1998. ISO9002 is a standard to focus on different aspects such as management responsibility, quality system documentation, and purchasing, inspection, training and corrective action. We believe that an effective internal control system is the key to an effective management and to the manufacturing of quality products.



Looking forward, we are confident that the MD line of products will become more and more popular in the market as the unit selling price of the item becomes lower. The Group will continue to upgrade its product mix in order to generate higher value and margin products.



The Group has recently set up a home appliance division to explore the opportunity to manufacture high-end kitchen electronic products. The Qi Shi factory, with its well-established plastic and metal components manufacturing division, will be responsible for manufacturing the products. Our existing customers, many of which also have kitchen electronic division, will be our initial target customers. We believe the Group has a good potential to develop a successful kitchen electronics business.

CHAIRMAN'S STATEMENT

ACKNOWLEDGEMENT

On behalf of the Board, I would like to take this opportunity to extend my sincere thanks and express appreciation to my fellow directors and staff for their valuable support and devotion to the Group for the past years.

LING Siu Man, Simon

Chairman

Hong Kong, 10 August 1999

DIRECTORS AND SENIOR MANAGEMENT PROFILE

EXECUTIVE DIRECTORS

Mr. LING Siu Man, Simon, aged 49, is the Chairman and Managing Director of the Company. Mr. Ling founded the business of the Group in 1976 and has over 20 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 52, was appointed to the Board following the participation of Egana 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 Egana and the Group. He is also an executive director of Egana and has over 29 years experience in the timepiece and jewellery businesses as well as in the consumer electronics industry.

Mr. WONG Ki Cheung, aged 49, joined the Group in 1976 and is responsible for the Group's overall management, purchasing and materials control functions.

Ms. LI Fung Ching, Catherine, aged 45, joined the Group in 1976 and is responsible for the management of the accounting, treasury and administrative functions of the Group.

Mr. AU Wai Man, aged 54, 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 26 years experience in electronic product engineering.

Mr. LIU Hoi Keung, Gary, aged 34, joined the Group in 1997 and is responsible for the financial management and company secretarial matters of the Group. He is an associate of The Hong Kong Society of Accountants and a fellow of The Association of Chartered Certified Accountants. Prior to joining the Group, he has over 9 years experience in accounting, auditing and taxation.

NON-EXECUTIVE DIRECTORS

Mr. WONG Wai Kwong, David, aged 41, has over 17 years experience in finance, accounting, corporate and taxation affairs. He is a fellow of The Association of Chartered Certified Accountants, and an associate of the Hong Kong Society of Accountants, the Australian Association of Practising Accountants and the Australasian Association of Secretaries and Managers. He is a director of International Taxation Advisory Services Limited. Mr. Wong is also a non-executive director of Egana, as well as three other Hong Kong listed companies.

Mr. HO Fook Hong, Ferdinand, aged 51, holds a bachelor's degree in science and a master's degree in business administration from the University of Hong Kong and is a solicitor of the Supreme Courts of Hong Kong, England and Wales and Singapore. Mr. Ho is also an Attesting Officer appointed by the Ministry of Justice of the PRC. Mr. Ho is the managing partner of Messrs. Knight & Ho, Solicitors & Notaries.

Mr. PANG Hon Chung, aged 48, holds a master's degree in business administration, and is a member of The Association of Chartered Certified Accountants and The Hong Kong Society of Accountants. Mr. Pang has extensive experience in business management and is the general manager of Lotus International Limited.

DIRECTORS AND SENIOR MANAGEMENT PROFILE

SENIOR MANAGEMENT

Mr. LAU Tak Loi, Wilsum, aged 43, is the marketing director of Tonic Electronics Limited. He is mainly responsible for the Company's marketing activities in the USA. Mr. Lau has over 20 years experience in marketing of electronic products and he joined the Group in 1986.

Mr. LAU Yeung Ping, aged 42, is the engineering director of Tonic Electronics Limited and is responsible for the development of the Company's general audio products. He has over 23 years experience in electronic engineering and he joined the Group in 1979.

Mr. YEUNG Hon Po, aged 51, is the production manager of Tonic Electronics Limited. Mr. Yeung is responsible for the manufacturing operations of the Company in Dongguan. He has over 32 years experience in the production of audio products and he joined the Group in 1978.

Mr. OTOGURO Yoshishige, aged 56, is responsible for the research and development of Tonic Electronics Limited's audio products. He has a degree in electronic science from Kougakuin University, Japan and has over 35 years experience in design, quality control and product development before joining the Group in 1996.

Mr. KIMISHISA Hotozuka, aged 52, is responsible for the supervision of Tonic Electronics Limited's production lines in Dongguan. Mr. Kimishisa has extensive experience in product engineering in various Japanese enterprises and has over 30 years working experience prior to joining the Group in 1996.

Mr. YU Man Chung, Michael, aged 41, is the marketing manager of Tonic Electronics Limited. He is responsible for servicing one of the major clients of the company. Mr. Yu joined the Group in 1976 and has experience in both marketing and production.

Mr. CHAN Pak Kin, aged 48, is the factory manager of Tonic Electronics Limited. Prior to joining the Group in 1992, he has over 15 years experience in engineering and production of electronic products. Mr. Chan is responsible for implementing the ISO program of the Group and also overseeing the operation of the speaker factory.

DIRECTORS AND SENIOR MANAGEMENT PROFILE

SENIOR MANAGEMENT (CONTINUED)

Mr. CHUI Wing Kwong, aged 50, is the general manager of Gold Beam Developments Limited. Mr. Chui joined the Group after the acquisition by the Group of the new factory at Qi Shi in 1998. Mr. Chui is responsible for the overall management of the Qi Shi factory. Mr. Chiu has over 25 years experience in the manufacturing of audio, plastic and metal products.

Mr. LAM Kwai Wah, Peter, aged 34, is the marketing director of Tonic Electronics Limited. He is mainly responsible for the Company's marketing activities in Europe. Mr. Lam has over 14 years experience in marketing of electronic products and home appliances and he joined the Group in 1998.

Mr. LAU Chi Hung, Derek, aged 29, is the accounting manager of the Group. He is mainly responsible for the preparation of the Group's financial reports. Mr. Lau has over 6 years experience in accounting and auditing and is an associate of The Hong Kong Society of Accountants and The Association of Chartered Certified Accountants.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL POSITION

Major financial indicators and ratios were improved. Gearing ratio in the current year was 0.51 as compared to 0.61 last year. The Group continues to use its internal resources to finance major capital expenditure and minimise the use of debt finance. The Group is conservative in its cashflow management and will at all time maintain sufficient cash resources for continuous expansion.

Accounts receivable and inventories turnover periods were shortened to 10 days and 28 days respectively. The major reason is the application of a consistent and stringent financial management policy by the Group. The Group also reviews regularly the level of accounts receivable and inventories to ensure adequate provision are being made.

The completion of 2 new factory buildings in October 1998 at the Tong Xia factory complex and the acquisition of production equipment for MD products contributed to the significant increase of the fixed assets during the year. The new factory buildings provided an additional 350,000 square feet production space for the Group. In addition, the acquisition of the Qi Shi factory in August 1998 provided another 300,000 square feet production space. Overall the production capacity of the Group has increased by more than 50%. A revaluation of all the Group's Hong Kong and PRC properties as at 31 March 1999 has generated HK\$41 millions surplus that has been recorded in the asset revaluation reserve.



Mr. LING Siu Man, Simon
Chairman and Managing Director

SALES

The United States of America is the largest market of the Group; demand is expected to be strong in the coming year. Other sales of the Group were appropriately diversified among Europe and Asia; these markets compensated for each other and provided a stable income flow to the Group. We expect the percentage of sales to the United States of America will slightly decrease for the year ending 31 March 2000 following the introduction of the sales of MD products.

The basic product of the Group is the CD portables (discman) which accounted for 45% of the total turnover of the Group. The demand for this line of items will remain strong in the coming year. Another important product line is the MD products, mass production has been started in March 1999. We expect the MD products would contribute to more than 10% of the total turnover of the Group for the year ending 31 March 2000.

MANAGEMENT DISCUSSION AND ANALYSIS

EXCEPTIONAL ITEM – FOREIGN EXCHANGE GAIN

More than 90% of the Group's sales are denominated in US dollars and only approximately 50% of the Group's purchases are settled in US dollars. Therefore the Group has net US dollars inflow in each month. The Group adopts policy to hedge the future US dollars receivable by selling US dollars forward contract through banks. When the forward US dollars exchange rate appreciates, the Group will generate exchange gain on receiving the US dollars. For the year ended 31 March 1999, the Group has generated HK\$12,221,000 exchange gain which was disclosed as an exceptional item in the Group's financial statements. For the year ended 31 March 1998, the Group also generated approximately HK\$3 million gain on hedging the US dollar receivable. In view of the nature of this item, the exchange gain would be a recurring item for the Group.



