# TONIC INDUSTRIES HOLDINGS LIMITED

*(Incorporated in the Cayman Islands with limited liability)*

Website: http://www.tonic.com.hk and http://www.irasia.com/listco/hk/tonic

(Stock Code: 978)

## INTERIM RESULTS
## FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2007

The Board of Directors (the "Directors") of Tonic Industries Holdings Limited (the "Company") is pleased to announce that the unaudited condensed consolidated financial statements of the Company and its subsidiaries (the "Group") for the six months ended 30 September 2007 (the "Period") together with the comparative figures for the previous corresponding period are as follows:

**CONDENSED CONSOLIDATED INCOME STATEMENT**

| | | **For six months ended 30 September** | |
|---|---|---|---|
| | | **2007** | 2006 |
| | | **Unaudited** | Unaudited |
| | *Notes* | ***HK$'000*** | *HK$'000* |
| Revenue | *2* | **1,128,319** | 1,578,422 |
| Cost of sales | | **(1,054,388)** | (1,511,714) |
| Gross profit | | **73,931** | 66,708 |
| Other income | | **11,187** | 10,949 |
| Selling and distribution costs | | **(2,514)** | (4,029) |
| Administrative expenses | | **(50,810)** | (34,649) |
| Finance costs | | **(15,850)** | (17,005) |
| Profit before tax | *3* | **15,944** | 21,974 |
| Tax | *4* | **(289)** | (431) |
| Net profit for the Period attributable to ordinary equity holders of the Company | | **15,655** | 21,543 |
| Interim dividend | | **Nil** | Nil |
| Interim dividend per share | | **N/A** | N/A |
| Earnings per share attributable to ordinary equity holders of the Company | *5* | | |
| – Basic | | **1.6 cents** | 2.3 cents |
| – Diluted | | **N/A** | N/A |

## CONDENSED CONSOLIDATED BALANCE SHEET

| | Notes | **30 September 2007 Unaudited** *HK$'000* | 31 March 2007 Audited *HK$'000* |
|---|---|---|---|
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | | **695,136** | 704,250 |
| Prepaid land lease payments | | **42,598** | 44,155 |
| Intangible assets | | **25,623** | 27,228 |
| Available-for-sale investments | | **14,219** | 14,219 |
| Non-current portion of other receivable | | **4,780** | 4,780 |
| Non-current portion of loan receivable | | **93** | 93 |
| Deposits for acquisition of items of property, plant and equipment | | **6,781** | 5,510 |
| | | **789,230** | 800,235 |
| CURRENT ASSETS | | | |
| Inventories | | **551,296** | 315,509 |
| Accounts and other receivables | *6* | **333,530** | 261,122 |
| Prepaid land lease payments | | **1,018** | 1,004 |
| Equity investments at fair value through profit or loss | | **4,320** | 10,512 |
| Derivative financial instruments | | **1,584** | 1,582 |
| Tax recoverable | | **1,016** | 921 |
| Cash and bank balances | | **55,732** | 92,698 |
| | | **948,496** | 683,348 |
| CURRENT LIABILITIES | | | |
| Accounts and other payables | *7* | **664,534** | 354,266 |
| Interest-bearing bank and other borrowings | | **310,831** | 373,111 |
| Tax payable | | **5,597** | 5,410 |
| | | **980,962** | 732,787 |
| NET CURRENT LIABILITIES | | **(32,466)** | (49,439) |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | **756,764** | 750,796 |
| NON-CURRENT LIABILITIES | | | |
| Interest-bearing bank and other borrowings | | **155,226** | 156,785 |
| Net deferred tax liabilities | | **53,213** | 52,641 |
| | | **208,439** | 209,426 |
| | | **548,325** | 541,370 |
| EQUITY | | | |
| Equity attributable to ordinary equity holders of the Company | | | |
| Issued capital | *8* | **95,289** | 95,289 |
| Reserves | | **453,036** | 436,552 |
| Proposed final dividend | | **–** | 9,529 |
| | | **548,325** | 541,370 |

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The Directors are responsible for the preparation of the Group's unaudited condensed consolidated interim financial statements. These unaudited condensed consolidated interim financial statements are prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting". The accounting policies and basis of preparation adopted in the preparation of these unaudited condensed consolidated interim financial statements are the same as those used in the annual financial statements for the year ended 31 March 2007.

