

FINANCIAL HIGHLIGHTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 1999

- Turnover for 1999 amounted to HK\$1,080,368,000, representing an increase of 12% from 1998;
- Net Profit attributable to shareholders for 1999 amounted to HK\$34,362,000, representing an increase of 20% from 1998;
- Basic earnings per share amounted to HK6.1 cents, representing an increase of 20% from 1998; and
- Interim dividend per share is HK1.5 cents per share, representing an increase of 36% from 1998.

The Board of Directors ("Directors") of Tonic Industries Holdings Limited (the "Company") is pleased to announce that the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 30 September 1999, together with the comparative unaudited figures for the corresponding period in 1998, were as follows:

	For the six months ended 30 September	
	1999 HK\$'000	1998 HK\$'000
Turnover	<u>1,080,368</u>	<u>966,125</u>
Operating profit before taxation	<u>37,595</u>	<u>31,832</u>
Taxation (<i>Note 1</i>)	<u>3,233</u>	<u>3,194</u>
Net profit attributable to shareholders	<u>34,362</u>	<u>28,638</u>
Interim dividend per share	<u>1.5 cents</u>	<u>1.1 cents</u>
Earnings per share (<i>Note 2</i>)		
– Basic	<u>6.1 cents</u>	<u>5.1 cents</u>
– Diluted	<u>5.7 cents</u>	<u>5.1 cents</u>

Notes:

1. Taxation

Hong Kong profits tax has been provided at the applicable rate of 16.0% (1998: 16.0%) 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.

2. Earnings per share

The calculation of basic earnings per share for the period is based on the net profit attributable to shareholders of HK\$34,362,000 (1998: HK\$28,638,000) and the weighted average of 565,640,133 shares (1998: 564,480,000 shares) in issue during the period.

The calculation of diluted earnings per share is based on the net profit attributable to shareholders of HK\$34,362,000 (1998: HK\$28,638,000) and the weighted average of 607,005,059 shares (1998: 564,591,430 shares) in issue, adjusted to reflect the effects of all dilutive potential ordinary shares during the period.

A reconciliation of the weighted average number of shares used in the basic earnings per share calculation to that used in the diluted earnings per share calculation is as follows:

	For the six months ended 30 September	
	1999	1998
Weighted average number of shares used in the basic earnings per share calculation	565,640,133	564,480,000
Weighted average number of shares assumed to have been issued at no consideration on the deemed exercise of all warrants outstanding during the period	41,364,926	111,430
Weighted average number of shares used in the diluted earnings per share calculation	<u>607,005,059</u>	<u>564,591,430</u>

The above comparative weighted average number of shares in issue and basic and diluted earnings per share have been adjusted to reflect the bonus issue of new shares on 28 September 1999 on the basis of two bonus shares for every five ordinary shares ("Bonus Issue") then held by shareholders.

■ INTERIM DIVIDEND

The Directors have resolved to declare an interim dividend in respect of the six months ended 30 September 1999 of HK1.5 cents per share, totalling a minimum of HK\$8,521,000 (1998: HK\$6,048,660), payable to shareholders whose names appear on the Company's Register of Members

at the close of business on 13 January 2000. The interim dividend will be paid on or about 25 January 2000. The comparative interim dividend per share has been adjusted as a result of the Bonus Issue.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from Tuesday, 11 January 2000 to Thursday, 13 January 2000, both days inclusive, during which period no transfer of shares will 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 interim dividend, 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 Registrar in Hong Kong – Tengis Limited at 1601 Hutchison House, 10 Harcourt Road, Central, Hong Kong not later than 4:00 p.m. on Monday, 10 January 2000.

BUSINESS REVIEW AND OUTLOOK

Following the high growth experienced in the annual results ended 31 March 1999, the Group reported continuous stable growth in the six months ended 30 September 1999. The Group's turnover rose 12% to HK\$1,080 million as compared to the corresponding period in 1998. Net profit attributable to shareholders also saw growth of 20% to HK\$34.4 million.

The Group's success is mainly attributable to its ability to enhance the product variety and quality, control production costs, and to develop and maintain a diversified customer portfolio. During the period under review, production plans for different products progressed smoothly. The production volume for MD Hi-Fi systems for OEM customers was over 150,000 sets, which exceeded the Group's expectation. This demand indicates that the market response to MD products is overwhelming. The Group has maximized its market knowledge and expertise in the manufacturing of MD and has enhanced production techniques in producing different MD models, such as the portable MD system for its OEM customers and portable MD player for its ODM customers.

