

1. CORPORATION INFORMATION

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 Electronic (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.

The principal activity of the Company is investment holding. The subsidiaries are engaged in the design, manufacture and marketing of consumer audio and video products. The design, manufacture and marketing of consumer video products was new business entered into by the Group during the year.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the revaluation of fixed assets as further explained below.

Basis of consolidation and presentation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 March 2001. 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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 impairment in values other than temporary, when they are written down to values determined by the directors.

Associates

An associate is a company, not being a subsidiary or a joint venture, in which the Group has a long term interest of not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's investment in an associate is stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting less any additional provisions for impairment in values deemed necessary by the directors.

Goodwill

Goodwill arising on consolidation of subsidiaries represents the excess purchase consideration paid over the fair values ascribed to the net underlying assets acquired and is eliminated against reserves in the year of acquisition. On disposal of subsidiaries, the relevant portion of attributable goodwill previously eliminated against reserves is written back and included in the calculation of the gain or loss on disposal.

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 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. 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 net sales proceeds and the carrying amount of the relevant asset.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Research and development costs

All research costs are charged to the profit and loss account as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the projects are clearly defined; the expenditure is separately identifiable and can be measured reliably; there is reasonable certainty that the projects are technically feasible; and the products have commercial value. Product development expenditure which does not meet these criteria is expensed when incurred.

Deferred product development costs are amortised using the straight-line basis over the commercial lives of the underlying products not exceeding five years, commencing from the date when the products are put into commercial production.

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 costs of 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.

Trademarks

Trademarks are stated at cost and are amortised, using the straight-line basis over their estimated useful lives but not exceeding ten years.

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)***Long term investments**

Long term investments in listed and unlisted equity securities which are intended to be held for an identified long term purpose documented at the time of acquisition or change of purpose are stated at cost less any provisions for diminutions in values, on an individual investment basis. Provisions are made when the fair values have declined below the carrying amounts unless there is evidence that the decline is temporary. Fair values are based on the quoted market prices at the balance sheet date for listed securities on individual investment basis. Unlisted securities are stated at their estimated fair values on an individual basis. Any reduction in carrying amounts is charged to the profit and loss account.

When the circumstances and events that led to the write downs or write offs of long term investments cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future, the appreciation in fair value is credited to the profit and loss account, on an individual investment basis, to the extent of the amount previously charged.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on a weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Deferred tax

Deferred tax 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.

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) the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (b) the rendering of subcontracting services, when services are rendered;
- (c) rental income, on a time proportion basis over the lease terms;
- (d) interest income, on a time proportion basis, taking into account the principal outstanding and the effective interest rate applicable; and
- (e) dividends, when the shareholders' right to receive payment is established.

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 into 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.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets which necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party, or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

Staff retirement scheme

Previously, the Group operated two defined contribution retirement benefits schemes (the "Schemes") for its employees, who were eligible and had elected to participate in the Schemes, the assets of which were held separately from those of the Group in an independently administered fund. Contributions were made based on a percentage of the eligible employees' salaries and were charged to the profit and loss account as they became payable in accordance with the rules of the Schemes. When an employee left a scheme prior to his/her interest in the Group's contributions vesting fully, the ongoing contributions payable by the Group might be reduced by the relevant amount of forfeited contributions.

On 1 December 2000, one of the Schemes was terminated with all of its underlying assets of this terminated scheme being transferred to a Mandatory Provident Fund ("MPF"). Contributions to the MPF are made based on rates applicable to the respective employees' relevant income from the Group and are charged to the profit and loss account as they become payable in accordance with government regulations. The Group's mandatory contributions are fully and immediately vested in favour of the employees.

Cash equivalents

For the purpose of the consolidated cash flow statement, 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.

