TONIC INDUSTRIES HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

Website: http://www.tonic.com.hk

(Stock Code: 978)

ANNOUNCEMENT OF FINAL RESULTS FOR THE YEAR ENDED 31 MARCH 2004

The directors ("Directors") of Tonic Industries Holdings Limited (the "Company") are pleased to announce the audited consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 March 2004 (the "Year") together with the comparative figures for the previous year, as follows:

	2004	2003
	HK$'000	*HK$'000*
		(Restated)
Turnover *(note 2)*	**2,074,140**	2,680,277
Cost of sales	**(1,969,624)**	(2,531,652)
Gross profit	**104,516**	148,625
Other revenue	**10,025**	10,721
Administrative expenses	**(73,215)**	(71,221)
Selling and distribution costs	**(11,899)**	(7,491)
Other operating expenses	**(318)**	(14,437)
Profit from operating activities *(note 3)*	**29,109**	66,197
Finance costs	**(9,144)**	(12,679)
Share of loss of an associate	**–**	(23)
Profit before tax	**19,965**	53,495
Tax *(note 4)*	**5,634**	(10,194)
Net profit attributable to shareholders	**25,599**	43,301
Dividends *(note 5)*		
Interim	**6,353**	6,353
Proposed final	**3,176**	9,529
	9,529	15,882
Earnings per share *(note 6)*		
– Basic	**4.0 cents**	6.8 cents
– Diluted	**N/A**	N/A

Notes:

1. **Impact of new and revised Hong Kong Statements of Standard Accounting Practice ("SSAPs")**

The following new and revised SSAPs are effective for the first time for the current year's financial statements:

- SSAP 12 (Revised): "Income taxes"
- SSAP 35: "Accounting for government grants and disclosure of government assistance"

SSAP 12 (Revised) prescribes the accounting for income taxes payable or recoverable, arising from the taxable profit or loss for the current period (current tax); and income taxes payable or recoverable in future periods, principally arising from taxable and deductible temporary differences and the carryforward of unused tax losses (deferred tax).

The principal impact of the revision of this SSAP on these financial statements is described below:

- deferred tax assets and liabilities relating to the differences between capital allowances for tax purposes and depreciation for financial reporting purposes and other taxable and deductible temporary differences are generally fully provided for, whereas previously the deferred tax was recognised for timing differences only to the extent that it was probable that the deferred tax asset or liability would crystallise in the foreseeable future;

- a deferred tax liability has been recognised for the deferred development costs; and

- a deferred tax liability has been recognised for the asset revaluation reserve.

SSAP 35 prescribes the accounting for government grants and other forms of government assistance. The adoption of this SSAP has had no significant impact for these financial statements on the amounts recorded for government grants, however, additional disclosures are now required in the financial statements.

2. **Turnover and Segment results**

The Group is principally engaged in the design, manufacture and trading of consumer electronic products and components and home appliance products. An analysis of the Group's turnover and segment results is as follows:

	Turnover		**Segment results**	
	2004	2003	**2004**	2003
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
				(Restated)
Principal activities:				
Electronic products and components	**1,860,003**	2,453,001	**32,003**	67,552
Home appliance products	**214,137**	153,956	**3,301**	3,373
Corporate	**–**	–	**(125)**	(298)
Others	**–**	73,320	**–**	1,079
	2,074,140	2,680,277	**35,179**	71,706
Principal markets:				
Europe	**1,252,280**	1,337,610		
United States of America	**469,956**	867,142		
Asia Pacific countries	**314,235**	456,400		
Others	**37,669**	19,125		
	2,074,140	2,680,277		

3. Profit from operating activities

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

	2004	2003
	HK$'000	*HK$'000*
Depreciation	**63,607**	62,522
Minimum lease payments under operating leases on land and buildings	**3,014**	2,592
Auditors' remuneration	**720**	670
Amortisation of trademarks	**258**	251
Provision for inventories	**(876)**	4,173
Staff costs	**135,973**	133,550
Interest income	**(291)**	(1,234)
Dividend income from listed investments	**(911)**	(107)

4. Tax

Hong Kong profits tax has been provided at the rate of 17.5% (2003: 16%) on the estimated assessable profits arising in Hong Kong during the year. The increased Hong Kong profits tax rate became effective from the year of assessment 2003/2004, and so is applicable to the assessable profits arising in Hong Kong for the whole of the year ended 31 March 2004. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

