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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*

* *Independent*

REGISTERED OFFICE

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

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

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

COMPANY SECRETARY

Mr. LIU Hoi Keung, Gary, FCCA, AHKSA

LEGAL ADVISORS

Richards Butler

AUDITORS

Ernst & Young

AUDIT COMMITTEE

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

PRINCIPAL BANKERS

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

SHARE REGISTRARS AND TRANSFER OFFICE

In Hong Kong
 Tengis Limited
 4th Floor, Hutchison House
 10 Harcourt Road
 Central, Hong Kong

In Cayman Islands
 Bank of Butterfield International (Cayman) Ltd.
 Butterfield House
 PO Box 705
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 Grand Cayman
 Cayman Islands
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WEBSITES

www.tonic.com.hk
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STOCK CODE

978

FINANCIAL HIGHLIGHTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2000

- Turnover for 2000 amounted to HK\$1,390,436,000 representing an increase of 28.7% from 1999;
- Net Profit for 2000 amounted to HK\$26,889,000 representing a decrease of 21.7% from 1999;
- Basic earnings per share for 2000 amounted to HK4.6 cents representing a decrease of 24.6% from 1999;
- Interim dividend for 2000 amounted to HK\$6,353,000 representing a decrease of 26.1% from 1999; and
- Shareholders equity as at 30 September 2000 amounted to HK\$379,982,000, representing an increase of 12.6% from 31 March 2000.

The Board of Directors (“Directors”) of Tonic Industries Holdings Limited (the “Company”) is pleased to announce that the unaudited condensed consolidated financial statements of the Company and its subsidiaries (the “Group”) for the six months ended 30 September 2000 together with the comparative figures for the corresponding period were as follows:

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

		For the six months ended 30 September	
		2000	1999
		Unaudited	Unaudited
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	2	1,390,436	1,080,368
Cost of sales		<u>(1,296,523)</u>	<u>(992,842)</u>
Gross profit		93,913	87,526
Other revenue		6,477	7,084
Selling and distribution costs		(20,921)	(17,989)
Administrative expenses		<u>(42,317)</u>	<u>(32,234)</u>
Profit from operating activities		37,152	44,387
Finance costs		<u>(8,520)</u>	<u>(6,792)</u>
Profit before taxation	3	28,632	37,595
Taxation	4	<u>(1,745)</u>	<u>(3,233)</u>
Profit before minority interests		26,887	34,362
Minority interests		<u>2</u>	<u>–</u>
Net profit for the period		26,889	34,362
Interim dividend		<u>(6,353)</u>	<u>(8,592)</u>
Profit retained for the period		<u>20,536</u>	<u>25,770</u>
Earnings per share	5		
– Basic		<u>4.6 cents</u>	<u>6.1 cents</u>
– Diluted		<u>N/A</u>	<u>5.7 cents</u>

**CONDENSED CONSOLIDATED STATEMENT OF
RECOGNISED GAINS AND LOSSES**

	For the six months ended 30 September	
	2000 Unaudited HK\$'000	1999 Unaudited HK\$'000
Exchange differences arising on translation of overseas operation not recognised in the profit and loss account	570	653
Net profit for the period	<u>26,889</u>	<u>34,362</u>
Total recognised gains and losses	<u>27,459</u>	<u>35,015</u>