3. TURNOVER

Turnover represents the invoiced value of goods sold, net of discounts and returns, after elimination of all significant intra-group transactions. Revenue from the following activities has been included in turnover:

	2001 HK\$'000	2000 <i>HK\$'000</i>
Manufacture and trading of audio products	2,396,459	2,033,424
Manufacture and trading of video products	169,491	–
Others	59,583	5,276
	<hr/>	<hr/>
Total	2,625,533	2,038,700
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An analysis of the Group's turnover by geographical area of markets, disclosed pursuant to the requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") is as follows:

	2001 HK\$'000	2000 <i>HK\$'000</i>
The United States of America	789,115	757,991
Europe	765,938	523,576
Asia Pacific countries	1,069,758	683,546
Others	722	73,587
	<hr/>	<hr/>
Total	2,625,533	2,038,700
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An analysis of the contribution to profit from operating activities by principal activity, disclosed pursuant to the Listing Rules, is as follows:

	2001 HK\$'000	2000 <i>HK\$'000</i>
Manufacture and trading of audio products	51,257	92,730
Manufacture and trading of video products	(21,170)	–
Others	4,530	(626)
	<hr/>	<hr/>
Total	34,617	92,104
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3. TURNOVER *(Continued)*

The contribution to profit from operating activities by geographical area of markets is not presented as the contribution from each market is substantially in line with the overall rate of profit from operating activities to turnover of the Group.

4. PROFIT FROM OPERATING ACTIVITIES

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

	2001 HK\$'000	2000 HK\$'000
Depreciation:		
Owned fixed assets	55,295	42,550
Leased fixed assets	1,723	2,721
Operating lease rentals on land and buildings	1,998	1,448
Auditors' remuneration	760	720
Amortisation of trademarks	251	–
Provision for inventories	10,735	–
Staff costs (including directors' remuneration – note 5):		
Wages and salaries	125,719	106,743
Pension contributions	1,903	1,028
Less: Forfeited contributions (Note)	(79)	(178)
	127,543	107,593
Loss on disposal of fixed assets	339	13
Exchange gains, net	(3,229)	(1,246)
Interest income	(11,786)	(14,239)
Gross and net rental income from land and buildings	(869)	(876)
Dividend income from listed investments	(625)	(134)
Write back of provision for doubtful debts	–	(450)
	–	–

Note: As at 31 March 2001, the Group had no forfeited contributions available to offset its future employers' contributions (2000: Nil).

5. DIRECTORS' REMUNERATION

	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Fees – non-executive directors	195	–
Other emoluments – executive directors:		
Salaries and allowances	10,608	10,200
Bonuses paid and payable	–	6,500
Pension contributions	178	–
	<u>10,981</u>	<u>16,700</u>

During the year, no fees were paid to the executive directors (2000: Nil) and no other emoluments were paid to the non-executive directors (2000: Nil).

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

	Number of directors	
	2001	2000
Nil – HK\$1,000,000	4	4
HK\$1,500,001 – HK\$2,000,000	4	3
HK\$2,000,001 – HK\$2,500,000	–	1
HK\$3,500,001 – HK\$4,000,000	1	–
HK\$8,000,001 – HK\$8,500,000	–	1
	<u>–</u>	<u>1</u>

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.

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2000: Nil).

6. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included five (2000: five) directors, details of whose remuneration are set out in note 5 above.

7. FINANCE COSTS

	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Interest on:		
Bank loans and facilities wholly repayable within five years	21,109	13,690
Obligations under hire purchase contracts	709	453
	<hr/>	<hr/>
Total finance costs	21,818	14,143
Interest capitalised	(1,714)	–
	<hr/>	<hr/>
	20,104	14,143
	<hr/> <hr/>	<hr/> <hr/>

8. TAX

Hong Kong profits tax has been provided at the rate of 16% (2000: 16%) 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 tax prevailing in the PRC based on existing legislations, interpretations and practices in respect thereof.

Deferred tax has been provided under the liability method at the rate of 16% (2000: 16%) on all significant timing differences to the extent it is probable that the liability will crystallise in the foreseeable future.

8. TAX (Continued)

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

	2001 HK\$'000	2000 <i>HK\$'000</i>
Hong Kong:		
Provision for the year	–	5,410
Under/(over)provision in prior years	54	(2,598)
Deferred	1,331	2,933
	1,385	5,745
PRC:		
Provision for the year	594	918
Tax charge for the year	1,979	6,663

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

	2001 HK\$'000	2000 <i>HK\$'000</i>
At beginning of year	9,269	6,336
Charge for the year	1,331	2,933
At balance sheet date	10,600	9,269

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

	2001 HK\$'000	2000 <i>HK\$'000</i>
Accelerated depreciation allowances	15,782	9,204
Tax losses carried forward	(5,192)	–
Others	10	65
	10,600	9,269

8. TAX *(Continued)*

The revaluation of the Group's leasehold land and buildings in the current year did not constitute a timing difference 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 2001 is HK\$9,374,000 (2000: HK\$60,961,000).