USE OF LISTING PROCEEDS

The Company was listed on October 1997 and approximately HK\$60 million net proceeds was raised. HK\$20 million of the proceeds were applied for the acquisition of production equipment and partly for the cost of construction of new factory buildings in 1998. The remaining HK\$40 million were wholly used during the year as to HK\$30 million for the construction cost of new factory buildings and as to HK\$10 million for the purchase of additional production equipment.

YEAR 2000 PROBLEM

Year 2000 Problem refers to date-related problems that occur in all systems where a two number digit year is used. These systems may not be able to handle leap year or roll forward from year 1999 to 2000. As a result, all activities that are initiated and operated in connection with the date may be affected. Management understands that those systems, including IT and non-IT systems, as well as items containing embedded chips, are Year 2000 compliant only if such date-related problems are eliminated.

As far as the Group is concerned, Year 2000 Problem may cause potential errors in purchasing, material planning and accounting functions where the impact of date-related problems on the operations will be the most significant. When running from year 1999 to 2000, the computer may, for instance, record wrongly the shipment date on the customer order, leading to disorder material planning. There may be risks of material shortage for productions or of excessive materials for warehouse resulting from inaccurate planning. Hence, the Group may not deliver the goods to the customers on time resulting in claims for their losses from delayed



MANAGEMENT DISCUSSION AND ANALYSIS

shipments, or may incur additional storage costs for stocks piled up. For accounting functions, the preparation of certain management reports that are date-dependent may also be affected. For example, aging analysis of accounts receivable and payable may be wrongly generated and thus affecting the operations on cash receipts and collections accordingly.



In March 1998, an ad hoc committee (“the Committee”) was formed and conducted meetings with department heads to discuss the Year 2000 Problem, the associated risks and the user requirement of Year 2000 compliant system. In addition, the Committee is responsible for the communication between the Group and external parties such as customers, suppliers and bankers, in respect of Year 2000 issues. In April 1998, the Committee selected a software engineering house to commence conversion exercise of the current system to Year 2000 compliant system. System testing commenced on early September 1998 and has been running parallel with the existing system.

As at 31 March 1999, the Year 2000 compliant project in respect of hardware and software was 100% completed while that of other embedded systems and non-merchandise items was nearly 90% completed. The Group is fully Year 2000 compliant when all embedded systems and non-merchandise items are modified and confirmed by suppliers to be Year 2000 compliant on or before September 1999.

The Group has also developed a contingency plan for the Year 2000 compliant project. This covers general procedures for data backup and maintenance, and special arrangements for important data and reports, such as shipment schedules, master production schedules and bank transactions, ensuring the continuity of major operations of the Group from 31 December 1999 to 1 January 2000 and thereafter.

The total estimated costs of the Year 2000 compliant project, including software and hardware modifications and the contingency plan, is approximately HK\$ 2.5 million. As at 31 March 1999, the costs incurred accounted for approximately 60% of the total estimated costs. The remaining 40% will be



utilised for future modifications and the contingency plan. All relevant cost incurred or to be incurred are capitalised as fixed assets once they are incurred, and are depreciated at an appropriate rate in accordance with the Group's depreciation policy.

As at 31 March 1999, there exist no significant authorised or contracted commitment in respect of year 2000 compliant modification costs or contingency plan.

REPORT OF THE DIRECTORS

The directors herein present their annual report and the audited financial statements of the Company and the Group for the year ended 31 March 1999.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The subsidiaries are engaged in the design, manufacture and marketing of consumer audio products. There were no changes in the nature of the Company's and the Group's principal operations during the year.

Details of the principal activities of the Company's subsidiaries are set out in note 13 to the financial statements.

SEGMENTAL INFORMATION

The principal activity of the Group is the manufacturing and trading of consumer audio products. An analysis of the Group's turnover for the year ended 31 March 1999 by geographical region is as follows:

	HK'000	Percentage
The United States of America	938,807	51
Europe	478,608	26
Asia Pacific countries	386,568	21
Others	36,816	2
	<hr/>	<hr/>
Total	<u>1,840,799</u>	<u>100</u>

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

The exceptional gain of HK\$12,221,000 for the year is wholly attributable to activities in Hong Kong, details of which are set out in note 7 to the financial statements.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 March 1999 and the state of affairs of the Group at that date are set out in the financial statements on page 24 and 25 respectively. The state of affairs of the Company are set out on page 28 in the financial statements.

An interim dividend of HK1.5 cents per share was paid to shareholders on 3 February 1999. The directors recommend the payment of a final dividend of HK5 cents per share in cash (the "Proposed Final Dividend") to shareholders whose names appear on the register of members on 28 September 1999. This recommendation has been incorporated in the financial statements.

REPORT OF THE DIRECTORS

BONUS ISSUE OF SHARES

The directors propose a bonus issue of new shares (the “Proposed Bonus Share Issue”) to shareholders whose names appear on the register of members on 28 September 1999.

The Proposed Bonus Share Issue will be made on the basis of 2 bonus shares for every 5 existing ordinary shares. The bonus shares will be credited as fully paid at par and will rank pari passu with the existing ordinary shares in all respects, except that they will not rank for the Proposed Final Dividend and the Proposed Bonus Share Issue.

The proposal is subject to (i) the approval of the Company’s shareholders at the forthcoming 1999 Annual General Meeting; (ii) the Listing Committee of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) granting the listing of and permission to deal in the bonus shares on the Stock Exchange.

RESERVES

Details of movements in the reserves of the Company and of the Group during the year are set out in note 20 to the financial statements.

DISTRIBUTABLE RESERVES

At 31 March 1999, the Company’s reserves available for cash distribution and/or distribution in specie amounted to HK\$84,800,000. Under the Companies Law (1998 Revision) of the Cayman Islands, the share premium of the Company is available for paying distributions or dividends to shareholders subject to the provisions of its Memorandum or Articles of Association and, provided that immediately following the distribution of dividend, the Company is able to pay its debts as they fall due in ordinary course of business. In the opinion of the directors, the Company’s reserves available for distribution represent the share premium, contributed surplus and retained profits.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the five largest customers in aggregate accounted for approximately 69% of the total turnover of the Group and the largest customer accounted for approximately 19% of the total turnover of the Group.

During the year, the five largest suppliers in aggregate accounted for approximately 56% of the total purchases of the Group and the largest supplier accounted for approximately 35% of the total purchases of the Group.

As far as the directors are aware, neither the directors, their associates, nor any shareholders which to the knowledge of the directors own more than 5% of the Company’s issued share capital, had any interest in the five largest customers or suppliers.

REPORT OF THE DIRECTORS

FINANCIAL SUMMARY

A summary of the combined/consolidated results and of the assets and liabilities of the Group is set out on pages 53 to 54 of the annual report.

FIXED ASSETS

Details of movements in the fixed assets of the Group during the year are set out in note 12 to the financial statements.

SUBSIDIARIES

Details of the subsidiaries of the Company as at 31 March 1999 are set out in note 13 to the financial statements.

SHARE CAPITAL, WARRANTS AND SHARE OPTIONS

Details of movements in the share capital, warrants and share options of the Company during the year and the reasons therefor are set out in note 19 to the financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Articles of Association or the laws of Cayman Islands which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

BORROWINGS

Bank loans and facilities of the Group repayable on demand or within one year are classified as current liabilities. Details of bank borrowings as at 31 March 1999 are set out in note 17 to the financial statements.

REPORT OF THE DIRECTORS

DIRECTORS

The directors of the Company during the year and up to the date of this report were:

Executive directors:

Ling Siu Man, Simon (*Chairman and Managing Director*)

Lee Ka Yue, Peter

Wong Ki Cheung

Li Fung Ching, Catherine

Au Wai Man

Liu Hoi Keung, Gary

(appointed on 22 July 1998)

Non-executive directors:

Wong Wai Kwong, David

Ho Fook Hong, Ferdinand*

Pang Hon Chung*

* *Independent non-executive directors*

In accordance with Article 116 of the Company's Articles of Association, Wong Ki Cheung and Li Fung Ching, Catherine will retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

The terms of office of the non-executive directors are the periods from their dates of appointment up to their retirement by rotation in accordance with the Company's Articles of Association.

DIRECTORS' SERVICE CONTRACTS

All the executive directors, other than Lee Ka Yue, Peter and Liu Hoi Keung, Gary, have entered into service contracts with the Company for terms of three years commencing from 18 September 1997.

