

Digital products including  
MP3 discman,  
Internet set-top box,  
Satellite receiver and DVD,  
have been launched this year.



# CHAIRMAN'S

## Statement



Dear shareholders,

On behalf of the Board of Directors (the "Board"), I am pleased to present the annual report of Tonic Industries Holdings Limited.

### FINAL DIVIDEND

The Board has recommended the payment of a final dividend of HK0.5 cent (year ended 31 March 2000: HK3.8 cents) per share. Together with the interim dividend of HK1 cent per share paid in January 2001, total dividend for the year will amount to HK1.5 cents per share. Subject to the approval of the Company's Members at the forthcoming Annual General Meeting, the final dividend will be paid on or before 8 October 2001 to registered shareholders.

### CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 10 September 2001 to 12 September 2001, both days inclusive, during which period no transfer of shares will be effected. All transfer documents accompanied by the relevant share certificates must be lodged with the Company's Branch Registrar in Hong Kong, Tengis Limited at 4th Floor, Hutchison House, 10 Harcourt Road, Central, Hong Kong not later than 4:00 p.m., on 7 September 2001 in order to qualify for the Proposed Final Dividend.

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The turnover of the Group increased satisfactorily during the year. The Group successfully increased its product range, secured new orders from existing and new customers and enhanced production capacity via the Group's investment in advanced automation machines and new factory blocks.

Profit for the year did not show a corresponding growth due to reductions in profit margins. This was attributable to the abnormal increase and fluctuation in the cost of raw materials such as integrated circuits, RAM and plastic materials. The significant expenditure in research and development, and other start up costs for new products launched in the second half of the year and heavy capital investments also contributed to a lower bottom line. In addition, the markets in Europe and Japan have been affected by the currency depreciation and continue to be very competitive.

For Tonic, the fiscal year 2000/2001 was a year of challenge. Tonic has focused on the manufacturing of consumer audio products for many years. Realizing the world trend towards the digital era, we have taken the necessary steps in preparing the changes. As the next generation of digital products require more precision and accurate manufacturing processes, the Group has invested heavily in automated machinery eg. IC insertion machines and SMT machines from 1999

onward. We now have 18 automated machinery lines which not only reduce the processing time but also improve the product quality. Following the openings of our new factory buildings number 8 and 9 in 2000 and 2001 respectively, the factory production capacity has now been doubled. Production capacity is now able to meet the production demand for the next three years.

Factory Block 8, was inaugurated in June 2000, providing an additional 40% in production area. Factory Block 9, capable of installing 8 production lines was completed in June 2001 and has bolstered the production area by a further 20%. Total production area for the Group now exceeds 1,500,000 square feet.

To maintain its role as one of the leading manufacturers of audio-visual products, Tonic has further strengthened its existing business into a more diversified, technology advanced and value driven business. During the year, new products were being developed. These include CD-RW, DVD, MP3, digital satellite receiver and Internet set-top box and most of these products have been successfully launched in the market this year. These products have a higher unit selling price and generally have a higher profit margins. Consistent with previous years, the research and development costs for the new products were written off in the profit and loss account.

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**FUTURE PLANS AND PROSPECTS**

One of our prestigious Japanese OEM customers, Pioneer Electronics, has contracted the Group to manufacture three new models for them. These include high value DVD and MD products with total turnover exceeding HK\$600 million. We have also secured a new customer from the United States to manufacture Internet-DVD products with quantity forecasted at more than 500,000 sets per year. Together with the sales of our general audio products to other customers, we believe our business will sustain further growth in the coming years.

The business development of our home appliances company, Tonic Appliances Limited progressed smoothly during the year. The Group made good use of its existing production facilities, expertise in design and technology, as well as its quality control systems to produce quality products at a competitive price. Although this division contributed less than 5% to the Group's turnover this year, we believe that contributions from this division will increase rapidly in the next few years. Apart from our innovative 3 in 1 coffee making machine, new products such as air purifiers, ovens and industrial irons were introduced this year.

To seize opportunities arising out of the e-commerce era, the Group is planning to empower its B2B platform by implementing payment gateways and other value added

services e.g. logistics, insurance, quality control and credit checking facilities among others, in our next stage of development. Upon completion, the platform will enable suppliers and customers to search for products, negotiate terms, place orders, arrange delivery and make payment in one easy stop.

2000/01 was a period of investments, consolidation and repositioning for the Group. Acknowledging the swift development of the digital technology, the Group has prepared itself well ahead of the trend. Without the needs of further heavy investment, we expect fruitful returns to be generated from the new products and increased business. We are very confident that the Group's performance will significantly improve in the years ahead.

**ACKNOWLEDGEMENT**

On behalf of the board, I would like to take this opportunity to extend my gratitude to all my fellow directors & staff for their valuable commitment and hard work. I would like also to express my sincere thanks to our business partner support in the past year.

**LING Siu Man, Simon**

*Chairman*

Hong Kong, 17 July 2001