CONDENSED CONSOLIDATED BALANCE SHEET

		30 September 2000	31 March 2000
	<i>Notes</i>	Unaudited HK\$'000	Audited HK\$'000
NON-CURRENT ASSETS			
Fixed assets		372,700	322,686
Long term investments		16,024	16,024
		<u>388,724</u>	<u>338,710</u>
CURRENT ASSETS			
Cash and bank balances		128,365	81,348
Time deposits		163,385	50,000
Accounts and other receivables	6	212,705	116,373
Inventories		450,541	214,840
		<u>954,996</u>	<u>462,561</u>
CURRENT LIABILITIES			
Accounts and other payables	7	671,311	318,314
Borrowings due within one year		213,619	104,779
Tax payable		6,017	5,132
Dividend payable		28,743	22,390
		<u>919,690</u>	<u>450,615</u>
NET CURRENT ASSETS		<u>35,306</u>	<u>11,946</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		424,030	350,656
NON-CURRENT LIABILITIES			
Long term borrowings		(34,779)	(3,865)
Deferred tax		(9,269)	(9,269)
		<u>(44,048)</u>	<u>(13,134)</u>
MINORITY INTERESTS		<u>—</u>	<u>—</u>
		<u>379,982</u>	<u>337,522</u>
CAPITAL AND RESERVES			
Share capital	8	63,526	58,889
Reserves	9	316,456	278,633
		<u>379,982</u>	<u>337,522</u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	For the six months ended 30 September 2000
	<i>Unaudited HK\$'000</i>
Net cash inflow from operating activities	82,536
Net cash outflow from return on investments and servicing of finance	(3,982)
Taxes paid	(860)
Net cash outflow from investing activities	(75,821)
Net cash inflow from financing activities	52,269
Increase in cash and cash equivalents	54,142
Cash and cash equivalents at 1 April	30,321
Cash and cash equivalents at 30 September	<u>84,463</u>
Analysis of balances of cash and cash equivalents	
Cash and bank balances	128,365
Time deposits with original maturity of less than three months when acquired	163,385
Trust receipt loans with maturity of less than three months	(207,287)
	<u>84,463</u>

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES

The unaudited condensed consolidated interim financial statements of the Group are prepared in accordance with Statement of Standard Accounting Practice ("SSAP") No. 25 "interim financial reporting" and the Listing Rules of The Stock Exchange of Hong Kong Limited. The accounting policies and basis of preparation are the same as those used in the annual financial statements for the year ended 31 March 2000. Figures for the year ended 31 March 2000 are extracted from the Group's annual financial statements for that year.

Certain comparative figures have been reclassified to conform with the current period's presentation. In particular, the comparative figures have been adjusted or extended to take into account of SSAP No.1 "Presentation of Financial Statements".

2. SEGMENTAL INFORMATION

The principal activity of the Group is the manufacture and trading of consumer audio products. A geographical analysis of the Group's turnover, by market for the six months period ended 30 September 2000 is as follows:

	Turnover Unaudited <i>HK\$'000</i>	Percentage %
By geographical region:		
Asia Pacific countries	514,462	37
Americas	472,748	34
Europe	403,226	29
	<hr/>	<hr/>
Total	1,390,436	100

Contribution to profit from operating activities 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.

3. PROFIT BEFORE TAXATION

	For the six months ended 30 September 2000 <i>Unaudited</i> <i>HK\$'000</i>	1999 <i>Unaudited</i> <i>HK\$'000</i>
Profit before taxation is arrived at after charging/(crediting)		
Depreciation	25,456	24,049
Interest on borrowings	8,520	6,792
	<hr/>	<hr/>
Interest income	(4,047)	(4,334)

4. TAXATION

Hong Kong profits tax has been provided at the applicable rate of 16% (1999: 16%) on the estimated assessable profits arising in Hong Kong during the period. Taxes on profits assessable in the People's Republic of China ("PRC") have been provided at the rates of taxation prevailing in the PRC based on existing legislations, interpretations and practices in respect thereof.

5. EARNINGS PER SHARE

The calculation of basic earnings per share for the period is based on the net profit attributable to shareholders of HK\$26,889,000 (1999: HK\$34,362,000) and the weighted average of 589,598,398 shares (1999: 565,640,133 shares) in issue during the period.

There is no diluted earnings per share for the period since the company has no dilutive potential ordinary share. The calculation of diluted earnings per share for 1999 is based on the net profit attributable to shareholders of HK\$34,362,000 and the weighted average of 607,005,059 shares in issue, adjusted to reflect the effects of all dilutive potential ordinary shares.

6. ACCOUNTS AND OTHER RECEIVABLES

Included in accounts and other receivables are accounts receivable of HK\$178,873,000 (31 March 2000: HK\$100,099,000), the aging analysis of which is as follows:

	30 September 2000 Unaudited HK\$'000	31 March 2000 Unaudited HK\$'000
0-30 days	161,404	90,296
31-60 days	8,910	2,401
>60 days	8,559	7,402
	<u>178,873</u>	<u>100,099</u>

The majority of the Group's sales are on terms of L/C at sight.