10. DIVIDENDS

	2001 HK\$'000	2000 <i>HK\$'000</i>
Interim – HK1.0 cent (2000: HK1.5 cents) per ordinary share	6,353	8,592
Proposed final – HK0.5 cent (2000: HK3.8 cents) per ordinary share	3,176	22,390
Underprovision of prior year's proposed final dividends	985	–
	<hr/> 10,514 <hr/>	<hr/> 30,982 <hr/>

11. EARNINGS PER SHARE

The calculation of earnings per share is based on the net profit attributable to shareholders of HK\$12,534,000 (2000: HK\$71,300,000) and the weighted average of 614,281,357 shares (2000: 567,266,794 shares) in issue during the year.

Diluted earnings per share for the year ended 31 March 2001 has not been shown because the effects arising from the exercise of the potential ordinary shares would be anti-dilutive. The calculation of diluted earnings per share for the year ended 31 March 2000 was based on the net profit attributable to shareholders of HK\$71,300,000 and the weighted average of 597,391,291 shares in issue, adjusted to reflect the effects of all dilutive potential ordinary shares during the prior year.

11. EARNINGS PER SHARE *(Continued)*

A reconciliation of the weighted average number of shares used in the basic earnings per share calculation for the year ended 31 March 2000 to that used in the diluted earnings per share calculation is as follows:

	2001	2000
Weighted average number of shares used in the basic earnings per share calculation	614,281,357	567,266,794
Weighted average number of shares assumed to have been issued at no consideration on the deemed exercise of all warrants outstanding during the year	—	30,124,497
Weighted average number of shares used in the diluted earnings per share calculation	<u>614,281,357</u>	<u>597,391,291</u>

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12. FIXED ASSETS

Group

	Leasehold land and buildings <i>HK\$'000</i>	Const- ruction in progress <i>HK\$'000</i>	Leasehold improve- ments <i>HK\$'000</i>	Furniture and fixtures <i>HK\$'000</i>	Equipment and tools <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Moulds <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost or valuation:								
At beginning of year	196,102	9,798	20,776	21,098	147,199	9,012	58,162	462,147
Additions	1,237	27,435	13,411	2,112	72,585	3,452	14,013	134,245
Transfers	15,678	(21,596)	1,339	-	1,529	-	3,050	-
Disposals	-	-	-	-	(490)	-	-	(490)
Revaluation	4,879	-	-	-	-	-	-	4,879
Exchange adjustments	(1,496)	(104)	(128)	(48)	(469)	(16)	(27)	(2,288)
At 31 March 2001	216,400	15,533	35,398	23,162	220,354	12,448	75,198	598,493
Analysis of cost or valuation:								
At cost	-	15,533	35,398	23,162	220,354	12,448	75,198	382,093
At valuation	216,400	-	-	-	-	-	-	216,400
	<u>216,400</u>	<u>15,533</u>	<u>35,398</u>	<u>23,162</u>	<u>220,354</u>	<u>12,448</u>	<u>75,198</u>	<u>598,493</u>
Accumulated depreciation:								
At beginning of year	6,255	-	8,248	13,688	65,219	6,264	39,787	139,461
Provided during the year	6,605	-	4,785	2,261	32,332	1,452	9,583	57,018
Disposals	-	-	-	-	(151)	-	-	(151)
Written back on revaluation	(12,811)	-	-	-	-	-	-	(12,811)
Exchange adjustments	(49)	-	(45)	(26)	(190)	(9)	(5)	(324)
At 31 March 2001	-	-	12,988	15,923	97,210	7,707	49,365	183,193
Net book value:								
At 31 March 2001	216,400	15,533	22,410	7,239	123,144	4,741	25,833	415,300
At 31 March 2000	<u>189,847</u>	<u>9,798</u>	<u>12,528</u>	<u>7,410</u>	<u>81,980</u>	<u>2,748</u>	<u>18,375</u>	<u>322,686</u>

12. FIXED ASSETS *(Continued)*

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

	Hong Kong <i>HK\$'000</i>	PRC <i>HK\$'000</i>	Total <i>HK\$'000</i>
At valuation:			
Held under long term leases	4,000	–	4,000
Held under medium term leases	41,800	170,600	212,400
	<u>45,800</u>	<u>170,600</u>	<u>216,400</u>

The Group's leasehold land and buildings were revalued at 31 March 2001 by Sallmanns (Far East) Limited, an independent firm of professional valuers, on an open market, existing use basis at HK\$216,400,000.