The following new standards, amendments to standards and interpretations which are relevant to the Group's operations are mandatory for the year ending 31 March 2008.

| | | |
|---|---|---|
| – | Amendment to HKAS 1 | Capital disclosures |
| – | HKFRS 7 | Financial instruments: Disclosures |
| – | HK(IFRIC)-Int 8 | Scope of HKFRS 2 |
| – | HK(IFRIC)-Int 9 | Reassessment of embedded derivatives |
| – | HK(IFRIC)-Int 10 | Interim financial reporting and impairment |
| – | HK(IFRIC)-Int 11 | HKFRS 2 – Group and treasury share transactions |

The adoption of the above standards, amendments to standards and interpretations has no material effect on the results or financial position of the Group for the current or prior accounting periods. Accordingly, no prior period adjustment is required.

The Group has not applied any new standards, amendments to standards and interpretations that are not yet effective for the current accounting period. The Group has already commenced an assessment of the impact of these new standards, amendments to standards and interpretations but is not yet in a position to state whether they would significantly impact on its results of operations and financial position.

## 2. SEGMENTAL INFORMATION

The principal activities of the Group are the sale and manufacture of consumer electronic products and components and home appliances products.

The following tables present unaudited revenue for the Group's geographical segments and business segments for the six months ended 30 September.

*Geographical segments*

| | Americas | | Europe | | Asia Pacific countries | | Consolidated | |
|---|---|---|---|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 | **2007** | 2006 | **2007** | 2006 |
| | **Unaudited** | Unaudited | **Unaudited** | Unaudited | **Unaudited** | Unaudited | **Unaudited** | Unaudited |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Segment revenue: | | | | | | | | |
| Sales to external customers | **431,392** | 966,581 | **470,235** | 343,470 | **226,692** | 268,371 | **1,128,319** | 1,578,422 |

*Business segments*

| | Electronic products and components | | Home appliance products | | Corporate | | Consolidated | |
|---|---|---|---|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 | **2007** | 2006 | **2007** | 2006 |
| | **Unaudited** | Unaudited | **Unaudited** | Unaudited | **Unaudited** | Unaudited | **Unaudited** | Unaudited |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Segment revenue: | | | | | | | | |
| Sales to external customers | **956,901** | 1,447,678 | **171,418** | 130,744 | **–** | – | **1,128,319** | 1,578,422 |
| Other segment revenue | **9,911** | 2,485 | **232** | 607 | **–** | – | **10,143** | 3,092 |
| Total | **966,812** | 1,450,163 | **171,650** | 131,351 | **–** | – | **1,138,462** | 1,581,514 |
| Segment results | **27,736** | 31,532 | **9,235** | (374) | **(3)** | (1) | **36,968** | 31,157 |
| Interest income and unallocated income | | | | | | | **1,044** | 7,857 |
| Unallocated expenses | | | | | | | **(6,218)** | (35) |
| Finance costs | | | | | | | **(15,850)** | (17,005) |
| Profit before tax | | | | | | | **15,944** | 21,974 |
| Tax | | | | | | | **(289)** | (431) |
| Net profit for the Period attributable to ordinary equity holders of the Company | | | | | | | **15,655** | 21,543 |

### 3. PROFIT BEFORE TAX

| | For the six months ended 30 September | |
|---|---|---|
| | **2007** | 2006 |
| | **Unaudited** | Unaudited |
| | ***HK$'000*** | *HK$'000* |
| Profit before tax is arrived at after charging/(crediting): | | |
| Amortisation of trademarks | **139** | 131 |
| Amortisation of research and development costs | **5,571** | 3,495 |
| Depreciation | **36,113** | 32,760 |
| Interest on borrowings | **15,850** | 17,005 |
| Gain on disposal of a property | **(326)** | – |
| Gain on disposal of an equity investment at fair value through profit or loss | **–** | (2,916) |
| Fair value loss/(gain) on equity investment at fair value through profit or loss | **6,192** | (2,112) |
| Interest income | **(739)** | (388) |

### 4. TAX

Hong Kong profits tax has been provided at the rate of 17.5% (2006: 17.5%) on the estimated assessable profits arising in Hong Kong during the Period. 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 legislations, interpretations and practices in respect thereof.

### 5. EARNINGS PER SHARE

The calculation of basic earnings per share for the Period is based on the net profit for the Period attributable to ordinary equity holders of the Company of HK$15,655,000 (2006: HK$21,543,000) and the weighted average of 952,889,962 ordinary shares (2006: 952,889,962 shares) in issue during the Period.

There is no diluted earnings per share for the Period since the Company has no dilutive potential ordinary share.