7. ACCOUNTS AND OTHER PAYABLES

Included in accounts and other payables are accounts payable of HK\$631,254,000 (31 March 2000: HK\$281,542,000), the aging analysis of which is as follows:

	30 September 2000 Unaudited HK\$'000	31 March 2000 Unaudited HK\$'000
0-30 days	353,796	150,210
31-60 days	148,961	55,823
61-90 days	67,151	25,638
Over 90 days	61,346	49,871
	<u>631,254</u>	<u>281,542</u>

8. SHARE CAPITAL

	30 September 2000 Unaudited HK\$'000	31 March 2000 Audited HK\$'000
<i>Authorised:</i>		
1,200,000,000 ordinary shares of HK\$0.10 each	<u>120,000</u>	<u>120,000</u>
<i>Issued and fully paid:</i>		
635,259,975 (31 March 2000: 588,891,296) ordinary shares of HK\$0.10 each	<u>63,526</u>	<u>58,889</u>

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

- (a) During the period 46,268,679 warrants were exercised by warrant holders at the subscription price of HK\$0.46 per share for HK\$21,283,600 in cash. The excess of the proceeds over the par value of the ordinary shares issued of approximately HK\$16,656,732 was credited to the share premium account. The outstanding warrants were expired on 30 September 2000.
- (b) On 10 April 2000, 50,000,000 of the Company's share options were granted to the executive directors and certain employees of the Company to subscribe for a total of 50,000,000 ordinary shares of the Company at an exercise price of HK\$0.70 per share on or before 9 April 2010. During the period, 100,000 share options were exercised. The excess of the proceeds over the par value of the ordinary shares issued of HK\$60,000 was credited to the share premium account.

9. RESERVES

	Share premium HK\$'000	Contributed surplus HK\$'000	Exchange fluctuation reserve HK\$'000	Asset revaluation reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
Balance at 1 April 2000	12,018	280	(5,305)	91,413	180,227	278,633
Exercise of warrants	16,657	-	-	-	-	16,657
Exercise of options	60	-	-	-	-	60
Exchange difference on translation of overseas subsidiaries' financial statements	-	-	570	-	-	570
Net profit for the period	-	-	-	-	26,889	26,889
Interim dividends	-	-	-	-	(6,353)	(6,353)
Balance at 30 September 2000	<u>28,735</u>	<u>280</u>	<u>(4,735)</u>	<u>91,413</u>	<u>200,763</u>	<u>316,456</u>

10. CONTINGENCIES AND COMMITMENTS

- (a) Contingent liabilities in respect of bills discounted with recourse at 30 September 2000 was HK\$18,132,000 (31 March 2000: HK\$2,421,000).
- (b) Capital commitments in respect of fixed assets

	30 September 2000 Unaudited HK\$'000	31 March 2000 Audited HK\$'000
Contracted for but not provided in the financial statements	22,143	16,955
Authorised but not contracted for	—	737
	<u>22,143</u>	<u>17,692</u>

- (c) Commitments to buy and sell foreign currencies amounted to HK\$179,032,000 (31 March 2000: HK\$203,395,000)

11. RELATED PARTY TRANSACTIONS

During the period, the Group had the following related party transactions:

- (a) The Group sold audio products and related components amounting to HK\$806 (year ended 31 March 2000: HK\$408,000) to Pioneer Ventures Limited ("PVL"), a wholly-owned subsidiary of EganaGoldpfeil (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 HK\$25,500 (year ended 31 March 2000: HK\$318,900) to International Taxation Advisory Services Limited, of which Wong Wai Kwong, David, a non-executive director of the Company, is a director, 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.

INTERIM DIVIDEND

The Directors have resolved to declare an interim dividend of HK1.0 cent per share payable to shareholders whose names appear on the Company's Register of Members at the close of business on 16 January 2001. Dividend warrants will be sent to shareholders on or before 19 January 2001.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from Friday, 12 January 2001 to Tuesday, 16 January 2001, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the interim dividend, all transfer documents, accompanied by the relevant share certificates must be lodged with the Company's Branch Registrar in Hong Kong - Tengis Limited, 4th Floor Hutchison House, 10 Harcourt Road Central, Hong Kong not later than 4:00 p.m. on Thursday, 11 January 2001.