Tax charged/(credited) to the Group's profit and loss account comprises:

	2004	2003
	HK$'000	*HK$'000*
		(Restated)
Current – Hong Kong		
Charge for the year	**2,462**	9,627
Overprovision in prior years	**(8,543)**	–
Current – Elsewhere		
Charge for the year	**436**	–
Deferred	**11**	567
Tax charge/(credit) for the year	**(5,634)**	10,194

5. Dividends

	2004	2003
	HK$'000	*HK$'000*
Interim – HK1 cent (2003: HK1 cent) per ordinary share	**6,353**	6,353
Proposed final – HK0.5 cent (2003: HK1.5 cent) per ordinary share	**3,176**	9,529
	9,529	15,882

6. Earnings per share

The calculation of basic earnings per share is based on the net profit attributable to shareholders for the Year of HK$25,599,000 (2003: HK$43,301,00 (restated)) and the weighted average of 635,259,975 (2003: 635,259,975) ordinary shares in issue during the Year.

Diluted earnings per share amounts for both the current and prior years have not been shown because the effects arising from the exercise of the potential ordinary shares would have been anti-dilutive.

FINAL DIVIDEND

The Board of Directors recommended the payment of a final cash dividend of HK0.5 cent (year ended 31 March 2003: HK1.5 cents) per share. Together with the interim dividend of HK1 cent per share paid on 14 January 2004, total dividend for the Year is HK1.5 cent per share.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 21 September 2004 to 23 September 2004, both days inclusive, during which period no transfer of shares will be effected. To qualify for the proposed final dividend, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Share Registrar in Hong Kong. Tengis Limited at G/F, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong not later than 4:30 p.m., on 20 September 2004.

BUSINESS REVIEW AND OUTLOOK

For the year under review, the Group achieved a turnover of approximately HK$2,074 million, against that of HK$2,680 million recorded last year. EBITDA and profit attributable to shareholders were HK$96 million and HK$26 million respectively, as compared with HK$132 million and HK$43 million last year.

Sales in the first half of the year were sluggish as the result of the Iraqi war and the outbreak of SARS. Before the outcome of the events is clear, to avoid the risk of stock becoming obsolescent and price plunging, customers were conservative. Business recovered rapidly in the second half of the year and a 27% growth in turnover over the first six months was recorded. Demand continued to grow as the Group advanced into 2004 with significant sales reported for April to June 2004.

The prices of key components, such as flash memory and RAM (random access memory), rose quickly as demands increased in the second half of the year. Not only did component prices increase, supply was also very tight at different times. Flash memory and RAM typically accounted for 5-10% of the total material costs and the surge in prices affected the profit margin in the second half of the year. With demand stabilizing towards the end of the 2003 financial year, the prices of these components lowered and supply returned to normal.

Our main factory at Tong Xia, which accounted for 90% of the group's total production, has since 2000 been equipped with heavy oil electricity generators. These generators using heavy oil provide electricity to the plant at a much cheaper cost than power supplied by the government or by using diesel fuel generator. Currently the factory has six sets of heavy oil generator of 2200 KW each meeting adequately all the needs of the factory. The factory's operation had not been disrupted once by recent electricity halt in China.

Through continuous research and development of new digital products, the Group has strengthened its overall competence. Our product and engineering departments in Hong Kong, Shenzhen and Dongguan work very closely with solution providers and component suppliers. During the year, the Group purchased an office in Shenzhen for use as a research and development centre for new digital products. The various new products in the pipeline included digital satellite receivers, cable set top boxes, LCD TV and DVD recorders. All these new products will be launched this year and we expect them to generate significant and constant contributions to the Group in the coming years.

During the year the Group has set up two marketing offices in Dubai and Shenzhen respectively to promote the sales of digital satellite receivers in the Middle East and cable set top boxes in China. The two offices have both received orders and production will start this month. Our research indicates strong demand for these products in the two regions. We have confidence that these two markets will become significant market segments of the Group in the future.

To support the launch of new products and forecasted surge in demand for digital products, the Group acquired land in Shek Pai, Dongguan for constructing new factory buildings. Construction of the new production facilities had begun in 2004 and will be completed in early 2005, boosting the Group's production capacity by at least 60%. The cost of construction, estimated at approximately HK$60-80 million, will be financed partly internally and partly by the syndicated loan obtained in 2004.

