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 2005

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 2005 (the "Year") together with the comparative figures for the previous year, as follows:

	2005	2004
	HK$'000	*HK$'000*
Turnover *(note 2)*	**2,636,294**	2,074,140
Cost of sales	**(2,528,477)**	(1,969,624)
Gross profit	**107,817**	104,516
Net gain on transfer of long term investments into other investments	**20,290**	–
Other revenue and gain	**11,004**	10,025
Administrative expenses	**(84,057)**	(73,215)
Selling and distribution costs	**(11,304)**	(11,899)
Other operating expenses	**(1,962)**	(318)
Profit from operating activities *(note 3)*	**41,788**	29,109
Finance costs	**(12,750)**	(9,144)
Profit before tax	**29,038**	19,965
Tax *(note 4)*	**(1,478)**	5,634
Net profit attributable to shareholders	**27,560**	25,599
Dividends *(note 5)*		
Interim	**–**	6,353
Proposed final	**9,529**	3,176
	9,529	9,529
Earnings per share *(note 6)*		
– Basic	**3.9 cents**	3.8 cents (restated)
– Diluted	**N/A**	N/A

Notes:

1. **Impact of Recently issued Hong Kong Financial Reporting Standards ("HKFRSs")**
   The Hong Kong Institute of Certified Public Accountants has issued a number of new Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards, herein collectively referred to as the new HKFRSs, which are generally effective for accounting periods beginning on or after 1 January 2005. The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31 March 2005. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial positions.

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**	
	2005	2004	**2005**	2004
	HK\$'000	*HK\$'000*	***HK\$'000***	*HK\$'000*
Principal activities:				
Electronic products and components	**2,367,455**	1,860,003	**26,414**	26,102
Home appliance products	**268,839**	214,137	**(3,553)**	3,301
Corporate	**–**	–	**(231)**	(125)
	2,636,294	2,074,140	**22,630**	29,278
Principal markets:				
Europe	**1,307,766**	1,252,280		
United States of America	**781,402**	469,956		
Asia Pacific countries	**302,158**	314,235		
Others	**244,968**	37,669		
	2,636,294	2,074,140		

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

	2005	2004
	HK\$'000	*HK\$'000*
Depreciation	**73,118**	63,607
Minimum lease payments under operating leases on land and buildings	**3,671**	3,014
Auditors' remuneration	**787**	720
Amortisation of trademarks	**260**	258
Provision/(write-back of provision) for inventories	**688**	(876)
Staff costs	**125,601**	135,973
Interest income	**(461)**	(291)
Dividend income from listed investments	**(734)**	(911)
Unrealised holding losses on other investments, net	**1,640**	–
Loss on disposal of other investments	**48**	–

4. **Tax**
   Hong Kong profits tax has been provided at the rate of 17.5% (2004: 17.5%) on the estimated assessable profits arising in Hong Kong during the Year. 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:

	2005	2004
	HK$'000	*HK$'000*
Current – Hong Kong		
Charge for the year	**713**	2,462
Overprovision in prior years	**(1,235)**	(8,543)
Current – Elsewhere		
Charge for the year	**6**	436
Deferred	**1,994**	11
Tax charge/(credit) for the year	**1,478**	(5,634)

5. Dividends

	2005	2004
	HK$'000	*HK$'000*
Interim – Nil (2004: HK1 cent) per ordinary share	**–**	6,353
Proposed final – HK1 cent (2004: HK0.5 cents) per ordinary share	**9,529**	3,176
	9,529	9,529

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$27,560,000 (2004: HK$25,599,000) and the weighted average of 706,413,187 (2004 (restated): 672,628,209) ordinary shares in issue during the Year, as adjusted to reflect the Rights Issue during the year.

A diluted earnings per share amount for the year ended 31 March 2005 has not been disclosed as no diluting events existed during the year.

FINAL DIVIDEND

The Board of Directors recommended the payment of a final cash dividend of HK1 cent (year ended 31 March 2004: HK0.5 cent) per share.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 13 September 2005 to 15 September 2005, 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 12 September 2005.