The Group is applying for land use right certificates in respect of certain of the Group's leasehold land in the PRC. This piece of land had an aggregate net book value of approximately HK\$2,966,000 at 31 March 2001 (2000: HK\$2,395,000).

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\$117,091,000 (2000: HK\$104,277,181).

The amount of construction in progress transferred to leasehold land and buildings included interest capitalised during the year of approximately HK\$597,000 (2000: Nil). Also, the Group's construction in progress and leasehold improvements included interest capitalised during the year of approximately HK\$915,000 (2000: Nil) and HK\$202,000 (2000: Nil), respectively.

Included in the total amount of fixed assets at 31 March 2001 are assets held under hire purchase contracts with a net book value of HK\$7,852,000 (2000: HK\$9,834,000) and the depreciation charge for the year in respect of all such assets held under hire purchase contracts amounted to HK\$1,723,000 (2000: HK\$2,721,000).

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13. TRADEMARKS

	Group <i>HK\$'000</i>
Cost:	
Additions and at 31 March 2001	2,508
Amortisation:	
Provided during the year and at 31 March 2001	<u>251</u>
Net book value:	
At 31 March 2001	<u><u>2,257</u></u>

14. INTERESTS IN SUBSIDIARIES

	Company	
	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Unlisted shares, at cost	58,812	58,810
Due from subsidiaries	<u>130,729</u>	<u>67,437</u>
	<u><u>189,541</u></u>	<u><u>126,247</u></u>

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

14. 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	British Virgin Islands	US\$1	100%	–	Investment holding
Dongguan Gold Beam Electronics Co., Ltd	PRC	*HK\$22,220,000	–	100%	Manufacture of audio and video components
Dongguan Tonic Electronic Co., Ltd.	PRC	HK\$22,200,000	–	100%	Manufacture of audio and video products
Gold Beam Developments Limited	Hong Kong	HK\$2	100%	–	Trading of audio and video components
Tonic Appliances Limited	Hong Kong	HK\$2	100%	–	Trading of home appliances products
Tonic Electronics (B.V.I.) Limited	British Virgin Islands	HK\$1	100%	–	Investment holding
Tonic Electronics Limited	Hong Kong	Ordinary HK\$200 #Non-voting deferred HK\$300,000	–	100%	Trading of audio and video products

14. 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 Enterprises Limited	British Virgin Islands	US\$1	–	100%	Provision of quality control services
Tonic International Limited	British Virgin Islands	HK\$0.01	–	100%	Provision of quality control services
Tonic Investment (B.V.I.) Limited	British Virgin Islands	HK\$0.01	–	100%	Investment holding
Tonic Marketing Limited	British Virgin Islands	US\$0.01	–	100%	Direct marketing
Tonic Plastic Limited	British Virgin Islands	US\$0.01	–	100%	Provision of quality control services
Tonic Technology Limited	Hong Kong	HK\$10,000	**100%	–	Trading of high-technology products
Panatone Licensing Limited	British Virgin Islands	US\$1	–	100%	Holding of Patents

* The registered capital of Dongguan Gold Beam Electronics Co., Ltd. is HK\$22,220,000. At 31 March 2001, the Group has paid up HK\$20,044,540 of the capital.

** During the year, the Company increased its shareholding in Tonic Technology Limited from 80% to 100%.

The non-voting deferred shares carry the right to one-half of the profits after the holders of the ordinary shares have received a dividend of HK\$1,000,000,000,000, have no right to vote at general meetings and carry the right to receive one half of the balance of any surplus in a return of capital in a winding-up after the holders of the ordinary shares have received a total return of the HK\$500,000,000,000,000. None of the non-voting deferred shares was held by members of the Group at the balance sheet date.

