

# High Quality of Video & Audio Products





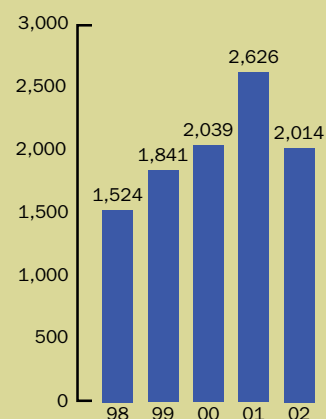
Dear shareholders,

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

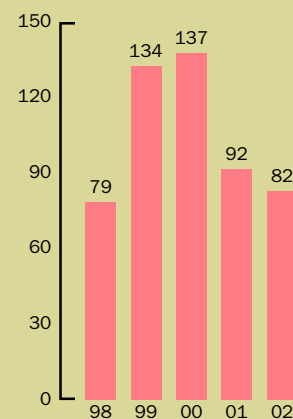
#### FINAL DIVIDEND

The Board has recommended the payment of a final dividend of HK0.5 cent (year ended 31 March 2001: HK0.5 cent) per share. Together with the interim dividend of HK0.5 cent per share paid on 17 January 2002, total dividend for the Year will amount to HK1.0 cent 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 7 October 2002 to the registered shareholders.

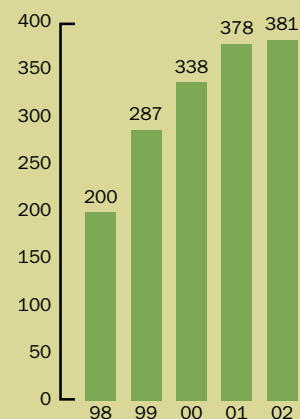
#### TURNOVER (HK\$ million)



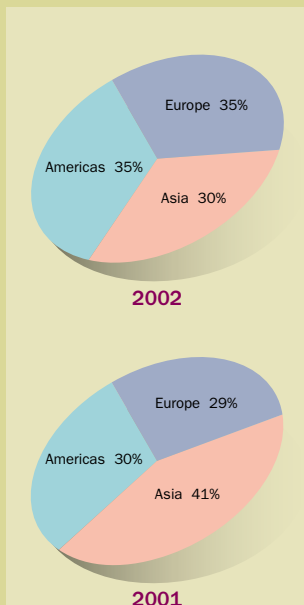
#### PROFIT BEFORE INTEREST, TAX, DEPRECIATION AND AMORTISATION (HK\$ million)



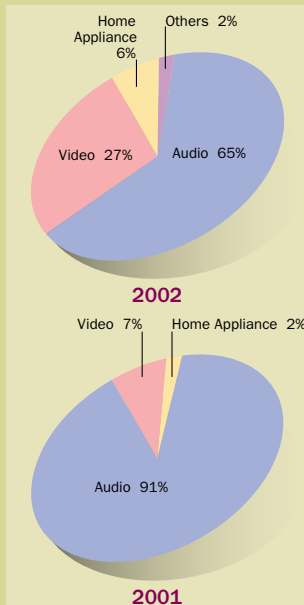
#### SHAREHOLDERS EQUITY (HK\$ million)



### TURNOVER BY GEOGRAPHICAL REGION



### TURNOVER BY PRODUCT CATEGORY



### CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 17 September 2002 to 19 September 2002, 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 Share 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 16 September 2002 in order to qualify for the proposed final dividend.

### BUSINESS REVIEW AND OUTLOOK

Turnover for the Year was HK\$2,014 million, represented a decrease of 23% from last year. Earnings before interest, tax depreciation and amortisation were HK\$82 million, representing a decrease of 11% as compared to last year. During the Year, the Group implemented stringent cost control strategies and developed new innovative products. The gross profit margin was increased by 0.4%. Earnings per share for the Year was HK1.5 cents.