Save as disclosed above, none of the directors proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

REPORT OF THE DIRECTORS

DIRECTORS' INTERESTS IN SECURITIES

At 31 March 1999, the interests of directors or their associates in the issued share capital and warrants of the Company and its associated corporation, as recorded in the register maintained by the Company under Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") were as follows:

(a) The Company

Name of directors	Nature of interest	Number of ordinary shares held	Number of warrants held
Ling Siu Man, Simon	Corporate (<i>note</i>)	211,680,000	30,240,000
Liu Hoi Keung, Gary	Personal	2,800	400

Note:

These shares and warrants were held by Success Forever Limited, a company incorporated in the British Virgin Islands, the entire issued share capital of which is beneficially owned by Ling Siu Man, Simon.

(b) Associated corporation

At 31 March 1999, Ling Siu Man, Simon personally held 2,850 non-voting deferred shares of HK\$100 each of Tonic Electronics Limited, a subsidiary of the Company.

Save as disclosed above, and other than certain shares of the Company's subsidiaries held by certain directors in trust for the Group, none of the directors or any of their associates had any interests in any securities of the Company or any of its associated corporations as defined in the SDI Ordinance.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Particulars of the share option scheme of the Company are set out in note 19 to the financial statements. During the year, no options were granted to any directors or employees to subscribe for shares in the Company under this share option scheme.

In addition, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any directors or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company, its holding company or subsidiaries a party to any arrangements to enable the directors to acquire such rights in any other body corporate.

Details of the directors' interests in the Company's warrants are set out in the section "Directors' interests in securities".

REPORT OF THE DIRECTORS

DIRECTORS' INTEREST IN CONTRACTS OF SIGNIFICANCE

Save as disclosed in note 24 to the financial statements, no contract of significance to which the Company or any of its subsidiaries was a party in which any director had a material interest, whether directly or indirectly, subsisted at the end of the year or any time during the year.

SUBSTANTIAL SHAREHOLDERS

At 31 March 1999, the following interests of 10% or more of the issued share capital of the Company were recorded in the register of interests kept by the Company pursuant to Section 16(1) of the SDI Ordinance:

Name	Number of ordinary shares held	Percentage of issued share capital (%)
Success Forever Limited (<i>note 1</i>)	211,680,000	52.42
Eco-Haru Manufacturing Holdings Limited ("Eco-Haru") (<i>note 2</i>)	75,600,000	18.72
Egana International (Holdings) Limited ("Egana") (<i>note 2</i>)	75,600,000	18.72
Peninsula International Limited ("Peninsula") (<i>note 3</i>)	75,600,000	18.72

Notes:

1. The entire issued share capital of Success Forever Limited is beneficially owned by Ling Siu Man, Simon as disclosed in the directors' interests above.
2. The entire issued share capital of Eco-Haru is beneficially owned by Egana.
3. The entire issued share capital of Egana is held as to 38% by Peninsula.

Save as disclosed above and other than the directors of the Company whose interests are set out above, no persons had an interest of 10% or more in the issued share capital of the Company that was required to be recorded under Section 16(1) of the SDI Ordinance.

REPORT OF THE DIRECTORS

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

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

CONNECTED TRANSACTION

Details of a connected transaction are set out in note 24 to the financial statements.

CODE OF BEST PRACTICE

In the opinion of the directors, the Company has complied with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the year.

AUDIT COMMITTEE

Pursuant to the requirement of the Listing Rules, an audit committee comprising all the Company's non-executive directors was established on 1 April 1999. Except for Wong Wai Kwong, David, all members of the audit committee are independent non-executive directors. A written terms of reference, which describes the authority and duties of the audit committee, was also adopted by the Board on the same date. The audit committee's principal duties include the review and supervision of the Group's financial reporting process and internal controls.

AUDITORS

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

BY ORDER OF THE BOARD

LING Siu Man, Simon

Chairman

Hong Kong

10 August 1999

REPORT OF THE AUDITORS

To the members

Tonic Industries Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

We have audited the financial statements on pages 24 to 52 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes an examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion the financial statements give a true and fair view, in all material respects, of the state of affairs of the Company and of the Group as at 31 March 1999 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young

Certificated Public Accountants

Hong Kong

10 August 1999

CONSOLIDATED PROFIT AND LOSS ACCOUNT

Year ended 31 March 1999

	Notes	1999 HK\$'000	1998 HK\$'000
TURNOVER	3	1,840,799	1,524,396
OPERATING PROFIT BEFORE EXCEPTIONAL ITEM	4	63,751	44,604
Exceptional item	7	12,221	–
PROFIT BEFORE TAXATION		75,972	44,604
Taxation	8	(7,027)	(3,121)
NET PROFIT ATTRIBUTABLE TO SHAREHOLDERS	9	68,945	41,483
Retained profits at beginning of year		97,204	67,241
RETAINED PROFITS AVAILABLE FOR DISTRIBUTION		166,149	108,724
Dividends	10	(26,240)	(11,520)
RETAINED PROFITS AT END OF YEAR		139,909	97,204
EARNINGS PER SHARE	11		
– Basic		17.1 cents	11.9 cents
– Diluted		16.7 cents	N/A

CONSOLIDATED BALANCE SHEET

31 March 1999

	Notes	1999 HK\$'000	1998 HK\$'000
FIXED ASSETS	12	305,323	207,953
DEPOSITS FOR FIXED ASSETS		707	706
LONG TERM INVESTMENTS	14	16,024	–
LONG TERM LOAN RECEIVABLE	15	–	1,010
CURRENT ASSETS			
Cash and bank balances		25,064	44,961
Time deposits		140,000	107,986
Accounts receivable		50,461	85,732
Inventories	16	140,212	227,294
Current portion of long term loan receivable	15	–	500
Prepayments, deposits and other receivables		5,013	5,084
		360,750	471,557
CURRENT LIABILITIES			
Trust receipt loans	17	144,448	113,403
Current portion of long term bank loans	17	–	481
Accounts payable		175,890	323,852
Accrued liabilities and other payables		40,354	20,782
Current portion of obligations under hire purchase contracts	18	2,888	6,394
Taxation		5,139	1,912
Proposed final dividend	10	20,192	8,640
		388,911	475,464
NET CURRENT LIABILITIES		(28,161)	(3,907)
TOTAL ASSETS LESS CURRENT LIABILITIES		293,893	205,762
LONG TERM LIABILITIES			
Long term portion of obligations under hire purchase contracts	18	(397)	(2,251)
Deferred taxation	8	(6,336)	(3,530)
		(6,733)	(5,781)
		287,160	199,981
SHAREHOLDERS' EQUITY			
Share capital	19	40,383	28,800
Reserves	20	246,777	171,181
		287,160	199,981

LING Siu Man, Simon
Director

LIU Hoi Keung, Gary
Director

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 March 1999

	<i>Notes</i>	1999 HK\$'000	1998 HK\$'000
NET CASH INFLOW FROM OPERATING ACTIVITIES	21(a)	109,690	127,967
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Interest received		19,961	11,453
Interest paid		(14,813)	(13,459)
Interest element on hire purchase contracts		(707)	(1,146)
Dividends paid		(14,688)	(12,880)
Net cash outflow from returns on investments and servicing of finance		(10,247)	(16,032)
TAXATION			
Hong Kong profits tax paid		(393)	(2,234)
PRC taxes paid		(609)	(52)
Taxes paid		(1,002)	(2,286)
INVESTING ACTIVITIES			
Purchases of long term investments		(16,024)	–
Purchases of fixed assets		(94,656)	(48,594)
Proceeds from disposals of fixed assets		35	16
Deposits paid for fixed assets		(707)	(706)
Deposits paid for hire purchase contracts		–	(440)
Decrease/(increase) in time deposits, pledged		6,818	(417)
Decrease in loan receivable		358	500
Net cash outflow from investing activities		(104,176)	(49,641)
NET CASH INFLOW/(OUTFLOW) BEFORE FINANCING ACTIVITIES		(5,735)	60,008

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 March 1999

	<i>Notes</i>	1999 HK\$'000	1998 HK\$'000
FINANCING ACTIVITIES			
	21(b)		
Proceeds from issue of new shares		410	72,000
Share issue expenses		–	(12,352)
Net cash inflow/(outflow) from trust receipt loans with maturity over three months		(9,649)	1,343
Repayment of bank loans		(481)	(2,004)
Repayment of obligations under hire purchase contracts		(6,309)	(4,301)
		<hr/> (16,029)	<hr/> 54,686
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS			
		(21,764)	114,694
Cash and cash equivalents at beginning of year		42,375	(72,320)
Effect of foreign exchange rate changes, net		5	1
		<hr/> 20,616	<hr/> 42,375
CASH AND CASH EQUIVALENTS AT END OF YEAR			
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
		25,064	44,961
Cash and bank balances		140,000	101,168
Time deposits		(144,448)	(103,754)
Trust receipt loans with maturity less than three months		<hr/> 20,616	<hr/> 42,375
		<hr/> 20,616	<hr/> 42,375

