

The Stock Exchange of Hong Kong Limited takes no responsibility for the contents of this announcement, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.

TONIC

TONIC INDUSTRIES HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)
(the “Company”)

CONNECTED TRADING TRANSACTIONS WITH EGANAGOLDPFEIL GROUP

Summary

An extraordinary general meeting of the Company will be held as soon as practicable to seek the independent shareholders’ approval of the ongoing and new trading transactions between the Group and EganaGoldpfeil Group which include sales to PVL, sales to JAL and purchases from Junghans Group (defined collectively as “Trading Transactions” in this announcement). These Trading Transactions constitute connected transactions of the Company under the Listing Rules and are subject to applicable disclosure and/or independent shareholders approval requirements set out therein. Application will be made to the Stock Exchange for waivers from strict compliance with the connected transactions requirements under Chapter 14 of the Listing Rules in respect of these Trading Transactions for each of the three financial years ending 31 March, 2003, 2004 and 2005.

Background

The Company together with its subsidiaries (collectively the “Group”) are principally engaged in design, manufacture and marketing of high quality AV products. It markets a wide range of AV products including Compact-Disc players, mini hi-fi music centers, Mini-Disc players and DVD players to overseas importers in Europe and America as well as Japanese manufacturers on an OEM and ODM basis.

Following the listing of the Company on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) in October 1997, EganaGoldpfeil (Holdings) Limited (“EganaGoldpfeil”) has been a substantial shareholder of the Company. As at the date of this announcement, EganaGoldpfeil is beneficially interested in approximately 24.77% of the issued share capital of the Company. EganaGoldpfeil is considered to be a connected person of the Group and accordingly, any transaction entered into between the Group and EganaGoldpfeil Group will constitute a connected transaction under The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

Ongoing Trading Transactions

As stated in the Company’s Prospectus dated 30 September, 1997, Pioneer Ventures Limited (“PVL”), a wholly owned subsidiary of EganaGoldpfeil, has been purchasing a variety of audio products from the Group. For the past three financial years ended 31 March, 2000, 2001 and 2002, the aggregate values of such sales from the Group to PVL amounted to approximately HK\$0.4 million, HK\$10.2 million and HK\$2.1 million, representing approximately 0.02%, 0.39% and 0.10% of the total sales of the Group

respectively. The significant increase of sales to PVL for the year ended 31 March, 2001 was the results of the Group's launch of 3 new models of AV products which were positively receptive to PVL's customers in that year. The drop in sales to PVL for the year ended 31 March, 2002 was due to shrinkage of sales in the midst of the global recession in 2001 which was further dampened by the "September 11" incident. The aggregate value of sales to PVL for the two months ended 31 May, 2002 amounted to approximately HK\$8 million, representing 3% of the Group's sales of HK\$256 million for the same period, reflecting the results of global economic recovery from the general recession in the year 2001 and the launch of new AV products e.g. DVD products as well as procurement of new customers by PVL in Germany. Details of these ongoing trading transactions were fully disclosed in the Company's interim and annual reports of each relevant year. The net tangible assets of the Group as of 31 March, 2000, 2001 and 2002 and as of 31 May, 2002 were approximately HK\$338 million (audited), HK\$372 million (audited), HK\$385 million (unaudited) and HK\$388 million (unaudited) respectively. The aggregate values of the sales of the Group to EganaGoldpfeil Group for the three financial years from 2000 to 2002 and the two months ended 31 May, 2002 represent respectively 0.12%, 2.74%, 0.55% and 2.06% of the net tangible assets of the Group as at the end of the relevant periods as shown above.

These sales which are negotiated on an individual basis in accordance with the Group's pricing policy and on the terms no more favorable than those available to independent third parties are of a recurring nature and being conducted in the ordinary and usual course of the business of the Group. They are negotiated on an arm's length basis and on normal commercial terms and are expected to continue in the future. The Directors of the Company consider that the continuation of these sales will enhance the profitability and improve cash flow position of the Group, thereby being beneficial to the Group.