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15. INTEREST IN AN ASSOCIATE

	2001 <i>HK\$'000</i>	Group 2000 <i>HK\$'000</i>
Share of net assets	<u>850</u>	<u>–</u>

Particulars of the associate are as follows:

Name	Business structure	Place of incorporation and operations	Percentage of equity attributable to the Group	Nature of business
E-Global Electronics Trading Platform Limited	Corporate	Hong Kong	25%	Provision of electronics procurement services

16. LONG TERM INVESTMENTS

	2001 <i>HK\$'000</i>	Group 2000 <i>HK\$'000</i>
At cost		
Hong Kong listed equity investments	21,221	16,024
Overseas unlisted equity investments	855	–
	<u>22,076</u>	<u>16,024</u>
Market value of listed equity investments at balance sheet date	<u>20,716</u>	<u>18,684</u>

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17. LOANS RECEIVABLE

Loans receivable represent unsecured and interest-free advances to certain staff of the Group. The terms of the loans receivable are analysed as follows:

	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Repayable within one year	1,869	–
Repayable by equal monthly instalments over eight years	1,406	–
No fixed terms of repayment	22	–
	<hr/> 3,297	<hr/> –
Portion classified as current assets	(2,078)	–
Non-current portion	1,219	–
	<hr/> <hr/> 1,219	<hr/> <hr/> –

18. ACCOUNTS RECEIVABLE

The aged analysis of the Group's accounts receivable is as follows:

	2001		2000	
	<i>HK\$'000</i>	<i>Percentage</i>	<i>HK\$'000</i>	<i>Percentage</i>
0 – 30 days	67,978	76	88,391	88
31 – 60 days	7,266	8	2,746	3
61 – 90 days	8,221	9	3,305	3
Over 90 days	6,021	7	5,657	6
	<hr/> 89,486	<hr/> 100	<hr/> 100,099	<hr/> 100
	<hr/> <hr/> 89,486	<hr/> <hr/> 100	<hr/> <hr/> 100,099	<hr/> <hr/> 100

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

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19. INVENTORIES

	2001 HK\$'000	Group 2000 <i>HK\$'000</i>
Raw materials	132,016	83,924
Work in progress	87,230	93,901
Finished goods	43,246	37,015
	<hr/> 262,492 <hr/>	<hr/> 214,840 <hr/>

The carrying amount of inventories carried at net realisable value included in the above is HK\$50,886,000 (2000: Nil).

20. BANK BORROWINGS

	2001 HK\$'000	Group 2000 <i>HK\$'000</i>
Long term bank loans repayable:		
Within one year	19,667	–
In the second year	15,667	–
In the third to fifth years, inclusive	3,333	–
	<hr/> 38,667 <hr/>	<hr/> – <hr/>
Portion classified as current liabilities	(19,667)	–
Non-current portion	19,000	–
	<hr/> 19,000 <hr/>	<hr/> – <hr/>

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

As at 31 March 2001, all the Group's bank borrowings were secured by corporate guarantee granted by the Company and cross corporate guarantees among certain subsidiaries and the Company.

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21. ACCOUNTS PAYABLE

The aged analysis of the Group's accounts payable is as follows:

	2001		2000	
	<i>HK\$'000</i>	<i>Percentage</i>	<i>HK\$'000</i>	<i>Percentage</i>
0 – 30 days	129,993	46	118,535	42
31 – 60 days	78,723	28	59,930	21
61 – 90 days	32,243	11	48,754	18
Over 90 days	44,008	15	54,323	19
	<u>284,967</u>	<u>100</u>	<u>281,542</u>	<u>100</u>

22. OBLIGATIONS UNDER HIRE PURCHASE CONTRACTS

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

	Group	
	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Amounts payable:		
Within one year	2,824	4,262
In the second year	2,195	3,449
In the third to fifth years, inclusive	768	552
	<u>5,787</u>	<u>8,263</u>
Total minimum contract payments	5,787	8,263
Future finance charges	(559)	(646)
	<u>5,228</u>	<u>7,617</u>
Total net obligations under hire purchase contracts	5,228	7,617
Portion classified as current liabilities	(2,463)	(3,752)
	<u>2,765</u>	<u>3,865</u>
Non-current portion	2,765	3,865

23. SHARE CAPITAL

	2001 HK\$'000	Company 2000 HK\$'000
Authorised: 1,200,000,000 ordinary shares of HK\$0.10 each	120,000	120,000
Issued and fully paid: 635,259,975 (2000: 588,891,296) ordinary shares of HK\$0.10 each	63,526	58,889

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

- (a) During the year, warrants with an aggregate subscription value of approximately HK\$21,284,000 were exercised by warrant holders, resulting in the issue of 46,268,679 ordinary shares of HK\$0.10 each at the subscription price of HK\$0.46 per share. The excess of the proceeds over the par value of the ordinary shares issued of approximately HK\$16,657,000 was credited to the share premium account. Details of the warrants are set out below.
- (b) During the year, 100,000 share options were exercised by a share options holder, resulting in the issue of 100,000 ordinary shares of HK\$0.10 each at the subscription price of HK\$0.70 per share for HK\$70,000 in cash. The excess of the proceeds over the par value of the ordinary shares issued of HK\$60,000 was credited to the share premium amount. Details of the share options 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 entitles 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.