BUSINESS REVIEW AND OUTLOOK

For the Year under review, the Group achieved a turnover of approximately HK$2,636 million, representing an increase of 27% as compared with HK$2,074 million recorded last year. EBITDA and profit before tax were HK$120 million and HK$29 million respectively, as compared with HK$96 million and HK$20 million last year.

During the Year, market demands for the Group's products continued to be strong, but there was increasing competition in the consumer electronics market. High cost of materials continued to affect the Group's profit margin. The prices of key components, such as flash memory and RAM (random access memory), rose quickly as demands increased in the second half of last year. Increased costs continued to affect the Group in the first half of this year. The costs of other materials such as metals and plastics also rose significantly.

The Group continued to invest in the research and development of new digital products to keep pace with the rapidly changing needs of the market. Our product and engineering departments in Hong Kong, Shenzhen and Dongguan work very closely with integrated circuits solution providers and components suppliers. Many new products including digital amusement centre, digital satellite receivers, cable set top boxes, LCD TV, portable DVD players and DVD recorders were launched this year and are expected to generate significant and constant contributions to the Group in the coming years. New products under development include the next generation DVD players with high density and blue ray format, combination products with VCR compatibility, etc. are expected to be launched at the end of the year.

The marketing division for digital satellite receivers saw steady progress. Increasing orders were received reflecting favourable customer response. Our research indicated strong potential demand for these products in the market and discussions with important ODM and OEM customers in Europe and the Middle East are in progress. We are also in discussion with certain veteran Korean manufacturers of satellite receivers to shift their production facilities from Korea to Tonic in China for more competitive production costs.

The construction of the factory buildings in Shek Pai was completed in early 2005 and can now provide the Group with extra production capacity. The new factory provides a timely solution to the anticipated growth in demand for the new products launched during the year. The project imposed additional financial constraints on the Group, however, those constraints are expected to be relieved when the factory becomes fully operational in the coming years and our turnover and financial resources increase.

The business of the Home Appliance Division grew steadily and contributed approximately 10% of the Group's turnover. The OEM/ODM segment of the business performed particularly well in terms of sales and margin. However the own brand business has yet to generate return to the Group. As such we have decided to scale down the own brand business in Japan. With the saved resources we aim to expand the division's product line in the coming years.

Taking into account the high oil prices and lingering international trade disputes, we are conservative about the outlook of the world economy. In the short term, keen competition in the market and high material costs will continue to squeeze our business and profit margins. In the long term, however, we believe the demand for new products such as DVD recorders, LCD TV and digital satellite receivers, which are still relatively expensive at the moment, will increase when their prices come down to more affordable levels. We are confident that the Group is well positioned to take on the challenges ahead.

Rights Issue

As at 28 January 2005, the Group proposed to raise between approximately HK$64 million to HK$68 million, before expenses, by way of a rights issue ("Rights Issue") at the price of HK$0.2 per rights share on the basis of one rights share for every two existing shares held on the record date. As at 16 March 2005, the Rights Issue was closed with a total of valid applications for 509,462,481 Rights Shares, which was approximately 1.6 times subscribed. Among the net proceeds of approximately HK$62 million, approximately HK$30 million would be used for the purchase of plant and machinery for the new factory and the rest would be used as the Group's general working capital. When the Rights Issue was completed, the Company's issued share capital was enlarged to 952,889,962 shares.

MANAGEMENT DISCUSSION AND ANALYSIS

Component prices

The persistently high oil price has a direct impact on the cost of plastic materials and electricity. Plastic materials are mainly used for producing our portable DVD players. Portable DVD players accounted for less than 10% of our sales during the year. The cost of plastic materials accounted for about 2% of the costs of the products and therefore does not have significant effect on our margin. Our main electricity supply is generated using heavy oil, which is substantially cheaper than diesel oil used by other generators. The cost of heavy oil generally accounted for less than 0.5% of our total costs. On the contrary, the increase in costs of metal has a more significant effect on our margin. Cost of metal generally accounted for 3% of our total material costs and during the financial year it increased approximately 20%. Prices of other components were stable or decreased during the year. Profit margin continued to be under pressure in this situation.