These ongoing trading transactions are subject to the disclosure and shareholders' approval (if exceeding 3% on the Group's net tangible assets) requirements of the Listing Rules. As the sales will continue to occur on a regular and continuing basis in the ordinary and usual course of business of the Group, the Directors consider that strict compliance with such disclosure requirements of the Listing Rules would be impractical and potentially costly to the Company. Accordingly, an application was made to the Stock Exchange for a waiver from full compliance with the Listing Rules requirements and a waiver was granted in previous years since 1997. In anticipation of business growth with EganaGoldpfeil Group in future years, the Directors consider that the current cap amount of 3% on the Group's total sales in each year should be increased. For the two months ended 31 May, 2002, the aggregate value of sales to PVL amounted to HK\$8 million, representing 3% of the Group's total sales for the same period. It is anticipated that these sales to PVL will be progressively increased and may reach H\$K100 million per year within the next three financial years ending 31 March, 2005 following the launch of new products e.g. DVD products and procurement of new customers by PVL in Germany. With reference to the current annual sales of the group of HK\$2 billion, the estimated HK\$100 million represents 5%. Accordingly, an application will be made to the Stock Exchange for a new waiver of the disclosure and shareholders' approval requirements with an increase in the cap amount to 5% on the Group's total annual sales for the sales by the Group to PVL for the next three financial years ending 31 March, 2005.

New Trading Transactions

Junghans Uhren GmbH Group ("Junghans Group") (wholly owned by EganaGoldpfeil) is principally engaged in the design, manufacturing and distribution of watches and clocks including radio-controlled timepieces under its own trademarks, "Junghans" and "Eurochron". The hi-tech radio-controlled timepiece production, the advanced timepiece manufacturing process and the product development program is undertaken by Junghans Group in Germany. With a view to expanding its business into Asia and America, Junghans Group has engaged Junghans Asia Limited ("JAL"), a wholly owned Hong Kong subsidiary of

EganaGoldpfeil, to provide sourcing; manufacturing coordination and marketing service in Asia Pacific region. Seeing the experience and expertise in the electronics industry of the Group, JAL engages the Group to involve in this new business development, particularly radio-controlled watches and clocks in Asia for an initial term of two years.

On 28 May, 2002, the Company entered into an agreement with JAL, pursuant to which the Company will act as a sourcing agent for sourcing of raw materials including but not limited to parts and movements for JAL's production of timepieces under "Eurochron" brand, and radio-controlled watches and clocks in Asia. Tonic Electronics Limited, a wholly owned subsidiary of the Company, will purchase parts and movements from Junghans Uhren GmbH in Europe (other than third party suppliers in Asia) for JAL's assembly of radio-controlled watches and clocks by capitalizing the Group's expertise in electronics technology.

The sales to JAL will be negotiated on an individual basis in accordance with the Group's pricing policy and on the terms no more favorable than those available to independent third parties, i.e. at a profit margin to the cost of the parts and movements acquired from Junghans Group. These new trading transactions would provide additional income stream for the Group. The purchase from Junghans Group will be negotiated on an individual and on an arm's length basis with reference to the then market price of similar products prevailing in the market and on the terms no more favorable than those available to independent third parties.

It is estimated that the annual purchases from Junghans Group by the Group would amount to approximately HK\$100 million (representing approximately 4% of the Group's total cost of sales of HK\$2,483 million in 2000/01) and that the annual sales by the Group to JAL would amount to approximately HK\$180 million (representing approximately 7% of the Group's total sales of HK\$2,626 million in 2000/01). These estimates are calculated with reference to the actual sales and cost of sales of Junghans Group in 2000. The values of estimated purchases of HK\$100 million from Junghans Group and estimated sales of HK\$180 million to JAL represents respectively 26.9% and 48.4% of the Group's audited net tangible assets of HK\$372 million as of 31 March, 2001.

As stated in the above paragraphs, these new trading transactions which constitute connected transactions under Chapter 14 of the Listing Rules are also of a recurring nature and being conducted in the ordinary and usual course of the business of the Group and on normal commercial terms. Again, the Directors consider that strict compliance with disclosure and shareholders' approval requirements of Listing Rules for connected transactions would be impractical and burdensome to the Company. Hence, an application will be made to the Stock Exchange for waivers from full compliance with Listing Rules requirements.