Since Tonic signed a MD license agreement with Sony Corporation in 1999, entitling it to manufacture its own MD products, the Group has been working to develop its own MD products with advanced features. Currently, different MD models are being designed for its ODM customers. Commercial production for the first portable MD player will commence in January, 2000.

In addition to the MD products, the Group has also successfully developed production technology for DVD player, which are also expected to introduce in the market in the first quarter next year. We believe digital

products would eventually replace all the analogue products in the market, we have also saw sign of increasing demand of DVD in the market. It is expected that MD and DVD products will contribute significantly to the Group's profit in the next few years, forming a solid base for the Group's future business.

The Group's OEM customers such as Kenwood, Sanyo and Pioneer has been providing stable income streams and strong product demand for the Group. Other ODM customers have also shown strong interest in the newly designed MD and DVD products, thereby generating significant income for the Group.

With the successful launch of the Group's new products and increasing orders being received from customers, the Group's existing 21 production lines are already operating at full capacity. Following the significant growth of turnover in the past 2 years, instead of widespread expansion of its production capacities, the Group has made use of the period to consolidate its existing operations, at the same time enhancing the Group's vertical integration manufacturing process. The Group has also successfully shifted its product mix to higher profit margin products.

The Group has acquired an additional piece of land next to its existing manufacturing plants in Dongguan. Two new factories with a total production floor area of more than 450,000 square feet will be built on this space. The first new factory with a total production floor area of approximately 250,000 square feet will be completed in May 2000, increasing the Group's production capacity by 25%. With the completion of the second new factory, the Group's production capacity will increase by more than 45%. The Group believes that by that time, it will have sufficient capacity to expand the production of more higher profit margin products such as MDs and DVDs which will generate higher profit growth for the Group.

Apart from the manufacturing of audio and visual products, the Group is also diversifying to develop and manufacture other high technology products. In August 1999, the Group formed a new division, Tonic Technology Limited, specializing in the development of high-tech products, such as Home AV Centers, a total control of audio, video and surveillance central console and digital satellite receivers. These products have been exhibited at the 1999 Hong Kong Electronics Fair, and were well received by the market. The AV console is already in production whereas the digital satellite receiver will be launched in the market in the second quarter next year.

The home appliance business is also progressing on-schedule, and will begin commercial production in the first quarter of 2000. The Group expects the two new diversified divisions to become important contributors to the Group's profit in subsequent years.

The Group believes that the new product divisions will perfectly complement its existing AV business while providing a greater choice for its customer. Therefore, the Group is confident that with the encouraging

results received and its upgraded product portfolio, it will be able to maintain its leading position in the industry and achieve even better results for the full year.

In connection with the Year 2000 project all the compliance work has now been completed. All hardware and software, together with other embedded systems and non-merchandise items have been checked and are confirmed to be Year 2000 complaint.

DIRECTORS' INTERESTS IN SECURITIES

The interests of the 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 ("SDI Ordinance") as at 30 September 1999 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>)	296,352,000	30,240,000
Liu Hoi Keung, Gary	Personal	3,920	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 30 September 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

Under the terms of the Company's share option scheme (the "Scheme") adopted on 18 September 1997, the Directors may, at their discretion, grant options to employees, including executive directors, of the Group to subscribe for shares in the Company. No options were granted to any directors or employees under the Scheme during the six months ended 30 September 1999.

SUBSTANTIAL SHAREHOLDERS

The following shareholders had interests amounting to 10% or more of the issued shares of the Company as recorded in the register of interests kept by the Company pursuant to Section 16(1) of the SDI Ordinance as at 30 September 1999:

Name	Number of shares	Percentage of Issued Shares
Success Forever Limited (<i>Note 1</i>)	296,352,000	52.30%
Eco-Haru Mfr. Holdings Limited ("Eco-Haru")	118,748,000(<i>Note 2</i>)	20.96%
Egana International (Holdings) Limited ("Egana") (<i>Note 3</i>)	118,748,000	20.96%
Peninsula International Limited ("Peninsula") (<i>Note 4</i>)	118,748,000	20.96%

Notes:

1. The entire issued share capital of Success Forever Limited is beneficially owned by Mr. Ling Siu Man, Simon.
2. 12,908,000 shares are held by Glorious Concept Limited, a wholly owned subsidiary of Eco-Haru Mfr. Holdings Limited.
3. The entire issued share capital of Eco-Haru is beneficially owned by Egana.
4. The issued share capital of Egana is held as to 37.43 per cent. 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

There has been no purchase, sale or redemption by the Company or any of its subsidiaries of the Company's listed securities during the six months ended 30 September 1999.

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.

On behalf of the Board
Simon Ling Siu Man
Chairman

Hong Kong, 15 December 1999