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 2006

The directors (the "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 2006 (the "Year") together with the comparative figures for the previous year, as follows:

CONSOLIDATED INCOME STATEMENT

Year ended 31 March 2006

	Notes	2006 HK$'000	2005 HK$'000 (Restated)
REVENUE	3	**2,392,219**	2,636,294
Cost of sales		**(2,269,816)**	(2,528,140)
Gross profit		**122,403**	108,154
Net gain on transfer of long term investments into other investments		**–**	20,290
Other income and gain	3	**8,390**	11,004
Selling and distribution costs		**(9,872)**	(11,304)
Administrative expenses		**(69,057)**	(83,894)
Other operating income/(expenses), net		**904**	(1,962)
Impairment of an available-for-sale investment		**(11,110)**	–
Finance costs	5	**(23,149)**	(12,750)
PROFIT BEFORE TAX	4	**18,509**	29,538
Tax	6	**101**	(1,684)
PROFIT FOR THE YEAR		**18,610**	27,854
DIVIDENDS	7		
Proposed final		**9,529**	9,529
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	8		
– Basic		**2.0 cents**	3.9 cents
– Diluted		**N/A**	N/A

CONSOLIDATED BALANCE SHEET

31 March 2006

	Notes	2006 HK$'000	2005 HK$'000 (Restated)
NON-CURRENT ASSETS			
Property, plant and equipment		**633,120**	628,651
Prepaid land lease payments		**35,277**	35,945
Intangible assets		**17,233**	13,470
Available-for-sale investments		**14,219**	963
Non-current portion of other receivable		**5,706**	23,759
Non-current portion of loans receivable		**281**	469
Deposits for acquisition of items of property, plant and equipment		**31,765**	2,031
Total non-current assets		**737,601**	705,288
CURRENT ASSETS			
Inventories		**354,277**	257,210
Accounts and bills receivable	*9*	**277,427**	227,821
Current portion of loans receivable		**188**	188
Prepayments, deposits and other receivables		**29,588**	19,283
Prepaid land lease payments		**9,521**	9,424
Equity investments at fair value through profit or loss/ other investments		**10,380**	17,542
Tax recoverable		**1,700**	2,499
Cash and bank balances		**99,971**	98,353
Total current assets		**783,052**	632,320
CURRENT LIABILITIES			
Accounts payable	*10*	**441,887**	269,972
Accrued liabilities and other payables		**77,555**	64,583
Interest-bearing bank and other borrowings		**254,588**	287,010
Derivative financial instruments		**1,496**	–
Tax payable		**1,310**	–
Total current liabilities		**776,836**	621,565
NET CURRENT ASSETS		**6,216**	10,755
TOTAL ASSETS LESS CURRENT LIABILITIES		**743,817**	716,043
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings		**206,239**	187,613
Deferred tax liabilities		**29,512**	31,709
Total non-current liabilities		**235,751**	219,322
Net assets		**508,066**	496,721
EQUITY			
Issued capital		**95,289**	95,289
Reserves		**403,248**	391,903
Proposed final dividend	*7*	**9,529**	9,529
Total equity		**508,066**	496,721

Notes:

1. SEGMENT INFORMATION

(a) Business segments

The following tables present revenue, profit and certain asset and liability of the Group's business segments for the years ended 31 March 2006 and 2005.

Group

	Electronic products and components		Home appliance products		Corporate		Consolidated	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
		(Restated)		(Restated)				(Restated)
Segment revenue:								
Sales to external customers	**2,141,160**	2,367,455	**251,059**	268,839	**–**	–	**2,392,219**	2,636,294
Other segment revenue	**5,346**	9,018	**751**	473	**–**	–	**6,097**	9,491
Total	**2,146,506**	2,376,473	**251,810**	269,312	**–**	–	**2,398,316**	2,645,785
Segment results	**48,852**	26,853	**5,070**	(3,493)	**(532)**	(231)	**53,390**	23,129
Interest income and unallocated income							**3,431**	21,804
Unallocated expenses							**(15,163)**	(2,645)
Finance costs							**(23,149)**	(12,750)
Profit before tax							**18,509**	29,538
Tax							**101**	(1,684)
Profit for the year							**18,610**	27,854
Assets and liabilities								
Segment assets	**1,280,620**	1,091,361	**113,948**	102,955	**–**	–	**1,394,568**	1,193,316
Unallocated assets							**126,085**	144,292
Total assets							**1,520,653**	1,337,608
Segment liabilities	**458,008**	291,956	**61,427**	42,428	**7**	171	**519,442**	334,555
Unallocated liabilities							**493,145**	506,332
Total liabilities							**1,012,587**	840,887

(b) Geographical segments

The following table presents revenue and certain asset and expenditure information for the Group's geographical segments for the years ended 31 March 2006 and 2005.