COMPANY BALANCE SHEET

31 March 1999

	<i>Notes</i>	1999 HK\$'000	1998 HK\$'000
INTERESTS IN SUBSIDIARIES	13	120,967	116,983
CURRENT ASSETS			
Cash and bank balances		12	3
Prepayments and other receivables		166	121
Dividend receivable		25,000	20,000
		25,178	20,124
CURRENT LIABILITIES			
Accrued liabilities		527	53
Taxation		243	243
Proposed final dividend	10	20,192	8,640
		20,962	8,936
NET CURRENT ASSETS		4,216	11,188
		125,183	128,171
SHAREHOLDERS' EQUITY			
Share capital	19	40,383	28,800
Reserves	20	84,800	99,371
		125,183	128,171

LING Siu Man, Simon
Director

LIU Hoi Keung, Gary
Director

NOTES TO FINANCIAL STATEMENTS

31 March 1999

1. GROUP REORGANISATION

The Company was incorporated in the Cayman Islands under the Companies Law (1995 Revision) as an exempted company with limited liability on 24 April 1997. On 30 May 1997, pursuant to a reorganisation to rationalise the Group structure in preparation for the listing of the Company's shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company became the holding company of the companies now comprising the Group through the acquisition, for shares, of the entire issued share capital of Tonic Electronics (B.V.I.) Limited, the former holding company of the Group. The shares of the Company were listed on the Stock Exchange on 16 October 1997.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting

These financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance.

Basis of consolidation and presentation

The consolidated financial statements include the audited financial statements of the Company and its subsidiaries for the year ended 31 March 1999. 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.

The comparative consolidated financial statements have been prepared using the merger basis of accounting as a result of the Group reorganisation as mentioned above. Under this basis, the Company has been treated as the holding company of its subsidiaries prior to the date of their acquisition pursuant to the Group reorganisation on 30 May 1997. Accordingly, the consolidated results of the Group for the year ended 31 March 1998 include the results of the Company and its subsidiaries with effect from 1 April 1997, or since their respective dates of incorporation, where this is a shorter period, as if the existing Group structure had been in existence throughout the year ended 31 March 1998.

In the opinion of the directors, the consolidated financial statements prepared on the above basis present more fairly the results and state of affairs of the Group as a whole.

Subsidiaries

A subsidiary is a company in which the Company, directly or indirectly, controls more than half of its voting power or issued share capital or controls the composition of its board of directors. Interests in subsidiaries are stated at cost unless, in the opinion of the directors, there have been permanent diminutions in value, when they are written down to values determined by the directors.

NOTES TO FINANCIAL STATEMENTS

31 March 1999

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fixed assets and depreciation

Fixed assets, other than construction in progress, are stated at cost or valuation less accumulated depreciation. 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 the 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 the fixed asset.

Depreciation is calculated to write off the cost or valuation of each asset at the following rates per annum:

Land held under medium and long term leases	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	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 the People's Republic of China (the "PRC") not yet ready for its intended use. Construction in progress is stated at cost and depreciation is provided upon transfer to other fixed assets accounts when such fixed assets are ready for their 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 sales proceeds and the carrying amount of the relevant asset.

NOTES TO FINANCIAL STATEMENTS

31 March 1999

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fixed assets and depreciation (continued)

With effect from 1 April 1998, as a result of changing conditions and experience, the Group revised the estimated useful lives of certain fixed assets. In particular, moulds which were previously depreciated over six years on the straight-line basis are now depreciated over four years on the same basis. Equipment and tools which were previously depreciated at 15% per annum on the reducing balance basis are now depreciated at 25% per annum on the same basis. In the opinion of the directors, the depreciable lives of these fixed assets are more accurately reflected by adoption of the revised depreciation rates. This constitutes a change in accounting estimate. These depreciation rates have been applied prospectively and resulted in an additional depreciation charge of approximately HK\$12,490,000 for the current year.

Assets held under hire purchase contracts

At the inception of a hire purchase contract, the cost of the 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 purchase and financing. Assets held under hire purchase contracts are included in fixed assets and depreciated over the estimated useful lives of the assets. The finance costs of such hire purchase contracts are charged to the profit and loss account so as to produce a constant periodic rate over the contract terms.

Leases where substantially all the rewards and risks of ownership of assets remain with the leasing company are accounted for as operating leases. Rentals payable and receivable under operating leases are recorded in the profit and loss account on the straight-line basis over the lease terms.

Investments

Investments held on a long term basis are stated at cost less provisions for any permanent diminutions in values deemed necessary by the directors, on an individual investment basis.

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.

Deferred taxation

Deferred taxation is provided, using the liability method, on all significant timing differences to the extent it is probable that the liability will crystallise in the foreseeable future. A deferred tax asset is not recognised until its realisation is assured beyond reasonable doubt.

NOTES TO FINANCIAL STATEMENTS

31 March 1999

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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) on 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; and
- (b) interest income, on a time proportion basis, taking into account the principal outstanding and the effective interest rate applicable.

Foreign currencies

Foreign currency transactions are recorded at the applicable rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable rates of exchange 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 to Hong Kong dollars at the applicable rates of exchange ruling at the balance sheet date. The resulting translation differences are dealt with in the exchange fluctuation reserve.

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.

Pension costs

The Group operates defined contribution retirement benefits schemes for its employees, who are eligible and have elected to participate in the schemes, the assets of which are held separately from those of the Group in an independently administered fund. Contributions are made based on a percentage of the eligible employees' salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the schemes. When an employee leaves a scheme prior to his/her interest in the Group's contributions being fully vested, the ongoing contributions payable by the Group may be reduced by the relevant amount of forfeited contributions.

Cash equivalents

Cash equivalents represent short term highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from banks repayable within three months from the date of the advance.

NOTES TO FINANCIAL STATEMENTS

31 March 1999

3. TURNOVER

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

4. OPERATING PROFIT BEFORE EXCEPTIONAL ITEM

The Group's operating profit before exceptional item is arrived at after charging/(crediting):

	1999	1998
	HK\$'000	HK\$'000
Cost of inventories sold	1,669,672	1,417,991
Depreciation:		
Owned fixed assets	38,366	15,760
Leased fixed assets	3,745	3,312
Operating lease rentals on land and buildings	1,196	1,242
Interest on:		
Bank loans and facilities wholly repayable within five years	14,813	13,459
Obligations under hire purchase contracts	707	1,146
Auditors' remuneration	650	596
Provision for long term loan receivable	1,152	–
Retirement benefits scheme contributions *	942	769
Loss on disposal of fixed assets	108	37
Exchange loss/(gain), net	727	(3,434)
Bank interest income	(19,961)	(10,205)
Interest income on listing subscription money	–	(1,248)
Net rental income from land and buildings	(784)	(720)

* During the year, the Group's contributions were reduced by forfeited contributions amounting to approximately HK\$131,630 (1998: HK\$36,000). As at 31 March 1999, the Group had no forfeited contributions (1998: Nil) available to offset its future employers' contributions.

NOTES TO FINANCIAL STATEMENTS

31 March 1999

5. DIRECTORS' REMUNERATION

	1999 HK\$'000	1998 HK\$'000
Fees	–	–
Other emoluments - executive directors:		
Salaries and allowances	9,000	5,506
Bonuses paid and payable	6,000	2,045
Retirement benefits scheme contributions	–	–
	15,000	7,551

The number of directors whose remuneration for the year fell within the designated bands is set out below:

	Number of directors	
	1999	1998
HK\$Nil – HK\$1,000,000	4	4
HK\$1,000,000 – HK\$1,500,000	1	2
HK\$1,500,001 – HK\$2,000,000	2	1
HK\$2,000,001 – HK\$2,500,000	1	–
HK\$3,000,001 – HK\$3,500,000	–	1
HK\$7,000,001 – HK\$7,500,000	1	–

There was no arrangement under which a director had waived or agreed to waive any remuneration during the year.

6. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included five (1998: four) directors, details of whose remuneration are set out in note 5 above. The details of the remuneration of the remaining one non-director, highest paid employee in the prior year are set out below.

	1999 HK\$'000	1998 HK\$'000
Salaries and other benefits	–	859
Retirement benefits scheme contributions	–	26
	–	885

The remuneration of the non-director, highest paid employee for the prior year fell within the range of HK\$Nil – HK\$1,000,000.

NOTES TO FINANCIAL STATEMENTS

31 March 1999

7. EXCEPTIONAL ITEM

During the year, the Group entered into forward exchange contracts to hedge a portion of its sales receipts and generated a net exchange gain of HK\$12,221,000.

8. TAXATION

Hong Kong profits tax has been provided at the rate of 16% (1998: 16.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable in the PRC have been provided at the rates of taxation prevailing in the PRC based on existing legislations, interpretations and practices in respect thereof.