## 6. ACCOUNTS AND OTHER RECEIVABLES

Included in accounts and other receivables are accounts and bills receivables of HK$307,774,000 (31 March 2007: HK$199,162,000), the aging analysis of which is as follows:

| | **30 September 2007 Unaudited** ***HK$'000*** | 31 March 2007 Audited *HK$'000* |
|---|---|---|
| 0 – 30 days | **183,038** | 125,828 |
| 31 – 60 days | **69,131** | 10,098 |
| 61 – 90 days | **35,959** | 47,828 |
| Over 90 days | **19,646** | 15,408 |
| | **307,774** | 199,162 |

The Group's sales are on terms of L/C at sight and the others on 35 days to 100 days open account basis.

## 7. ACCOUNTS AND OTHER PAYABLES

Included in accounts and other payables are accounts payables of HK$578,769,000 (31 March 2007: HK$288,408,000), the aging analysis of which is as follows:

| | **30 September 2007 Unaudited** ***HK$'000*** | 31 March 2007 Audited *HK$'000* |
|---|---|---|
| 0 – 30 days | **256,994** | 111,368 |
| 31 – 60 days | **166,394** | 44,628 |
| 61 – 90 days | **77,106** | 44,869 |
| Over 90 days | **78,275** | 87,543 |
| | **578,769** | 288,408 |

The majority of the Group's purchases are on 30 days to 120 days open account basis.

## 8. SHARE CAPITAL

| | **30 September 2007 Unaudited *HK$'000*** | 31 March 2007 Audited *HK$'000* |
|---|---|---|
| *Authorised:* | | |
| 1,200,000,000 (31 March 2007: 1,200,000,000) ordinary shares of HK$0.10 each | **120,000** | 120,000 |
| *Issued and fully paid:* | | |
| 952,889,962 (31 March 2007: 952,889,962) ordinary shares of HK$0.10 each | **95,289** | 95,289 |

## 9. CONTINGENT LIABILITIES

Contingent liabilities in respect of bills discounted with recourse at 30 September 2007 was HK$31 million (31 March 2007: Nil).

## 10. COMMITMENTS

(a) Capital commitments in respect of fixed assets

| | **30 September 2007 Unaudited *HK$'000*** | 31 March 2007 Audited *HK$'000* |
|---|---|---|
| Contracted for but not provided in the financial statements | **2,050** | 53 |
| Authorised but not contracted for | **–** | 54,600 |
| | **2,050** | 54,653 |

(b) Commitments to buy and sell foreign currencies amounted to HK$293 million (31 March 2007: HK$662 million).

## 11. RELATED PARTY TRANSACTIONS

The Group did not sell audio and video products and related components during the Period (2006: HK$Nil) to Pioneer Ventures Limited, a wholly-owned subsidiary of EganaGoldpfeil (Holdings) Ltd, which was ceased to be a substantial shareholder of the Company on 7 September 2007.

## 12. POST BALANCE SHEET EVENTS

(a) On 13 November 2007, the Company entered into a subscription agreement with an independent investor pursuant to which the Company agreed to issue an aggregate of 105,000,000 new ordinary shares at a price of HK$0.218 per share. The net proceeds from the issuing new shares was approximately HK$22.8 million.

(b) On 28 November 2007, the Company entered into a sale and purchase agreement to dispose of its entire interest in Tonic Appliances Limited, a wholly owned subsidiary of the Company, to a third party at a total consideration of approximately HK$5.6 million (subject to adjustment).

## INTERIM DIVIDEND

The Directors have resolved not to declare any interim dividend in respect of the Period (2006: Nil).

## MANAGEMENT DISCUSSION AND ANALYSIS

### Group Result

Turnover of the Group for the six months ended 30 September 2007 ("Period") amounted to approximately HK$1,128 million (six months ended 30 September 2006: approximately HK$1,578 million). EBITDA and profit attributable to shareholders were approximately HK$74 million and HK$16 million respectively.

### Business Review

During the Period, the Group phased out some of the low profit margin products and concentrated on developing and producing high-end and high profit margin products such as iPod products, HD Radio products, HDMI DVD players, ATSC flat panel TVs, LCD-TVs, LCD-TV+DVD combo products, digital satellite receivers, cable set top boxes, coffee espresso machines, humidifier and beer machine. However, sales of some of the high profit margin products did not reach the expected levels, which caused the decrease in turnover for the Period.

The Group was also subjected to cost pressure from hike in raw material costs due to inflation, rising oil price and increased minimum wage level in Guangdong Province. However, the Group's bid to diversify into high profit margin products helped bring down cost of sales as compared with the last corresponding period.