Application for Waivers

Application will be made to the Stock Exchange for three conditional waivers to the Company from having to comply with the requirements of the Listing Rules which include further press announcement and shareholders' approval in respect of the sales to PVL (as mentioned in the "Ongoing Trading Transactions" section above), sales to JAL and purchases from Junghans Group (as mentioned in the "New Trading Transactions" section above) which are herein defined collectively as the "Trading Transactions".

1. that the Trading Transactions shall be:
 - (i) entered into by the Company in the ordinary and usual course of its business;
 - (ii) conducted either (a) on normal commercial terms (which expression will be applied by reference to transactions of a similar nature and to be made by similar entities) or (b) (where there is no available comparison) on terms that are fair and reasonable so far as the shareholders of the Company are concerned; and
 - (iii) entered into either (a) in accordance with the terms of the agreements governing such Trading Transactions or (b) (where there are no such agreements) on terms no less favorable than those available to or from independent third parties.
2. the aggregate amounts of the Trading Transactions for each financial year of the Company shall not exceed the respective cap amounts (the "Cap Amounts") as follows:–

Trading Transactions	Cap Amounts
(i) Sales to PVL	5% of audited consolidated turnover of the Group of the respective financial year
(ii) Sales to JAL	10% of audited consolidated turnover of the Group of the respective financial year
(iii) Purchases from Junghans Group	7% of the audited consolidated cost of sales of the Group of the respective financial year

3. the independent non-executive Directors of the Company shall review the Trading Transactions annually and confirm in the Company's next annual report that these were conducted in the manner as stated in paragraphs 1 and 2 above;
4. the Company's auditors shall review the Trading Transactions annually and confirm in a letter (the "Letter") to the Directors (a copy of which shall be provided to the Listing Division of the Stock Exchange) stating whether:
 - (i) the Trading Transactions have received the approval of the Company's board of Directors;
 - (ii) the Trading Transactions are in accordance with the pricing policies as stated in the Company's financial statements;

- (iii) the Trading Transactions have been entered into in accordance with the terms of the agreements governing the Trading Transactions or, if there are no such agreements, on terms no less favorable than those available to or from independent third parties; and
- (iv) the Cap Amounts have been exceeded.

Where, for whatever reason, the auditors decline to accept the engagement or are unable to provide the Letter, the Directors shall contact the Listing Division immediately;

- 5. details of the Trading Transactions in each financial year shall be disclosed as required under Rule 14.25(1)(A) to (D) of the Listing Rules in the annual report of the Company for that financial year together with a statement of the opinion of the independent non-executive Directors and the auditors of the Company referred to in paragraphs 3 and 4 above; and
- 6. the Company and its subsidiaries have provided to the Stock Exchange an undertaking that, for so long as the Company's shares are listed on the Stock Exchange, it will provide the Company's auditors with full access to its relevant records for the purpose of the auditors' review of the Trading Transactions referred to in paragraph 4 above.

If any terms of the Trading Transactions as mentioned above are altered or if the Company enters into any new agreements with any connected persons (within the meaning of the Listing Rules) in the future, the Company must comply with the provisions of Chapter 14 of the Listing Rules governing connected transactions unless it applies for and obtains a separate waiver from the Stock Exchange.

The Cap Amounts specified in the paragraph 2 above are arrived at with reference to the market conditions and the anticipated respective amounts of sales or purchases in the following three financial years in question.

Extraordinary General Meeting

An extraordinary general meeting of the Company will be convened as soon as practicable at which ordinary resolutions will be proposed to the shareholders to approve the Trading Transactions (as defined above) with EganaGoldpfeil Group, inter alia, sales to PVL, sales to JAL and purchases from Junghans Group, subject to the conditions specified above. In view of EganaGoldpfeil's interest in these Trading Transactions, EganaGoldpfeil and its associates (as defined in the Listing Rules) will abstain from voting in respect of such resolutions at the meeting.

General

A circular containing details of the Trading Transactions with EganaGoldpfeil Group, a letter from the independent Board committee of the Company, a letter from an independent financial advisor and a notice convening the extraordinary general meeting referred to above will be dispatched to the shareholders of the Company as soon as possible.

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

Hong Kong, 14 June, 2002

Please also refer to the published version of this announcement in The Standard and Hong Kong Economic Times.