Deferred taxation has been provided under the liability method at the rate of 16% (1998: 16%) on all significant timing differences to the extent it is probable that the liability will crystallise in the foreseeable future.

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

	1999	1998
	HK\$'000	HK\$'000
Hong Kong		
Provision for the year	3,949	1,743
Underprovision in prior years	82	–
Deferred	2,806	769
	6,837	2,512
The PRC		
Provision for the year	190	609
Taxation charge for the year	7,027	3,121

The movement in the Group's deferred tax provision is as follows:

	1999	1998
	HK\$'000	HK\$'000
At beginning of year	3,530	2,761
Charge for the year	2,806	769
At balance sheet date	6,336	3,530

NOTES TO FINANCIAL STATEMENTS

31 March 1999

8. TAXATION (CONTINUED)

The principal components of the Group's deferred tax provision are as follows:

	1999	1998
	HK\$'000	HK\$'000
Accelerated depreciation allowances	6,316	3,518
Others	20	12
	<hr/> 6,336 <hr/>	<hr/> 3,530 <hr/>

As at 31 March 1999, the Group had an unprovided deferred tax liability of HK\$509,000 (1998: HK\$1,580,000), relating to accelerated depreciation allowances, which is not expected to crystallise in the foreseeable future.

The revaluation of the Group's leasehold land and buildings does not constitute timing differences and, consequently, the amount of potential deferred tax thereon has not been quantified.

9. NET PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The net profit attributable to shareholders dealt with in the financial statements of the Company for the year ended 31 March 1999 is HK\$22,842,000 (1998: HK\$21,229,000).

10. DIVIDENDS

	1999	1998
	HK\$'000	HK\$'000
Interim – HK1.5 cents per ordinary share (1998: HK1 cent)	6,048	2,880
Proposed final – HK5 cents per ordinary share (1998: HK3 cents)	20,192	8,640
	<hr/> 26,240 <hr/>	<hr/> 11,520 <hr/>

The comparative interim dividend and proposed final dividend per ordinary share would be HK0.7 cent and HK2.2 cents, respectively, on the basis as if the bonus issue of shares of two bonus shares for every five ordinary shares then held by shareholders (note 19(a)) had been completed during the year ended 31 March 1998.

NOTES TO FINANCIAL STATEMENTS

31 March 1999

11. EARNINGS PER SHARE

The calculation of earnings per share is based on the net profit attributable to shareholders of HK\$68,945,000 (1998: HK\$41,483,000) and the weighted average of 403,256,237 shares (1998: 348,519,452 shares) in issue during the year.

The comparative weighted average number of shares in issue and earnings per share have been adjusted to reflect the bonus issue of shares on the basis of two bonus shares for every five ordinary shares then held by shareholders (note 19(a)).

The calculation of diluted earnings per share is based on the net profit attributable to shareholders of HK\$68,945,000 and the weighted average of 412,090,096 shares in issue, adjusted to reflect the effects of all dilutive potential ordinary shares during the year.

A reconciliation of the weighted average number of shares used in the basic earnings per share calculation for the year ended 31 March 1999 to that used in the diluted earnings per share calculation is as follows:

Weighted average number of shares used in the basic earnings per share calculation	403,256,237
Weighted average number of shares assumed to have been issued at no consideration on the deemed exercise of all warrants outstanding during the year	<u>8,833,859</u>
Weighted average number of shares used in the diluted earnings per share calculation	<u><u>412,090,096</u></u>

Diluted earnings per share for the prior year has not been calculated as no diluting events existed during the prior year.

NOTES TO FINANCIAL STATEMENTS

31 March 1999

12. FIXED ASSETS

	Leasehold land and buildings	Construction in progress	Leasehold improvements	Furniture and fixtures	Equipment and tools	Motor vehicles	Moulds	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Group								
Cost or valuation:								
At beginning of year	113,600	16,408	5,646	14,515	69,430	6,995	39,170	265,764
Additions	8,766	33,947	1,161	2,983	41,017	1,689	6,748	96,311
Transfers	31,616	(50,000)	8,776	1,121	8,487	-	-	-
Disposals	-	-	-	(107)	(86)	(527)	-	(720)
Revaluation	35,360	-	-	-	-	-	-	35,360
Exchange adjustments	1,858	176	8	25	798	40	35	2,940
At 31 March 1999	<u>191,200</u>	<u>531</u>	<u>15,591</u>	<u>18,537</u>	<u>119,646</u>	<u>8,197</u>	<u>45,953</u>	<u>399,655</u>
Analysis of cost or valuation:								
At cost	-	531	15,591	18,537	119,646	8,197	45,953	208,455
At valuation - 1999	<u>191,200</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>191,200</u>
	<u>191,200</u>	<u>531</u>	<u>15,591</u>	<u>18,537</u>	<u>119,646</u>	<u>8,197</u>	<u>45,953</u>	<u>399,655</u>
Accumulated depreciation:								
At beginning of year	-	-	1,631	9,741	21,661	5,175	19,603	57,811
Provided during the year	5,179	-	3,328	1,959	18,753	855	12,037	42,111
Disposals	-	-	-	(57)	(31)	(489)	-	(577)
Written back on revaluation	(5,179)	-	-	-	-	-	-	(5,179)
Exchange adjustments	-	-	-	12	142	8	4	166
At 31 March 1999	<u>-</u>	<u>-</u>	<u>4,959</u>	<u>11,655</u>	<u>40,525</u>	<u>5,549</u>	<u>31,644</u>	<u>94,332</u>
Net book value:								
At 31 March 1999	<u>191,200</u>	<u>531</u>	<u>10,632</u>	<u>6,882</u>	<u>79,121</u>	<u>2,648</u>	<u>14,309</u>	<u>305,323</u>
At 31 March 1998	<u>113,600</u>	<u>16,408</u>	<u>4,015</u>	<u>4,774</u>	<u>47,769</u>	<u>1,820</u>	<u>19,567</u>	<u>207,953</u>

NOTES TO FINANCIAL STATEMENTS

31 March 1999

12. FIXED ASSETS (CONTINUED)

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

	Hong Kong	The PRC	Total
	HK\$'000	HK\$'000	HK\$'000
Held under long term leases	4,600	–	4,600
Held under medium term leases	<u>50,900</u>	<u>135,700</u>	<u>186,600</u>
	<u><u>55,500</u></u>	<u><u>135,700</u></u>	<u><u>191,200</u></u>

The Group's leasehold land and buildings were revalued at 31 March 1999 by Sallmanns (Far East) Limited, an independent firm of professional valuers, on an open market existing use basis at HK\$191,200,000. A surplus of HK\$40,539,000 was credited to the asset revaluation reserve.

Had 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\$102,414,000 (1998: HK\$63,817,000).

Included in the total amount of fixed assets at 31 March 1999 are assets held under hire purchase contracts with a net book value of HK\$6,394,000 (1998: HK\$18,281,000) and the depreciation charge for the year in respect of all such assets held under hire purchase contracts amounted to HK\$3,745,000 (1998: HK\$3,312,000).

13. INTERESTS IN SUBSIDIARIES

	Company	
	1999	1998
	HK\$'000	HK\$'000
Unlisted shares, at cost	58,802	58,802
Due from subsidiaries	62,165	58,181
	<u>120,967</u>	<u>116,983</u>

The balances due from subsidiaries are unsecured, interest-free, and have no fixed terms of repayment.

NOTES TO FINANCIAL STATEMENTS

31 March 1999

13. INTERESTS IN SUBSIDIARIES (CONTINUED)

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		Nature of business
			Direct	Indirect	
Agility Investments Limited	The British Virgin Islands	US\$1	100%	–	Investment holding
Dongguan Gold Beam Electronics Co., Ltd	The PRC	*Nil	–	100%	Manufacture of audio components
Dongguan Tonic Electronic Co., Ltd.	The PRC	RMB22,200,000	–	100%	Manufacture of audio products
Gold Beam Developments Limited	Hong Kong	HK\$2	100%	–	Trading and manufacture of audio components
Tonic Electronics (B.V.I.) Limited	The British Virgin Islands	HK\$1	100%	–	Investment holding
Tonic Electronics Limited	Hong Kong	Ordinary HK\$200 *Non-voting deferred HK\$300,000	–	100%	Trading and manufacture of audio products
Tonic Enterprises Limited	The British Virgin Islands	US\$1	–	100%	Quality control services
Tonic International Limited	The British Virgin Islands	HK\$0.01	–	100%	Quality control services
Tonic Investment (B.V.I.) Limited	The British Virgin Islands	HK\$0.01	–	100%	Investment holding
Tonic Marketing Limited	The British Virgin Islands	US\$0.01	–	100%	Direct marketing

NOTES TO FINANCIAL STATEMENTS

31 March 1999

13. INTERESTS IN SUBSIDIARIES (CONTINUED)

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		Nature of business
			Direct	Indirect	
			Tonic Plastic Limited	The British Virgin Islands	
Panatone Licensing Limited	The British Virgin Islands	US\$1	–	100%	Dormant

* The registered capital of Dongguan Gold Beam Electronics Co., Ltd. ("DGB") is HK\$22,220,000. At 31 March 1999, the Group has injected capital loans of HK\$30 million to DGB, of which HK\$22,220,000 will be verified as paid-up capital.