Group

	Americas		Europe		Asia-Pacific countries		Others		Consolidated	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment revenue:										
Sales to external customers	**991,863**	781,402	**998,780**	1,307,766	**347,192**	302,158	**54,384**	244,968	**2,392,219**	2,636,294

2. IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The following new and revised HKFRSs affect the Group and are adopted for the first time for the current year's financial statements:

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 12	Income Taxes
HKAS 14	Segment Reporting
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 39 Amendment	Transition and Initial Recognition of Financial Assets and Financial Liabilities
HKFRS 2	Share-based Payment

HKFRS 3	Business Combinations
HK-Int 4	Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases

The adoption of HKASs 2, 7, 8, 10, 12, 14, 16, 18, 19, 21, 24, 27, 33, 36, 37, 38, HKFRS 2, HKFRS 3, and HK-Int 4 has had no material impact on the accounting policies of the Group and the Company and the methods of computation in the Group's and the Company's financial statements.

HKAS 1 has affected the presentation of the consolidated balance sheet, consolidated income statement, consolidated statement of changes in equity and other disclosures.

The impact of adopting the other HKFRSs is summarised as follows:

(a) HKAS 17 – Leases

Upon the adoption of HKAS 17, the Group's leasehold interest in land and buildings is separated into leasehold land and leasehold buildings. The Group's leasehold land is classified as an operating lease and is reclassified from property, plant and equipment to prepaid land lease payments, while leasehold buildings continue to be classified as part of property, plant and equipment and are stated at valuation. Prepaid land lease payments under operating leases are initially stated at cost and subsequently amortised on the straight-line basis over the lease term.

(b) HKAS 32 and HKAS 39 – Financial Instruments

(i) Equity securities

Upon the adoption of HKAS 39, the Group's investment in equity securities for trading purposes are designated as financial assets at fair value through profit or loss and accordingly are stated at fair value with gains or losses being recognised in the income statement.

In May 2005, the Group entered into an agreement with a trade customer to acquire 19.05% equity interest in the shareholding of this trade customer. As this equity investment is held for a long term purpose, it has been designated as available-for-sale investments under HKAS 39.

(ii) Derivative financial instruments – Forward currency contracts

Forward currency contracts held to hedge risks associated with the foreign currency exposures arose from sales or purchases by the operating unit in currencies other than the unit's function currency are designated as cash flow hedges from 1 April 2005 and are recorded at fair value. The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly in equity, until the transaction which is being hedged is itself recognised in the financial statements. The ineffective portion of the hedge is recognised immediately in the income statement.

3. REVENUE, OTHER INCOME AND GAIN

Revenue, which is also the Group's turnover, represents the invoiced value of goods sold, net of discounts and returns, after elimination of all significant intra-group transactions.

An analysis of revenue, other income and gain is as follows:

	2006	2005
	HK$'000	*HK$'000*
Revenue		
Manufacture and sale of electronic products and components	**2,141,160**	2,367,455
Manufacture and sale of home appliance products	**251,059**	268,839
	2,392,219	2,636,294
Other income		
Handling fee income	**1,737**	8,014
Bank interest income	**1,094**	461
Others	**3,933**	2,210
	6,764	10,685
Gain		
Gain on disposal of items of property, plant and equipment	**1,626**	319
	8,390	11,004

4. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	2006	2005
	HK$'000	*HK$'000*
		(Restated)
Cost of inventories sold	**2,268,188**	2,529,856
Provision for inventories	**132**	688
Fair value (gains)/losses on derivative financial instruments, net	**1,496**	(2,404)
Cost of sales	**2,269,816**	2,528,140
Depreciation	**70,100**	71,880
Amortisation of trademarks*	**255**	260
Fair value losses on equity investments at fair value through profit or loss	**233**	1,640
(Gain)/loss on disposal of equity investments at fair value through profit or loss	**(356)**	48
Dividend income from listed investments	**(355)**	(734)

* The amortisation of trademarks and deferred development costs for the year are included in "Selling and distribution costs" and "Cost of sales", respectively, on the face of the consolidated income statement.

5. FINANCE COSTS

	2006	2005
	HK$'000	*HK$'000*
Interest on:		
Bank loans and facilities wholly repayable within five years	**21,547**	12,432
Finance leases	**1,602**	318
	23,149	12,750

6. TAX

Hong Kong profits tax has been provided at the rate of 17.5% (2005: 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.