Our continuous deployment of resources on research and development ensures that we are in pace with the latest technological developments, hence enables us to develop new products that meet the demand of the changing markets. Our strategy in exploring new markets minimizes the impact of economic fluctuation of any particular geographical segment. While the consumer market remains strong and analogue type electronics are rapidly replaced by digital products, we are confident that our business will continue to improve in the coming year.

MANAGEMENT DISCUSSION AND ANALYSIS

Sales for March to May 2004 were approximately HK$730 million as compared to approximately HK$380 million of the corresponding period last year. Traditionally this period is a low season but the strong sales in the second half of the year have carried on after the year end. As a result the account receivable and inventory as at 31 March 2004 increased substantially from last year's. The percentage of account payable and trust receipt loans did not increase as much as the account receivable mainly due to more cash purchase on the flash memory and RAM. Factoring into consideration the substantial increase in sales for this period, the turnover day for working capital is in line with the normal term of the Company.

As of 31 March 2004, the Group had total borrowings of approximately HK$535 million as compared with that of HK$390 million last year, of this HK$525 million was in bank borrowings and HK$10 million was for obligations under finance leases. The Group's borrowings were denominated in Hong Kong dollars and bear interest mainly at floating rates. Bank balances and cash amounted to 194 million and were mainly denominated in Hong Kong dollars. Gearing ratio was 86%, from calculation based on net borrowings over shareholders funds.

The Group is not exposed to material currency fluctuation risks, as most of its receivables are in US dollars and payable in Hong Kong and US dollars. Except for a few customers whom we offer credit on an open account basis, we transact business with all other customers on letter of credit basis.

The Group's filing of tax returns on a consolidated basis, instead of on an individual company basis had been challenged by the Hong Kong Inland Revenue Department ("IRD") starting from the years of assessment 1998/99 (the "Prior Years"). The IRD has now agreed the assessments with the Company. Approximately HK$2 million tax refund was received from the IRD and there was no underprovision on income tax on prior years.

As at 31 March 2004, the Group had 130 staff stationed in Hong Kong and overseas offices and 12,000 staff and workers working in its two PRC factories. Total salaries and wages amounted to approximately HK$134 million for the year. Salaries and wages are normally reviewed on an annual basis based on performance appraisals and market conditions. The Group provides staff with year-end double pay, discretionary bonuses, a provident fund, medical insurance and training.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the Year, neither the Company, nor any of its subsidiaries purchased, sold or redeemed and of the Company's listed securities.

CODE OF BEST PRACTICE

In the opinion of the Directors, the Company complied with the Code of Best Practice (the "Code") as set out in Appendix 14 to the Listing Rules of the Hong Kong Stock Exchange throughout the accounting period covered by the annual report, except that the non-executive directors of the Company are not appointed for specific terms as required by paragraph 7 of the Code, but are subject to retirement by rotation in accordance with the Company's articles of association.

PUBLICATION OF ANNUAL RESULTS ON THE STOCK EXCHANGE

Information required by paragraph 45(1) to 45(3) inclusive of Appendix 16 to the Listing Rules (in force prior to 31 March 2004) will be published on the website of the Hong Kong Stock Exchange in due course.

APPRECIATION

On behalf of the Group, I would like to express my gratitude to our customers and business partners for their continuous co-operation and support for the Group. I would also like to thank my fellow board members for their dedication and commitment to the Company, and my colleagues for their efforts and hard work in the past year. We will strive to improve on the results of the Company and bring in better returns for our shareholders

DIRECTORS

As at the date of this announcement, the Board of Directors comprises six executive directors – Mr. Ling Siu Man, Simon, Mr. Lee Ka Yue, Peter, Mr. Wong Ki Cheung, Ms. Li Fung Ching, Catherine, Mr. Au Wai Man and Mr. Liu Hoi Keung, Gary, non-executive director – Mr. Wong Wai Kwong, David, and independent non-executive directors – Mr. Ho Fook Hong, Ferdinand and Mr. Pang Hon Chung.

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

Hong Kong, 16 July 2004

This announcement can also be accessed through the Internet on the Company's Website www.tonic.com.hk