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 are held by members of the Group at the balance sheet date.

14. LONG TERM INVESTMENTS

	1999 HK\$'000	1998 HK\$'000
Hong Kong listed investments, at cost	<u>16,024</u>	<u>–</u>
Market value of listed shares at balance sheet date	<u>16,409</u>	<u>–</u>

15. LONG TERM LOAN RECEIVABLE

This represents an unsecured and interest-free advance to a sub-contractor. The balance is repayable by equal annual instalments of HK\$500,000 each and a final repayment of HK\$510,000 on 30 November 2000. During the year, the sub-contractor ceased its operation. A full provision has been made in the financial statements against the outstanding balance of this loan receivable amounting to HK\$1,152,000 at 31 March 1999.

NOTES TO FINANCIAL STATEMENTS

31 March 1999

16. INVENTORIES

	Group	
	1999	1998
	HK\$'000	HK\$'000
Raw materials	51,303	94,952
Work in progress	65,310	70,283
Finished goods	23,599	62,059
	<hr/>	<hr/>
	140,212	227,294
	<hr/> <hr/>	<hr/> <hr/>

17. BANK BORROWINGS

	Group	
	1999	1998
	HK\$'000	HK\$'000
Long term bank loans repayable:		
Within one year	–	481
In the second year	–	–
	<hr/>	<hr/>
	–	481
Portion classified as current liabilities	–	(481)
	<hr/>	<hr/>
Long term portion	–	–
	<hr/> <hr/>	<hr/> <hr/>

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

As at 31 March 1998, all the Group's bank borrowings were secured by the Group's leasehold land and buildings situated in Hong Kong and time deposits amounting to HK\$6,818,000. These securities were released during the current year.

NOTES TO FINANCIAL STATEMENTS

31 March 1999

18. OBLIGATIONS UNDER HIRE PURCHASE CONTRACTS

There were commitments under hire purchase contracts at the balance sheet date as follows:

	Group	
	1999	1998
	HK\$'000	HK\$'000
Amounts payable:		
Within one year	3,154	6,868
In the second year	389	2,698
In the third to fifth years, inclusive	108	13
	<hr/>	<hr/>
Total minimum contract payments	3,651	9,579
Future finance charges	(366)	(934)
	<hr/>	<hr/>
Total net obligations under hire purchase contracts	3,285	8,645
Portion classified as current liabilities	(2,888)	(6,394)
	<hr/>	<hr/>
Long term portion	397	2,251
	<hr/> <hr/>	<hr/> <hr/>

19. SHARE CAPITAL

	Company	
	1999	1998
	HK\$'000	HK\$'000
Authorised:		
1,200,000,000 ordinary shares of HK\$0.10 each	120,000	120,000
	<hr/> <hr/>	<hr/> <hr/>
Issued and fully paid:		
403,830,800 (1998: 288,000,000) ordinary shares of HK\$0.10 each	40,383	28,800
	<hr/> <hr/>	<hr/> <hr/>

NOTES TO FINANCIAL STATEMENTS

31 March 1999

19. SHARE CAPITAL (CONTINUED)

Details of the movements in the issued share capital of the Company during the year are as follows:

- (a) Pursuant to a shareholders' resolution passed on 16 September 1998, 115,200,000 new ordinary shares of HK\$0.1 each ranking pari passu with the then existing ordinary shares were issued as bonus shares on the basis of two bonus shares for every five ordinary shares then held by shareholders whose names appeared on the register of members of the Company as at 16 September 1998. The par value of these bonus shares was debited to the share premium account.
- (b) During the year, 630,800 warrants were exercised by warrant holders at the subscription price of HK\$0.65 per share for HK\$410,020 in cash. The excess of the proceeds over the par value of the ordinary shares issued was credited to the share premium account. Details of the warrants are set out below.

Warrants

Pursuant to a shareholders' resolution passed on 16 September 1998, a bonus issue of warrants was made in the proportion of one warrant for every five ordinary shares then held by shareholders whose names appeared on the register of members of the Company as at 16 September 1998. As a result, 57,600,000 warrants were issued. Each bonus warrant will entitle the registered holder to subscribe for a new ordinary share of the Company at an initial subscription price of HK\$0.65, subject to adjustments, at any time from the date of issue to 30 September 2000.

At the balance sheet date, the Company had outstanding warrants with an aggregate subscription value of HK\$37,029,980 entitling the registered holders to subscribe in cash at any time on or before 30 September 2000 for fully paid ordinary shares of HK\$0.1 each in the Company at the current subscription price of HK\$0.65 per share (subject to adjustments). The exercise in full of such warrants would, under the present capital structure of the Company, result in the issue of 56,969,200 additional ordinary shares.

NOTES TO FINANCIAL STATEMENTS

31 March 1999

19. SHARE CAPITAL (CONTINUED)

Share options

On 18 September 1997, the Company approved a share option scheme (the "Scheme") under which the board of directors of the Company may, at their discretion, invite any executive director or employee of the Group to take up options to subscribe for shares of the Company at any time during the ten years from the date of approval. The subscription price will be a price determined by the directors and will be the higher of a price being 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 or the nominal value of the shares, whichever is greater. The maximum number of shares on which options may be granted may not exceed 10% of the ordinary share capital in issue from time to time. The Scheme became effective upon the listing of the Company's shares on the Stock Exchange on 16 October 1997.

No option has been granted under the Scheme.

20. 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
Group						
Balance at 1 April 1998	30,868	280	(8,045)	50,874	97,204	171,181
Exercise of warrants	347	-	-	-	-	347
Bonus issue of shares	(11,520)	-	-	-	-	(11,520)
Exchange difference on translation of overseas subsidiaries' financial statements	-	-	3,525	-	-	3,525
Revaluation surplus on fixed assets	-	-	-	40,539	-	40,539
Net profit for the year	-	-	-	-	68,945	68,945
Dividends	-	-	-	-	(26,240)	(26,240)
Balance at 31 March 1999	<u>19,695</u>	<u>280</u>	<u>(4,520)</u>	<u>91,413</u>	<u>139,909</u>	<u>246,777</u>

NOTES TO FINANCIAL STATEMENTS

31 March 1999

20. RESERVES (CONTINUED)

	Share premium	Contributed surplus	Retained profits	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Company				
Balance at 1 April 1998	30,868	58,794	9,709	99,371
Exercise of warrants	347	–	–	347
Bonus issue of shares	(11,520)	–	–	(11,520)
Net profit for the year	–	–	22,842	22,842
Dividends	–	–	(26,240)	(26,240)
	<hr/>	<hr/>	<hr/>	<hr/>
Balance at 31 March 1999	<u>19,695</u>	<u>58,794</u>	<u>6,311</u>	<u>84,800</u>

The contributed surplus of the Group arose as a result of the Group reorganisation as set out in note 1, and 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 and the nominal value of the share capital of the Company issued in exchange therefor.

The contributed surplus of the Company arose as a result of the same Group reorganisation, and represents the excess of the then combined net asset value of the subsidiaries acquired over the nominal value of the Company's share capital issued in exchange thereof.

Under the Companies Law (1998 Revision) of the Cayman Islands, the share premium of the Company is available for paying distributions or dividends to shareholders subject to the provisions of its Memorandum or Articles of Associations and provided that immediately following the distribution of dividend, the Company is able to pay its debts as 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, contributed surplus and retained profits.