	2006	2005
	HK$'000	*HK$'000*
		(Restated)
Group:		
Current – Hong Kong		
Charge for the year	**1,528**	713
Overprovision in prior years	**(751)**	(1,235)
Current – Elsewhere		
Charge for the year	**1,319**	6
Deferred	**(2,197)**	2,200
Tax charge/(credit) for the year	**(101)**	1,684

7. DIVIDENDS

	2006	2005
	HK$'000	*HK$'000*
Proposed final – HK1 cent (2005: HK1 cent) per ordinary share	**9,529**	9,529

The proposed final dividend for the Year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

8. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of basic earnings per share is based on the profit for the Year attributable to ordinary equity holders of the parent of HK$18,610,000 (2005 (restated): HK$27,854,000) and the weighted average number of 952,889,962 (2005: 706,413,187) ordinary shares in issue during the Year.

A diluted earnings per share for the year ended 31 March 2006 and 2005 has not been disclosed as the share options outstanding during these years had an anti-dilutive effect on the basic earnings per share of these years.

9. ACCOUNTS AND BILLS RECEIVABLE

The Group's trading term with its customers is mainly on credit. The credit period granted by the Group to customers generally ranges from 7 days to 35 days, extending up to 120 days for major customers. The Group seeks to maintain strict control over its outstanding receivables in order to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's accounts and bills receivable relate to a large number of diversified customers, there is no significant concentration of credit risk.

An aged analysis of the Group's accounts and bills receivable as at the balance sheet date, based on invoice date, is as follows:

	Group			
	2006		2005	
	HK$'000	***Percentage***	*HK$'000*	*Percentage*
0 – 30 days	**140,346**	**50**	136,923	60
31 – 60 days	**36,343**	**13**	16,944	7
61 – 90 days	**23,814**	**9**	41,054	18
Over 90 days	**76,924**	**28**	32,900	15
	277,427	**100**	227,821	100

10. ACCOUNTS PAYABLE

An aged analysis of the Group's accounts payable as at the balance sheet date, based on invoice date, is as follows:

	Group			
	2006		2005	
	HK$'000	***Percentage***	*HK$'000*	*Percentage*
0 – 30 days	**164,073**	**37**	96,630	36
31 – 60 days	**117,403**	**26**	42,747	16
61 – 90 days	**42,881**	**10**	42,791	16
Over 90 days	**117,530**	**27**	87,804	32
	441,887	**100**	269,972	100

BUSINESS REVIEW AND OUTLOOK

For the Year under review, the Group achieved a turnover of approximately HK$2,392 million. EBITDA and profit attributable to shareholders were HK$117 million and HK$19 million respectively, as compared with HK$119 million (restated) and HK$28 million(restated) last year.

During the Year, the Group diversified into high margin products including DVD recorders, portable DVD players, Global Positioning System (GPS), Digital Video Broadcast products (DVB) and cable set top boxes. The Group is committed to investing continuously in the research and development of new products including iPod and Xbox accessories, and various combos of DVD/VCR/DVD+RW/LCD-TV/CRT-TV, and new products will be launched in the coming year.

The Group's cable set top box business in China matured in early 2006. China has been catching on fast with digital broadcasting since the country's State Administration for Radio Film and Television announced plans to migrate from the analog broadcast mode to the digital mode within the next few years. Analog service will be obsolete by 2015. Cable set top boxes are now sold at affordable prices and their sales are braced by their compatibility with the new advanced digital broadcasting system and pre-pay SIM card technology enabling new applications.

The expanded factory buildings in Shi Pai have provided the Group with extra production capacity. Labour cost and sub-contracting charges in Shi Pai are also relatively lower than other regions in Dongguan. The factory will be up to 50 – 60% utilised in 2006/07 and will reach full operation in few years.

The business of the Home Appliance Division performed well during the year and contributed a favourable margin to the Group. The Division accounted for approximately 10% of the Group's total revenue. The Japan and USA offices, which focused on the Group's own brand business, were closed during the year. The freed resources will be injected into the Group's OEM/ODM business in the coming years.

During the year under review, high interest rate squeezed the Group's margin and put pressure on our financial resources. In combat, the management will realign the Group's production facilities and find ways to reduce its reliance on external financial resources. It will plan investment in production meticulously.

2006 marked the 30th Anniversary of the Group. Since the Group started in 1976 as a consumer audio products manufacturer and trader, the Group has established a solid foundation and expanded its business horizons over the years. The anniversary is also a time to look forward and the Group has a comprehensive product road map which aim is to ensure sustainable growth and maintain the competitive advantages of the Group. With material costs stabilising and demand for digital products continuously increasing, we are optimistic about the future of our business.

FINAL DIVIDEND

The Board of Directors recommended the payment of a final cash dividend of HK1 cent (year ended 31 March 2005: HK1 cent) per share.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 18 September 2006 to 20 September 2006, both days inclusive, during which 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 26/F, Tesbury Centre, 28 Queen's Road East, Hong Kong not later than 4:30 p.m. on 15 September 2006.