Working capital

Sales for March to May 2004 were particularly good despite that they fell within the traditional low season. Sales for the same period of this year decreased compared with last year and accordingly inventory level and accounts payable level decreased. More customers have required the Company to provide finance, which is cheaper to obtain in Hong Kong, thus prolonged the turnover period for accounts receivable. The net proceeds from Rights Issue of shares of approximately HK$62 million has strengthened the capital structure of the Company and provide additional funding for working capital. Shareholders equity increased from HK$397 million to HK$520 million.

Liquidity resources

Taking advantage of the low interest environment, the Group had on 3 December 2003 signed a $3^1/_2$ year term loan facility agreement for HK$245,000,000 with a syndicate of 11 international and local banks. The loan is on HIBOR basis and repayable by installment one year after drawdown. The syndicated loan was used to refinance the Group's existing credit facility and the cost of construction of new factory buildings. Under the terms of the loan agreement, the Chairman of the Company, Mr. Simon Ling, being the single largest shareholder and actively involved in the management and business of the Group, is required to maintain at least 40% of the shareholdings of the Company.

As at 31 March 2005, the Group had total borrowings of approximately HK$475 million, of which HK$441 million was in bank borrowings and HK$34 million was for obligations under finance leases. The Group's borrowings are denominated in Hong Kong dollars and bear interest mainly on a HIBOR basis. Bank balances and cash on hand amounted to HK$98 million and are mainly denominated in Hong Kong dollars. Gearing ratio was 72%, calculated 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. The Group purchases forward contracts with bank to hedge against confirmed US dollars receipts and payments. 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 at sight basis.

Investments in listed securities

The Group used to invest in securities of certain listed companies in Hong Kong. These investments had been treated as long-term investment. During the Year, we started to dispose of the investments on the market to generate working capital for the Group. And it is the management's intention to reclassify them into short-term investments and thus recorded base on market value. The resulting gain on the reclassification and the loss on the part disposed amounted to HK$19 million.

Employees relations

As at 30 March 2005, the Group had 140 staff stationed in Hong Kong and 8,300 workers working in factories in the mainland China. Total salaries and wages amounted to approximately HK$126 million for the year. Salaries and wages are normally reviewed annually on the basis of staff performance appraisals and market conditions. The Group provides year-end double pay, discretionary bonuses, provident fund, medical insurance and training to the staff. Workers welfare is set with reference to the prevailing labor laws in Hong Kong and the mainland China.

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 any of the Company's listed securities.

CORPORATE GOVERNANCE

In the opinion of the Directors, the Company throughout the Year, complied with the Code of Best Practice as set out in Appendix 14 to the Listing Rules of the Hong Kong Stock Exchange, which was still in force prior to 1 January 2005 and remains applicable to the Year under review, except that Mr. Wong Wai Kwong, David as the non-executive Director and Mr. Ho Fook Hong, Ferdinard and Mr. Pang Hon Chung as the independent non-executive Directors are not appointed for specific terms 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 of the Hong Kong Stock Exchange which was in force prior to 31 March 2004 and remain applicable to the results announcement in respect of accounting periods commenced before 1 July 2004 under the transition arrangement 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 extend my special thanks to our employees for their continuous contribution and hard work, to our customers and business partners for their continuous co-operation and support for the Group. To my fellow board members, I thank you for your dedication to good governance of the Company. We will endeavour to improve 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 seven 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, Mr. Liu Hoi Keung, Gary and Mr. Lam Kwai Wah, one non-executive Director – Mr. Wong Wai Kwong, David, and three independent non-executive Directors – Mr. Ho Fook Hong, Ferdinand, Mr. Pang Hon Chung and Mr. Cheng Tsang Wai.

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

Hong Kong, 15 July 2005

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