BUSINESS REVIEW AND OUTLOOK

Capitalizing on the solid foundation of Tonic's core business, the Directors are pleased to announce that Tonic recorded steady growth in the 2000/2001 interim period despite the intense competition in the AV product manufacturing industry. For the six months ended 30 September 2000, the Group's turnover increased 28.7% to HK\$ 1,390 million, while profit attributable to shareholders was HK\$26.9 million, the previous period's figure was HK\$34.4 million.

During the period under review, the Group obtained significant growth in the manufacturing of audio products for OEM and ODM customers. In particular, the manufacturing of MD Hi-fi equipment shows outstanding growth, with its share of Group turnover reached 20% in the first half of the financial year. This reflects the fact that the Group has effectively captured market opportunities for the popularity of MD products and has the ability to enlarge its market share. The Group's other products namely Discmans, portable CD/Cassette Recorders and Mini & Micro Compo Systems have also recorded steady growth, with their share of the Group's turnover at 25%, 20% and 28% respectively.

The fact that the profit did not show a corresponding growth for the first half of the year is attributable to the increasing cost of raw materials, such as integrated circuits, RAM and plastic materials. Increase in oil prices has sharply raised the cost of plastic materials, whereas the worldwide shortage of IC and RAM has driven the increase in costs of these components. Recently, the supply has returned to a normal level and the selling prices for all the components have lowered. It is expected that the profit margin will improve in the second half of the year. Depreciation of Euro also affects the margin of the sales to Europe as the European market accounted for 30% of the total sales.

The business of the Group are seasonal in nature with peak season from June to November each year. On the contrary, January to March is the slack season. Business activities at the end of the interim period of 30 September 2000 would therefore be very large as compared to the year end of 31 March 2000. As a result, the amount of inventories, accounts and other receivables and payables are relatively higher.

Production plans for different products have progressed smoothly. The Group has maximized market knowledge and expertise in the manufacturing of high profit margin products including MP3 Discmans and CD-RW. Both products were introduced in the market and have received encouraging responses. Revenue is expected to be reflected in the second half of the year. Diversifying the Group's top quality product range is one of the key corporate strategies of the Group. Apart from its audio products, Tonic has successfully developed its advance technology products and home appliance products via two divisions – Tonic Technology Limited and Tonic Appliances Limited.

Tonic Technology Limited, which focuses on the development of advance technology products, launched its Internet set top box and digital satellite receiver in the 4th quarter this year. Both products were well received in the United States and Europe. With this successful market presence, the Group introduced its Internet set top box to the Asian market, achieving a strong foothold through its competitive price and user-friendly design. This demonstrates that the Group is on the right track and has a well-established market niche. It will continue in this direction to further capture the emerging markets.

Tonic Appliances Limited, which focuses on the development of home appliances, launched its innovative 3 in 1 coffee making machine in the market which is enjoying a high reputation. A number of new products are in the pipeline, which will further enrich Tonic's product portfolio.

The Group is committed to the pursuit of state-of-the-art production facilities to satisfy increasing customer demand. The new factory Block 8, together with advance machinery at a total investment of approximately HK\$100 million, was inaugurated in June this year. On the new production floor, five more production lines were put into operation with seven sets of high-speed, fully automated SMT machines being installed. The production capacity has been driven up by 40% and product quality is even more reliable. Capital expenditure for the last full year ended 31 March 2000 amounted to HK\$63 million.

Although production capacities have increased by 40%, production is expected to reach full capacity soon because of the increasing orders received from customers. To plan for the future, the Group's new factory block 9 and a new staff dormitory are under construction with completion expected in April 2001. At that time, production capacity will increase a further 20%.

To save production costs, the Group has ordered six sets of heavy oil electricity generators and attachments. Two of these will be installed in December 2000 and the other four are expected to be installed before June 2001. HK\$50 million will be invested for the purchase and installation. In the long run, electricity costs can be reduced by 30 - 40% and investment will be paid back within four years.