MANAGEMENT DISCUSSION AND ANALYSIS

Business development

The Group had successfully transformed the business from making analogue audio products to digital video products after investing heavily in research and developments. The popular demand of digital products such as DVD during the last few years has proved that we are heading towards the right direction. Our current products road map covered a wide variety of digital products which we believe will also be very popular in the coming years. DVD recorder with its superb features and quality is destined to replace VCR in the near future. Small size LCD TV could be installed in the bath room and kitchen in every household, DVB products capable of receiving digital broadcast signal will be a must in 5 to 10 years all over the world. The Group would therefore benefit from the tremendous sales of these products.

Working capital

In early 2006, the Group expanded its cable set top box business. Sales of set top box were particularly strong between January and March 2006, accounting for almost 7% of the Group's total revenue. In addition, sales orders for April to June 2006 were also encouraging. As a result, inventory level and trade creditor level were higher than those of last year. DK Digital GmbH fully settled its outstanding debts to the Group and no bad debts provision was required for the year. After the completion of the new Shi Pai factory, we expect capital expenditure to decrease in the coming years.

Liquidity resources

The Group had on 23 March 2006 signed a 3 year term loan facility agreement for HK$150,000,000 with a syndicate of 7 international and local banks. The loan is on HIBOR basis and repayable by installment starting 18 months after the date of the loan agreement. This syndicated loan was used to fully repay the syndicated loan obtained on 3 December 2003, with the approximately HK$27 million balance to serve the Group's working capital requirements. Under the terms of the loan agreement, Mr. Ling Siu Man, Simon, the Chairman and Managing Director of the Group, is required to maintain at least 40% shareholding of the Company, be the single largest shareholder and be actively involved in the management and business of the Group, otherwise it will constitute as default.

As at 31 March 2006, the Group had total borrowings of approximately HK$461 million, of which HK$425 million was bank borrowings and HK$36 million was for obligations under finance leases. The Group's borrowings are denominated in Hong Kong dollars and bear interest mainly on HIBOR basis. Bank balances and cash on hand, mainly denominated in Hong Kong dollars, amounted to HK$100 million. Gearing ratio was 71%, calculated based on net borrowings over shareholder 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 dollar receipts. 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 has invested in securities of certain listed companies in Hong Kong. During the year, certain investments were disposed of with a gain of HK$356,000 as compared with HK$20 million last year. The Group continues to recognise the investment securities on short-term basis and record it based on market value.

Employees relations

As at 31 March 2006, the Group had 150 employees stationed in Hong Kong and 8,000 employees in the PRC factories and office. Total salaries and wages for the year amounted to approximately HK$129 million. The Group normally reviews staff salaries and wages annually on the basis of staff performance and market conditions. The Group also provides year-end incentive, discretionary bonuses, provident fund, medical insurance and training to staff. Worker welfare is determined with reference to prevailing labor laws in Hong Kong and China.

PURCHASE, SALE OR REDEMPTION OF SHARES

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

AUDIT COMMITTEE

The Audit Committee comprises three Independent Non-executive Directors and a Non-executive Director. Mr. Pang Hon Chung, being the Independent Non-executive Director, chairs the Committee. The Audit Committee has reviewed the Group's consolidated financial statements for the year ended 31 March 2006, including the accounting principals and practices adopted by the Group.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has applied with the Code of Corporate Governance Practice during the year ended 31 March 2006 as set out on Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited save as disclosed below:

Code Provision A.2.1 stipulates that the roles of Chairman and Chief Executive Officer should be separate and should not be preformed by the same individual. Mr. Ling Siu Man, Simon is the Chairman and Chief Executive Officer of the Group. He is responsible for the Group's overall strategic planning, management, objectives setting and corporate development as well as the management of the affairs of the Board of Directors (the "Board"). The Board considers that this structure is more effective and efficient in running the business. The Board believes that Mr. Ling's appointment to the posts of Chairman and Chief Executive Officer is beneficial to the business prospects of the Group.

The Company's Articles of Association, are inconsistent with Code Provision A.4.2 of the CG Code, which provides that one-third of the directors for the time being (save for the Chairman or Managing Director or Joint Managing Director), or if their number is not three nor a multiple of three, then the number nearest to but not less than one-third, shall retire from office by rotation at least once every three years and being eligible, offer themselves for re-election at annual general meetings. The Board considers that Mr. Ling Siu Man, Simon, Chairman of the Board, should not subject to retirement to ensure continuity of leadership and stability for growth of the Company.

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. Pang Hon Chung, Mr. Cheng Tsang Wai and Dr. Chung Hing Wah, Paul.

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

Hong Kong, 18 July 2006

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