During the Period, the Group invested substantial resources into research and development of new high-end consumer electronic products such as Internet Radio products, ATSC converter products, DVB products, digital video receivers and Blu-ray Disc player. The Group expects to commence production of the newly developed high-end consumer electronic products in early 2008.

**Other Investment**

Since April 2007, the management has worked hard at identifying and exploring investment opportunities in the business area of consumer electronics development, distribution and retail in the USA, Europe and Asia. In May 2007, the Group signed an agreement with Cove Sunrise Inc. (“Cove Sunrise”) to subscribe for not more than 45% of the total capital stock of Cove Sunrise. At that material time, Cove Sunrise was looking to invest in the Group’s target business. The management terminated the agreement in September 2007 because certain conditions in the agreement could not be met.

Subsequent to the balance sheet date, on 28 November 2007, the Company entered into a memorandum of understanding (“MOU”) with an independent third party regarding cooperation, development and investment in the areas of advisory and technical support of mobile multimedia service and related businesses for the PRC market (“Proposed Project”). The MOU was not legally binding. The Company is conducting due diligence evaluation of the Proposed Project and, depending on the results, may proceed to negotiate for a formal agreement.

**Disposal of Equity Interest in Subsidiary**

Subsequent to the balance sheet date, on 28 November 2007, the Company entered into an agreement with an independent party, Profit Cycle Investments Limited, pursuant to which the Company agreed to dispose of its entire interest in the issued share capital of Tonic Appliances Limited (“Tonic Appliances”), a direct wholly owned subsidiary of the Company, at a total consideration of approximately HK$5.6 million (subject to adjustment). Details of the disposal were set out in the Company’s announcement dated 29 November 2007.

**Prospects**

Looking ahead, to stay competitive in the industry, the Group will continue to keep tight control on production cost and seek to continuously improve operational efficiency and cost effectiveness. The Group will strive to grasp opportunities bred by the digital broadcasting trend sweeping the world and continue to develop more high-end and high-profit margin product to meet market needs. At the same time, it will continue to look for suitable opportunities for investing in the business of consumer electronics development, distribution and retail in the USA, Europe and Asia aiming for generating long-term synergies for the Group. It is ready to embark on investments that can positively impact the Group’s returns in the long run.

**Liquidity and Financial Resources**

As at 30 September 2007, the net asset value of the Group attributable to equity holders amounted to approximately HK$548 million (31 March 2007: approximately HK$541 million), including cash and bank balances of approximately HK$56 million (31 March 2007: approximately HK$93 million) which were denominated mainly in Hong Kong dollars.

The trade receivable balance as at 30 September 2007 was approximately HK$308 million (31 March 2007: approximately HK$199 million). The Group has adopted a prudent credit policy, except for a few customers to whom the Group offers credit on an open account basis, the Group transacts business with all other customers on letter of credit.

As at 30 September 2007, the Group's aggregate borrowings was approximately HK$466 million (31 March 2007: approximately HK$530 million), of which approximately HK$445 million was bank borrowings and approximately HK$21 million was for obligations under finance leases. The Group's borrowings are denominated in Hong Kong dollars and bear interest mainly on HIBOR basis.

Included in the bank borrowings was a 3-year HK$150 million term loan facility signed on 23 March 2006 with a syndicate of 7 international and local banks repayable by installment starting 18 months after the agreement date. As at 30 September 2007, the outstanding balance of the loan was HK$112.5 million. Pursuant to the terms of the loan agreement, Mr. Ling Siu Man, Simon, 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, the agreement will be considered as default.

The gearing ratio of the Group, measured on the basis of net borrowings as a percentage of ordinary equity attributable to equity holders of the Company, was 75% (31 March 2007: 81%).

The Group is not exposed to any material currency fluctuation risks, as most of its receivables as well as payables are in US dollars. The Group has natural hedges against currency risks and it is the Group's policy not to engage in speculative activities. In addition, the Group's Renminbi receipts from domestic sales could offset Renminbi expenses of factories in the PRC.

Subsequent to the balance sheet date, on 13 November 2007, the Company entered into a subscription agreement with CorporActive Fund Limited ("CorporActive"), an independent investor, for the subscription of 105 million new shares of the Company at the price of HK$0.218 per share. CorporActive was allotted 105 million shares of the Company under the general mandate granted to Directors of the Company at the annual general meeting of the Company held on 25 September 2007. The subscription was completed on 30 November 2007 and the gross proceeds and the net proceeds amounted to approximately HK$22.9 million and HK$22.8 million respectively.