As at 30 September 2000, the Group has approximately 142 staff stationed in Hong Kong and approximately 10,500 workers in the PRC factories. Total salary costs amounted to approximately HK\$58,405,000. The Group provides year end double pay, discretionary bonus, provident fund scheme, medical insurance and training to staff.

To grasp the numerous opportunities in the e-commerce era, the Group is developing its B2B platform and logistics system. This will enhance the procurement transaction process and enable the Group to obtain the cheapest components among suppliers. The Group expects this B2B platform to begin operations in March 2001.

The Group is in the process of consolidating its existing business as a result of the rapid growth in the last three years. It is also in the process of reengineering its existing audio business into a more diversified, technology advanced and value driven business. Significant amount of research and development costs for the above new products have been incurred and provided in the financial statements. With the management's rich experience, strong leadership and widespread expertise in implementing sound marketing strategies, the Group is confident that it will continue its robust business development to the future.

DIRECTORS' INTERESTS IN SECURITIES

At 30 September 2000, the interests of directors or their associates in the issued share capital of the Company and its associated corporation, as recorded in the register maintained by the Company under Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") were as follows:

(a) The Company

Name of directors	Nature of interest	Number of ordinary shares held
Ling Siu Man, Simon	Corporate <i>(Note)</i>	317,886,782
Liu Hoi Keung, Gary	Personal	3,920
Pang Hon Chung	Personal	200,000

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

(b) Associated corporation

At 30 September 2000, Ling Siu Man, Simon personally held 2,850 non-voting deferred shares of HK\$100 each of Tonic Electronics Limited, a subsidiary of the Company.

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

DIRECTORS' RIGHTS TO ACQUIRE SHARES

On 10 April 2000, the Company granted a total of 19,050,000 options to the executive directors of the Company to subscribe for a total of 19,050,000 ordinary shares of the Company at an exercise price of HK\$0.70 per share on or before 9 April 2010. In the absence of a readily available market value of the share options granted on the shares of the Company, the directors are unable to arrive at an accurate assessment of the value of the share options granted, and accordingly no value has been included in the remuneration above in relation thereto.

The details of share options granted to each director were as follows:

	Number of options
Ling Siu Man, Simon	10,000,000
Lee Ka Yue, Peter	1,810,000
Wong Ki Cheung	1,810,000
Li Fung Ching, Catherine	1,810,000
Au Wai Man	1,810,000
Liu Hoi Keung, Gary	1,810,000
	<hr style="width: 100%; border: 1px solid black;"/>
	19,050,000

SUBSTANTIAL SHAREHOLDERS

At 30 September 2000, the following interests of 10% or more of the issued share capital of the Company were recorded in the register of interests kept by the Company pursuant to Section 16(1) of the SDI Ordinance:

Name	Number of ordinary shares held	Percentage of issued share capital (%)
Success Forever Limited (<i>Note 1</i>)	317,886,782	50.04
Eco-Haru Manufacturing Holdings Limited ("Eco-Haru") (<i>Note 2</i>)	121,100,869	19.06
Glorious Concept Limited ("Glorious Concept") (<i>Note 2</i>)	7,744,000	1.22
EganaGoldpfeil (Holdings) Limited ("EganaGoldpfeil") (<i>Note 2</i>)	128,844,869	20.28
Peninsula International Limited ("Peninsula") (<i>Note 3</i>)	128,844,869	20.28

Notes:

- (1) The entire issued share capital of Success Forever Limited is beneficially owned by Ling Siu Man, Simon as disclosed in "Directors' interests in securities" above.
- (2) The entire issued share capital of Eco-Haru and Glorious Concept is beneficially owned by EganaGoldpfeil.
- (3) The entire issued share capital of EganaGoldpfeil is held as to 39.54% by Peninsula.

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

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

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

AUDIT COMMITTEE

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters including the review of the unaudited interim financial statements.

CODE OF BEST PRACTICE

None of the directors of the Company is aware of any information that would reasonably indicate that the Company had not been for any part of the accounting period covered by the interim report in compliance 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.

APPRECIATION

On behalf of the Board, I would like to extend my sincere gratitude to our shareholders, customers, suppliers and bankers for their continued support. I would also like to thank my fellow directors and our staff for their dedication and contribution to the Company.

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

Hong Kong 27 December 2000