It had been a difficult year due to the gloomy business environment. The global consumer market, inevitably affected by the economic downturn, was further hampered by the September 11th terrorist attacks in the United States. As such, the spending confidence of consumers was seriously affected. Compared to the first half of the Year, the drop in sales in the second half was apparent. Customers were reluctant to place orders during the uncertain period, and delayed the placement of new orders and consumed the remaining stocks in the warehouse. The sales volume was decreased and it was difficult to raise selling price.

After the Company's rapid growth of the first few years from being listed on the Hong Kong Stock Exchange in 1997, the last two years have been an important consolidation period. With approximately HK\$250 million capital expenditure spent for the last two years, the Group now has 18 fully automated SMT production lines, 6 sets of heavy oil electric generators and a total of 1,500,000 square feet of production area in our main consumer electronics manufacturing factory in Tangxia. By next year production capacity and ability will have increased by at least 50%. All of these investments are to equip the Group for an increasingly competitive environment. It will facilitate lower production costs while producing higher quality products.

One of our business strategies is to slowly migrate our business from producing lower end traditional analogue audio products to the higher end digital products. Such digital products include Internet set-top boxes, DVD products, digital satellite receivers, digital amplifiers and video telephones. These new products have a longer product life cycle, and offer a higher selling price and profit margin. The research and development of such items, which started three years ago, has begun to pay off. Sales for these products increased from HK\$169 million last year to HK\$539 million this year. Contribution to the turnover of the Group increased from 6.5% to 26.7%. Market statistics have also indicated that these products will be the fastest growing items for the next few years. Additionally, there has been a strong rebound on market demand for consumer electronics products in the last two months.

One of the Company's Japanese OEM customers has endorsed our efforts in developing digital audio products and has confirmed orders to the end of the year, worth more than HK\$500 million. In addition, we have secured a new customer Memorex in the US which is well known and respected. These business partnerships not only enlarge our client base, but will also contribute to the Group's turnover in the coming years. It is expected that sales will reflect market trends.



Power Station Control Panel



18 lines SMT



400 Tons Auto Pressing Machines

The home appliances division continues to grow rapidly, turnover for this division increased from HK\$49 million in 2001 to HK\$123 million this year, represented a 151% increase. Furthermore, the amount is expected to grow in the coming year. Turnover contributions to the Group rose from 2% last year to 6% this year and as such, the Group plans to put more resources into this division. The manufacturing space and facilities of the home appliances division at the Qishi factory has doubled due to the addition of two factory blocks. The marketing department will also be aggressively expanding by recruiting more staff and setting up new offices.

We have also reviewed our production and operation efficiency and were able to implement certain cost saving measures. As a result, administrative expenses decreased from HK\$90 million in 2001 to HK\$75 million this Year. This achievement was largely due to redesigning administrative processes and documentation flow in the factories.

It was announced on 14 June 2002 that the Group will enter into certain connected transactions with EganaGoldpfeil (Holdings) Limited and its subsidiaries ("Egana"). A detail circular and a notice of extraordinary general meeting dated 5 July 2002 have been sent out to shareholders of the Company. It is expected that benefits will be derived from a closer relationship with Egana.

The recent depreciation of the US dollar to the Japanese Yen and the Euro has had a positive impact on sales for the Group. As sales to Japanese and European customers are priced using the US dollar, the depreciation reduced the currency risks for our customers and therefore, lowered the pressure of pricing negotiations.

Looking to the future, the Group will continue with its current business strategy of moving from traditional analogue audio products to producing higher end digital products. Our highly technological equipment, research and development facilities, as well as our cost efficient production capabilities in Dongguan, have stood us in good stead to cater to the escalating demand for digital products and to enlarge our market share in Europe and the US.

In view of the rising demand for innovative home appliances, we are committed to furthering our research and development capabilities, and to producing new products with higher profit margins. In addition, we will seek overseas partnerships and make every effort to develop closer relationships with our customers.

Finally, on behalf of the board of directors, I would like to express my gratitude to our dedicated staff and supportive business associates for working with the Group through this challenging year.

**Ling Siu Man, Simon**

*Chairman & Managing Director*

Hong Kong, 16 July 2002