NOTES TO FINANCIAL STATEMENTS

31 March 1999

21. NOTES TO CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of profit before taxation to net cash inflow from operating activities

	1999	1998
	HK\$'000	HK\$'000
Profit before taxation	75,972	44,604
Depreciation	42,111	19,072
Provision for long term loan receivable	1,152	–
Loss on disposal of fixed assets	108	37
Interest income	(19,961)	(11,453)
Interest expense on bank loans and facilities	14,813	13,459
Interest element on hire purchase contracts	707	1,146
Decrease/(increase) in accounts receivable	35,271	(28,275)
Decrease/(increase) in inventories	87,887	(87,283)
Decrease in prepayments, deposits and other receivables	73	3,689
Increase/(decrease) in accounts payable	(147,962)	162,191
Increase in accrued liabilities and other payables	19,519	10,780
	<hr/>	<hr/>
Net cash inflow from operating activities	109,690	127,967

NOTES TO FINANCIAL STATEMENTS

31 March 1999

21. NOTES TO CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)

(b) Analysis of changes in financing during the years

	Share capital (including premium) HK\$'000	Trust receipt loans with maturity over three months HK\$'000	Bank loans HK\$'000	Obligations under hire purchase contracts HK\$'000
Balance at 1 April 1997	20	8,306	2,485	11,536
Net cash inflow/(outflow) from financing	59,648	1,343	(2,004)	(4,301)
Inception of hire purchase contracts	-	-	-	1,410
Balance at 31 March 1998 and 1 April 1998	59,668	9,649	481	8,645
Net cash inflow/(outflow) from financing	410	(9,649)	(481)	(6,309)
Inception of hire purchase contracts	-	-	-	949
Balance at 31 March 1999	<u>60,078</u>	<u>-</u>	<u>-</u>	<u>3,285</u>

(c) Major non-cash transactions

During the year, the Group entered into hire purchase contracts in respect of fixed assets with a total capital value at the inception of the contracts of HK\$949,000 (1998: HK\$1,410,000).

NOTES TO FINANCIAL STATEMENTS

31 March 1999

22. CONTINGENT LIABILITIES

	Group		Company	
	1999 HK\$'000	1998 HK\$'000	1999 HK\$'000	1998 HK\$'000
Bills discounted with recourse	27,668	12,430	–	–
Guarantee for general banking facilities of subsidiaries*	–	–	433,000	333,000
Guarantee for a liability under hire purchase contract of a subcontractor	703	–	703	–
	<u>28,371</u>	<u>12,430</u>	<u>433,703</u>	<u>333,000</u>

* At 31 March 1999, HK\$144,000,000 (1998 : HK\$113,884,000) of the general banking facilities were utilised by the subsidiaries.

In addition, the Company has granted a guarantee in favour of a supplier of a subsidiary for the subsidiary's trade debts due to such supplier. At 31 March 1999, the subsidiary had trade debts in aggregate of HK\$42,000 due to the supplier.

NOTES TO FINANCIAL STATEMENTS

31 March 1999

23. COMMITMENTS

	Group	
	1999	1998
	HK\$'000	HK\$'000
Capital commitments		
(a) Contracted for, but not provided in the financial statements in respect of:		
Construction in progress in the PRC	273	13,174
Equipment and tools	3,636	355
Moulds	389	808
	4,298	14,337
(b) Authorised, but not contracted for in respect of construction in progress in the PRC	–	2,221
	4,298	16,558
Operating lease commitments		
Commitments payable in the following year under non-cancellable operating leases in respect of land and buildings expiring:		
Within one year	517	299
In the second to fifth years, inclusive	102	437
	619	736

At the balance sheet date, the Company had no capital or operating lease commitments.

NOTES TO FINANCIAL STATEMENTS

31 March 1999

24. RELATED PARTY TRANSACTIONS AND A CONNECTED TRANSACTION

In addition to the related party transactions set out elsewhere in the financial statements, listed out below are the remaining material related party transactions disclosed in accordance with the Statement of Standard Accounting Practice No. 2.120 "Related Party Disclosures" issued by the Hong Kong Society of Accountants in August 1997, and a connected transaction disclosed in accordance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

- (a) The Group sold audio products and related components amounting to HK\$665,000 (1998: HK\$992,000) to Pioneer Ventures Limited ("PVL"), a wholly-owned subsidiary of Egana International (Holdings) Limited which is a substantial shareholder of the Company.

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

- (b) The Group paid approximately HK\$120,000 (1998: HK\$751,000) and HK\$374,000 (1998: Nil) to Corporate Advisory Services Limited and International Taxation Advisory Services Limited, respectively, both of which Wong Wai Kwong, David is a director of, for corporate advisory services rendered.

The directors consider that the above corporate advisory services charges were paid according to the published prices and conditions similar to those offered by other external consultants of the Group.

- (c) During the prior year, the Group paid a management fee of HK\$166,000 to Conhold Development Limited in which Wong Ki Cheung, a director of the Company, was interested directly as director and beneficial shareholder. This management fee represented payments for services rendered by Wong Ki Cheung and was included as directors' emoluments for the prior year as set out in note 5.

- (d) On 8 May 1998, the Group acquired an industrial unit for a consideration of approximately HK\$1,900,000 from Tam Lai Ha, wife of Ling Siu Man, Simon, the Chairman of the Company.

The consideration was determined based on an independent valuation prepared by Messers. C.Y. Leung & Co., Ltd., an independent firm of professional valuers, as at 30 April 1998.

The above transactions are related party transactions, of which item (d) also constitutes a connected transaction disclosed under the Listing Rules.

NOTES TO FINANCIAL STATEMENTS

31 March 1999

25. ULTIMATE HOLDING COMPANY

In the opinion of the directors, the ultimate holding company is Success Forever Limited, a company incorporated in the British Virgin Islands.

26. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by the board of directors on 10 August 1999.

FINANCIAL SUMMARY

31 March 1999

A summary of the combined/consolidated results and of the assets and liabilities of the Group prepared on the basis set out in notes below is set out as follows:

RESULT

	1999 HK\$'000	Year ended 31 March			
		1998 HK\$'000 <i>(note 1)</i>	1997 HK\$'000 <i>(note 2)</i>	1996 HK\$'000 <i>(note 2)</i>	1995 HK\$'000 <i>(note 2)</i>
TURNOVER	1,840,799	<u>1,524,396</u>	<u>863,800</u>	<u>764,112</u>	<u>696,975</u>
OPERATING PROFIT BEFORE EXCEPTIONAL ITEM	63,751	44,604	27,384	15,098	18,112
Exceptional item	12,221	—	—	—	—
PROFIT BEFORE TAXATION	75,972	44,604	27,384	15,098	18,112
Taxation	(7,027)	(3,121)	(3,785)	(1,235)	(1,246)
NET PROFIT ATTRIBUTABLE TO SHAREHOLDERS	68,945	<u>41,483</u>	<u>23,599</u>	<u>13,863</u>	<u>16,866</u>

ASSETS AND LIABILITIES

	1999 HK\$'000	At 31 March		
		1998 HK\$'000	1997 HK\$'000 <i>(note 3)</i>	1996 HK\$'000 <i>(note 3)</i>
TOTAL ASSETS	682,804	681,226	381,627	274,819
TOTAL LIABILITIES	(395,644)	(481,245)	(322,825)	(229,617)
NET ASSETS	287,160	<u>199,981</u>	<u>58,802</u>	<u>45,202</u>

FINANCIAL SUMMARY

31 March 1999

Notes:

1. The result of the Group for the year ended 31 March 1998 have been prepared on a pro forma consolidated basis using the merger basis of accounting as if the current groups structure had been in existence throughout the year.
2. The results of the Group for each of the three years ended 31 March 1997 have been prepared on a pro forma combined basis as if the current group structure had been in existence throughout those years and are extracted from the Company's prospectus dated 30 September 1997.
3. The pro forma combined balance sheets as at 31 March 1996 and 31 March 1997 have been prepared on the basis that the current group structure was in place at those dates.

PROPERTIES HELD BY THE GROUP

Particulars of major properties held by the Group as at 31 March 1999 are as follows:

PROPERTY INTERESTS HELD BY THE GROUP IN HONG KONG

	Type	Lease term
1. Units D, G and H on 4th Floor, Summit Building, 30 Man Yue Street and 21-23 Tai Wan Road, Hung Hom, Kowloon	Industrial	Medium
2. Unit B on 10th Floor, Summit Building, 30 Man Yue Street and 21-23 Tai Wan Road, Hung Hom, Kowloon	Industrial	Medium
3. Units A, B, L and O on 11th Floor, Summit Building, 30 Man Yue Street and 21-23 Tai Wan Road, Hung Hom, Kowloon	Industrial	Medium
4. Town House No.113, Sunderland Estate, 1 Hereford Road, Kowloon Tong, Kowloon	Residential	Medium
5. Flat G on 11th Floor, Block 9, 9 Shung King Street, Whampoa Garden – Site 2, Hung Hom, Kowloon	Residential	Long
6. Flat D on 14th Floor, Block 8, 6 Tak Hong Street, Whampoa Garden – Site 11, Hung Hom, Kowloon	Residential	Long

PROPERTIES HELD BY THE GROUP

PROPERTY INTERESTS HELD BY THE GROUP IN HONG KONG (CONTINUED)

	Type	Lease term
7. Lorry Car Parking Spaces Nos. 7, 8, 9 and 10 on 1st Floor Summit Building, 30 Man Yue Street and 21-23 Tai Wan Road, Hung Hom, Kowloon	Car park	Medium
8. Private Car Parking Spaces Nos. 10, 14, 21 and 22 on Basement Summit Building, 30 Man Yue Street and 21-23 Tai Wan Road, Hung Hom, Kowloon	Car park	Medium