23. SHARE CAPITAL *(Continued)***Warrants** *(Continued)*

At beginning of the year, the Company had outstanding warrants with an aggregate subscription value of HK\$26,201,708 entitling the registered holders to subscribe for a total of 56,960,237 ordinary shares of the Company at a subscription price of HK\$0.46 per share. As detailed above, warrants with an aggregate subscription value of approximately HK\$21,284,000 were exercised during the year. The remaining unexercised warrants expired on 30 September 2000.

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.

On 10 April 2000, 50,000,000 share options were granted to the executive directors and certain employees of the Group to subscribe for a total of 50,000,000 ordinary shares of the Company at an exercise price of HK\$0.70 per share, subject to adjustment, on or before 9 April 2010.

During the year, 100,000 share options were exercised and 1,100,000 share options were cancelled due to the termination of employment of a share options holder.

At the balance sheet date, the Company had 48,800,000 outstanding share options. The exercise in full of these outstanding share options would, under the present capital structure of the Company, result in the issue of 48,800,000 additional ordinary shares and cash proceeds, before issue expenses, of approximately HK\$34,160,000.

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24. RESERVES

Group

	Share premium	Contributed surplus	Exchange fluctuation reserve	Asset revaluation reserve	Retained profits	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Balance at 1 April 1999	19,695	280	(4,520)	91,413	139,909	246,777
Exercise of warrants	8,511	-	-	-	-	8,511
Bonus issue of shares	(16,188)	-	-	-	-	(16,188)
Exchange difference on translation of overseas subsidiaries' financial statements	-	-	(785)	-	-	(785)
Net profit for the year	-	-	-	-	71,300	71,300
Dividends	-	-	-	-	(30,982)	(30,982)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Balance at 31 March 2000 and beginning of year	12,018	280	(5,305)	91,413	180,227	278,633
Exercise of warrants	16,657	-	-	-	-	16,657
Exercise of share options	60	-	-	-	-	60
Goodwill reserve arising from acquisition of minority interests of a subsidiary	-	-	-	-	(2)	(2)
Exchange difference on translation of overseas subsidiaries' financial statements	-	-	(4,013)	-	-	(4,013)
Revaluation surplus on fixed assets	-	-	-	17,690	-	17,690
Net profit for the year	-	-	-	-	12,534	12,534
Dividends	-	-	-	-	(10,514)	(10,514)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Balance at 31 March 2001	<u>28,735</u>	<u>280</u>	<u>(9,318)</u>	<u>109,103</u>	<u>182,245</u>	<u>311,045</u>

24. RESERVES (Continued)**Company**

	Share premium <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Retained profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
Balance at 1 April 1999	19,695	58,794	6,311	84,800
Exercise of warrants	8,511	–	–	8,511
Bonus issue of share	(16,188)	–	–	(16,188)
Net profit for the year	–	–	60,961	60,961
Dividends	–	–	(30,982)	(30,982)
	<hr/>	<hr/>	<hr/>	<hr/>
Balance at 31 March 2000 and beginning of year	12,018	58,794	36,290	107,102
Exercise of warrants	16,657	–	–	16,657
Exercise of share options	60	–	–	60
Net profit for the year	–	–	9,374	9,374
Dividends	–	–	(10,514)	(10,514)
	<hr/>	<hr/>	<hr/>	<hr/>
Balance at 31 March 2001	<u>28,735</u>	<u>58,794</u>	<u>35,150</u>	<u>122,679</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 dividends, the Company is able to pay its debts as and when they fall due in the ordinary course of business. In the opinion of the directors, the Company's reserves available for distribution represent the share premium, contributed surplus and retained profits.