**Litigation**

In April 2007, Toshiba alleged the Group of infringing on its DVD technology patents and filed claims against some of the members of the Group. The Group, with knowledge that Toshiba was a member of the DVD 6C Patent Licensing Group ("6C Group"), commenced negotiation for a licence from the 6C Group through Tonic Digital Products Limited ("Tonic Digital"), an indirect wholly owned subsidiary of the Company. On 25 July 2007, Tonic Digital signed a license agreement with the 6C Group and obtained the DVD license for manufacturing DVD player products using patented technologies of Toshiba, Mitsubishi, Hitachi, JVC, Panasonic, Samsung, Sanyo, Warner Brothers and Sharp. Subsequent to that, Toshiba dropped all its claims against members of the Group.

On 12 September 2006, Applica Consumer Products, Inc. and Applica Asia Limited, both former customers of Tonic Appliances commenced legal proceedings against Tonic Appliances seeking damages for breach of agreement for sale of goods in the sum of HK$3,652,767 together with interest. After the closing of pleadings, the plaintiffs sought leave to amend the statement of claim and leave was granted on 4 July 2007. Tonic Appliances filed an amended defence on 24 July 2007, and the plaintiffs should file its amended reply, if any, within 21 days thereafter, then the parties would proceed with discovery (i.e. to exchange documentary evidence in relation to the case). However, Tonic Appliances had not received any amended reply nor had the plaintiffs requested to exchange the documentary evidence up to the date of approval of these financial statements.

On 20 October 2006, Tonic Digital commenced legal proceedings against Senlan Limited, a former customer for goods sold and delivered in the sum of US$456,135 (equivalent to approximately HK$3,557,853) together with interest. The defendant filed its defence on 16 November 2006. Pleadings had closed and the case is now in discovery stage.

**Employee relations**

As at 30 September 2007, the Group had approximately 150 employees in Hong Kong and 8,600 workers in its PRC factories (as at 31 March 2007: approximately 160 employees in Hong Kong and 7,700 workers in the PRC factories). The salaries and wages for the six months ended 30 September 2007 totalled approximately HK$87 million (six months ended 30 September 2006: approximately HK$78 million). Employees' remuneration packages are generally structured by reference to market conditions, individual qualifications and performance. In addition to basic salary payment, other benefits offered to employees include contributions to mandatory provident fund, group medical insurance and group personal accident insurance. Employees may also be granted share options at the discretion of the Directors under the Company's share option scheme.

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

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

## AUDIT COMMITTEE

The Audit Committee has reviewed the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters including the review of the unaudited interim financial statements for the Period with management.

## CODE OF CORPORATE GOVERNANCE PRACTICES

The Group is committed to ensure a high standard of corporate governance. For the six months ended 30 September 2007, the Group has applied the principles and complied with the requirements set out in the Code on Corporate Governance Practices ("CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited with the following deviations:

Code A.4.1 stipulates that non-executive directors should be appointed for a specific term, subject to re-election. One of the existing non-executive Directors of the Company, Mr Pang Hon Chung being an independent non-executive Director of the Company, does not have a specific term of appointment. However, non-executive Directors are subject to the requirement to retire by rotation at annual general meetings under the Company's Articles of Association accomplishing the same objective as a specific term of appointment.

Code A.4.2 stipulates that every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years. According to Article 116 of the Articles of Association of the Company, at each annual general meeting, the number nearest to but not less than one-third of the Directors (other than the Chairman or the Managing Director or Joint Managing Director) for the time being shall retire from office by rotation, provided that every Director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years. Mr. Ling Siu Man, Simon, being the Chairman and Managing Director, is not subject to retirement by rotation pursuant to the said Article 116.

The Group's compliance with the provisions and recommended best practices of the CG Code together with reasons for any deviations are set out in the Corporate Governance Report contained in the Company's 2007 Annual Report issued on 25 July 2007.

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

Hong Kong, 18 December 2007

*As at the date of this announcement, the Board of Directors comprises five Executive Directors – Mr. LING Siu Man, Simon, Mr. WONG Ki Cheung, Ms. LI Fung Ching, Catherine, Mr. AU Wai Man, and Mr. LAM Kwai Wah, and three Independent Non-Executive Directors – Mr. PANG Hon Chung, Mr. CHENG Tsang Wai and Dr. CHUNG Hing Wah, Paul.*