PROPERTY INTERESTS HELD BY THE GROUP IN THE PRC

9. A factory complex in Shitanbu Administrative Zone Tangxia Town, Dongguan, Guangdong Province	Industrial	Medium
10. A factory complex in Zhenhua Industrial District Qishi Town, Dongguan, Guangdong Province	Industrial	Medium

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT an Annual General Meeting of the Members of Tonic Industries Holdings Limited (the “Company”) will be held at Marriott Function Room (Level 3) – Salon 2-3, JW Marriott Hotel, Pacific Place, 88 Queensway, Hong Kong on Tuesday, 28 September 1999 at 11:00 a.m. for the following purposes:

1. To receive and consider the Audited Consolidated Financial Statements and the Reports of the Directors and of the Auditors for the year ended 31 March 1999.
2. To declare a final dividend.
3. To re-elect Directors and to authorise the Board of Directors to fix the Directors’ remuneration.
4. To re-appoint Auditors and to authorise the Board of Directors to fix their remuneration.
5. As special business, to consider and, if thought fit, pass with or without modification the following resolution as an Ordinary Resolution:

“**THAT** subject to and conditional upon the Listing Committee of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) granting the listing of, and permission to deal in, the new shares of HK\$0.10 each in the capital of the Company to be issued pursuant to this resolution (“Bonus Shares”), as recommended by the directors of the Company (“Directors”), a sum of HK\$16,167,000 being part of the amount standing to the credit of the share premium account of the Company, or such greater sum as shall be necessary to give effect to the issue of the Bonus Shares, be capitalised and the Directors be and are hereby authorised to apply such sum in paying up in full at par such number of Bonus Shares to be allotted and credited as fully paid to the shareholders of the Company whose names appear on the Register of Members of the Company on 28 September 1999 (“Record Date”) on the basis of 2 Bonus Shares for every 5 Shares held by such shareholders on the Record Date and that the Bonus Shares shall rank pari passu in all respects with the existing issued shares except that holders of the Bonus Shares shall not be entitled to the final dividend recommended by the Directors on 10 August 1999 for the year ended 31 March 1999 and fractional entitlements to the Bonus Shares shall not be issued but shall be aggregated and sold for the benefit of the Company.”

6. As special business, to consider and, if thought fit, pass with or without modification the following resolutions as Ordinary Resolutions:

“(A) **THAT:**

- (a) Subject to paragraphs (b) and (c) of this resolution, the exercise by the directors of the Company (“Directors”) during the Relevant Period (as defined below) of all the powers

NOTICE OF ANNUAL GENERAL MEETING

of the Company to repurchase (i) issued shares in the capital of the Company and (ii) outstanding warrants to subscribe for shares in the capital of the Company in each case on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) or on any other stock exchange on which the securities of the Company may be listed and recognised by the Securities and Futures Commission and the Stock Exchange for this purpose, subject to and in accordance with all applicable laws and/or requirements of the Stock Exchange or any other stock exchange as amended from time to time, be and the same is hereby generally and unconditionally approved;

- (b) the approval in paragraph (a) of this resolution shall, in addition to any other authorisation given to the Directors, authorise the Directors on behalf of the Company during the Relevant Period to procure the Company to purchase its own shares and outstanding warrants at a price to be determined by the Directors;
- (c) the aggregate nominal amount of the issued shares of the Company to be repurchased or agreed conditionally or unconditionally to be repurchased by the Company pursuant to the approval in paragraph (a) of this resolution during the Relevant Period shall not exceed 10% of the aggregate nominal amount of the share capital of the Company in issue as at the date of passing of this resolution as enlarged by the Bonus Shares to be issued pursuant to resolution numbered 5 set out in the notice of this Meeting, and the subscription rights attached to the warrants to be purchased pursuant to the approval in paragraph (a) of this resolution shall not exceed 10% of the total subscription rights attached to all the warrants outstanding on the date of passing of this resolution, and the said approval shall be limited accordingly; and
- (d) for the purposes of this resolution:

“Relevant Period” means the period from the passing of this resolution until whichever is the earliest of:

- (i) the conclusion of the next annual general meeting of the Company;
- (ii) the expiration of the period within which the next annual general meeting of the Company is required by law and its articles of association to be held; and
- (iii) the revocation or variation of the authority granted under this resolution by an ordinary resolution of the shareholders of the Company in general meetings.”

NOTICE OF ANNUAL GENERAL MEETING

“(B) **THAT:**

- (a) subject to paragraphs (b) and (c) below and without prejudice to the resolution numbered 6(C) set out in the notice of this Meeting, the exercise by the Directors during the Relevant Period (as defined in resolution numbered 6(A)(d) set out in the notice of this Meeting) of all the powers of the Company to allot, issue and deal in shares in the capital of the Company or securities convertible into shares or options, warrants or similar rights to subscribe for any shares in the Company and to make or grant offers, agreements and options which might require the exercise of such power, be and is hereby generally and unconditionally approved;
- (b) the approval in paragraph (a) above shall, in addition to any other authorisation given to the Directors, authorise the Directors during the Relevant Period to make or grant offers, agreements or options (including warrants or similar rights to subscribe for any shares in the Company) which might require the exercise of such power after the end of the Relevant Period;
- (c) the aggregate nominal amount of securities allotted, issued or dealt with or agreed conditionally or unconditionally to be allotted, issued or dealt with by the Directors pursuant to the approval given in paragraph (a) above, otherwise than pursuant to (i) a Rights Issue (as defined below); (ii) the exercise of the rights of subscription or conversion under the terms of any securities or bonds which are convertible into any shares in the capital of the Company; (iii) any options granted or issue of shares under any share option scheme or similar arrangement for the time being adopted by the Company, or (iv) any scrip dividend schemes or similar arrangements providing for the allotment of shares in lieu of the whole or part of a dividend on shares in accordance with the articles of association of the Company, shall not exceed 20% of the aggregate nominal amount of the share capital of the Company in issue as at the date of passing of this resolution as enlarged by the Bonus Shares to be issued pursuant to resolution numbered 5 set out in the notice of this Meeting; and that the approval shall be limited accordingly;
- (d) for the purpose of this resolution:

“Rights Issue” means an offer of shares open for a period fixed by the Directors to holders of shares on the Register on a fixed record date in proportion to their then holdings of such shares (subject to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of any relevant jurisdiction, or the requirements of any recognised regulatory body or any stock exchange in any territory outside Hong Kong).”

NOTICE OF ANNUAL GENERAL MEETING

“(C) **THAT** conditional upon the passing of the resolutions numbered 6(A) and 6(B) set out in the notice of this Meeting, the aggregate nominal amount of the shares in the Company which are repurchased by the Company pursuant to and in accordance with the said resolution numbered 6(A) shall be added to the aggregate nominal amount of the shares in the Company that may be allotted, issued or dealt with or agreed conditionally or unconditionally by the Directors pursuant to and in accordance with the said resolution numbered 6(B) (as enlarged by the Bonus Shares to be issued pursuant to the resolution numbered 5 set out in the notice of this Meeting).”

By Order of the Board

Liu Hoi Keung, Gary

Secretary & Director

Hong Kong

10 August 1999

Notes:

- (a) The Register of Members of the Company will be closed from Friday, 24 September 1999 to Tuesday, 28 September 1999 (both days inclusive), during which period no transfer of shares can be registered and no shares will be allotted and issued on the exercise of the subscription rights attaching to the outstanding warrants and share options issued/granted by the Company. In order to qualify for the proposed final dividend and the bonus issue of shares, all transfers accompanied by the relevant share certificates and transfer forms and, in the case of warrant holders, all duly completed subscription forms accompanied by the relevant warrant certificates and the appropriate subscription monies must be lodged with the Company's Branch Registrars in Hong Kong, Tengis Limited at 1601 Hutchison House, 10 Harcourt Road, Hong Kong for registration not later than 4:00 p.m. on Thursday, 23 September 1999.
- (b) A shareholder of the Company who is the holder of two or more shares may appoint more than one proxy to represent him on his behalf. A proxy need not be a shareholder of the Company. If more than one proxy is so appointed, the appointment shall specify the number and class of shares in respect of which each such proxy is so appointed.
- (c) The instrument appointing a proxy and the power of attorney or other authority, if any, under which it is signed, or a notarially certified copy of such power or authority, must be lodged with the Company's Branch Registrars in Hong Kong, Tengis Limited at 1601 Hutchison House, 10 Harcourt Road, Hong Kong not less than 48 hours before the time fixed for holding the Meeting.
- (d) The Annual Report of the Company for the year ended 31 March 1999 also containing this notice together with a circular setting out further information regarding resolutions numbered 5 and 6 above will be dispatched to shareholders and for information only, warrant holders as soon as practicable.