25. NOTES TO CONSOLIDATED CASH FLOW STATEMENT

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

	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Profit from operating activities	34,617	92,104
Interest income	(11,786)	(14,239)
Dividend income	(625)	(134)
Depreciation	57,018	45,271
Amortisation of trademarks	251	–
Provision for inventories	10,735	–
Loss on disposal of fixed assets	339	13
Decrease/(increase) in accounts receivable	10,613	(49,638)
Increase in inventories	(59,517)	(74,628)
Decrease/(increase) in prepayments, deposits and other receivables	11,754	(11,261)
Increase in accounts payable	3,425	105,652
Decrease in accrued liabilities and other payables	(5,398)	(3,582)
	<hr/>	<hr/>
Net cash inflow from operating activities	51,426	89,558
	<hr/> <hr/>	<hr/> <hr/>

25. NOTES TO CONSOLIDATED CASH FLOW STATEMENT (Continued)

(b) Analysis of changes in financing during the year

	Share capital (including share premium) <i>HK\$'000</i>	Bank loans <i>HK\$'000</i>	Obligations under hire purchase contracts <i>HK\$'000</i>	Minority interests <i>HK\$'000</i>
Balance at 1 April 1999	60,078	–	3,285	–
Net cash inflow/(outflow) from financing	10,829	–	(4,804)	2
Inception of hire purchase contracts	–	–	9,136	–
Share of loss for the year	–	–	–	(2)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Balance at 31 March 2000 and beginning of year	70,907	–	7,617	–
Net cash inflow/(outflow) from financing	21,354	38,667	(7,724)	–
Inception of hire purchase contracts	–	–	5,335	–
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Balance at 31 March 2001	<u>92,261</u>	<u>38,667</u>	<u>5,228</u>	<u>–</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\$5,335,000 (2000: HK\$9,136,000).

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26. CONTINGENT LIABILITIES

	Group		Company	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Bills discounted with recourse	13,999	2,421	–	–
Guarantees for general banking facilities of subsidiaries*	–	–	712,137	501,072
Shipping guarantee	406	–	–	–
	<u>14,405</u>	<u>2,421</u>	<u>712,137</u>	<u>501,072</u>

* At 31 March 2001, HK\$170,727,000 (2000: HK\$101,027,000) 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 2001, the subsidiary had trade debts in an aggregate of HK\$1,970,000 (2000: HK\$1,495,000) due to the supplier.

27. COMMITMENTS

	Group	
	2001 HK\$'000	2000 HK\$'000
Capital commitments in respect of fixed assets		
(a) Contracted for, but not provided in the financial statements in respect of:		
Construction in progress in the PRC	1,087	6,980
Equipment and tools	30,227	928
Moulds	352	4,999
Motor vehicles	–	3,239
Leasehold improvements	270	717
Furniture and fixtures	–	92
	<u>31,936</u>	<u>16,955</u>

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27. COMMITMENTS (Continued)

	2001 HK\$'000	Group 2000 <i>HK\$'000</i>
(b) Authorised, but not contracted for in respect of:		
Moulds	-	447
Leasehold improvements	-	290
	<u>-</u>	<u>737</u>
	31,936	17,692
	<u>31,936</u>	<u>17,692</u>
Capital commitment in respect of capital contribution to a subsidiary established in the PRC	2,175	4,175
	<u>2,175</u>	<u>4,175</u>
Operating lease commitments		
Commitments payable in the following year under non-cancellable operating leases in respect of land and buildings expiring:		
Within one year	872	180
In the second to fifth years, inclusive	165	1,219
	<u>1,037</u>	<u>1,399</u>
Other commitments		
Commitments to purchase foreign currencies	140,052	16,492
Commitments to sell foreign currencies	-	186,903
	<u>140,052</u>	<u>186,903</u>

At the balance sheet date, the Company had no capital or operating lease commitments (2000: Nil).

28. RELATED PARTY TRANSACTIONS AND CONNECTED TRANSACTIONS

During the year, the Group had the following related party and connected transactions:

- (a) The Group sold audio products and related components amounting to HK\$10,192,000 (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\$143,000 (2000: HK\$318,900) to International Taxation Advisory Services Limited, of which Mr. Wong Wai Kwong, David, a non-executive director of the Company, is a director, for corporate advisory services rendered to the Group.

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

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

29. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by the board of directors on 17 July 2001.