

TONIC

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 2004

FINANCIAL HIGHLIGHTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2004

- Turnover amounted to HK\$1,384,071,000.
- Net profit attributable to shareholders amounted to HK\$11,865,000.
- Basic earnings per share amounted to HK1.9 cents.
- Shareholders equity as at 30 September 2004 amounted to HK\$404,548,000.

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 2004 (the “Period”) together with the comparative figures for the previous corresponding period are as follows:

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

		For the six months ended 30 September	
		2004	2003
		Unaudited	Unaudited
		HK\$'000	HK\$'000
	<i>Notes</i>		
Turnover	2	1,384,071	913,627
Cost of sales		(1,331,159)	(842,213)
Gross profit		52,912	71,414
Other revenue		9,674	1,403
Selling and distribution costs		(8,287)	(3,180)
Administrative expenses		(36,574)	(36,447)
Profit from operating activities		17,725	33,190
Finance costs		(5,242)	(4,632)
Share of loss of an associate		–	(100)
Profit before tax	3	12,483	28,458
Tax	4	(618)	(1,645)
Net profit attributable to shareholders		11,865	26,813
Interim dividend		Nil	6,353
Interim dividend per share		N/A	1 cent
Earnings per share	5		
– Basic		1.9 cents	4.2 cents
– Diluted		N/A	N/A

CONDENSED CONSOLIDATED BALANCE SHEET

		30 September 2004 Unaudited HK\$'000	31 March 2004 Audited HK\$'000	30 September 2003 Unaudited HK\$'000
	<i>Notes</i>			
NON-CURRENT ASSETS				
Fixed assets		586,200	529,031	461,714
Long term investments		18,592	18,592	18,592
Deposits for acquisition of fixed assets		16,914	34,343	18,091
Intangible assets		12,955	10,264	6,416
Other non-current assets		636	730	942
		<u>635,297</u>	<u>592,960</u>	<u>505,755</u>
CURRENT ASSETS				
Cash and bank balances		110,199	194,161	59,161
Accounts and other receivables	6	323,150	274,952	309,544
Inventories		590,378	400,843	324,927
		<u>1,023,727</u>	<u>869,956</u>	<u>693,632</u>
CURRENT LIABILITIES				
Accounts and other payables	7	804,311	499,638	450,269
Borrowings due within one year		232,935	297,103	237,619
Tax payable		2,830	2,758	13,406
		<u>1,040,076</u>	<u>799,499</u>	<u>701,294</u>
NET CURRENT ASSETS/(LIABILITIES)		<u>(16,349)</u>	<u>70,457</u>	<u>(7,662)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		618,948	663,417	498,093
NON-CURRENT LIABILITIES				
Long term borrowings		(185,500)	(237,978)	(55,653)
Deferred tax		(28,900)	(28,900)	(9,608)
		<u>(214,400)</u>	<u>(266,878)</u>	<u>(65,261)</u>
		<u>404,548</u>	<u>396,539</u>	<u>432,832</u>
CAPITAL AND RESERVES				
Share capital	8	63,526	63,526	63,526
Reserves	9	341,022	329,837	359,774
Proposed dividend		–	3,176	9,532
		<u>404,548</u>	<u>396,539</u>	<u>432,832</u>

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of preparation

The unaudited condensed consolidated interim financial statements of the Group are prepared in accordance with Hong Kong Statement of Standard Accounting Practice (“SSAP”) No. 25 “Interim financial reporting” and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

The accounting policies adopted are consistent with those followed in the preparation of the Group’s consolidated financial statements for the year ended 31 March 2004.

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

	United States of America		Europe		Asia Pacific countries		Consolidated	
	2004	2003	2004	2003	2004	2003	2004	2003
	HK\$000	HK\$000	HK\$000	HK\$000	HK\$000	HK\$000	HK\$000	HK\$000
Segment revenue:								
Sales to external customers	<u>510,943</u>	<u>201,356</u>	<u>656,796</u>	<u>583,079</u>	<u>216,332</u>	<u>129,192</u>	<u>1,384,071</u>	<u>913,627</u>

Business segments

	Electronic products and components		Home appliance products		Corporate		Others		Consolidated	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
	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	<u>1,253,239</u>	<u>824,399</u>	<u>130,832</u>	<u>89,228</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,384,071</u>	<u>913,627</u>
Other revenue	<u>8,618</u>	<u>1,978</u>	<u>39</u>	<u>74</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>8,657</u>	<u>2,052</u>
Total	<u>1,261,857</u>	<u>826,377</u>	<u>130,871</u>	<u>89,302</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,392,728</u>	<u>915,679</u>
Segment results	<u>22,276</u>	<u>32,311</u>	<u>(2,489)</u>	<u>1,239</u>	<u>(3)</u>	<u>(125)</u>	<u>-</u>	<u>-</u>	<u>19,784</u>	<u>33,425</u>
Interest income and unallocated income									<u>1,017</u>	<u>46</u>
Unallocated expenses									<u>(3,076)</u>	<u>(281)</u>
Profit from operating activities									<u>17,725</u>	<u>33,190</u>
Finance costs									<u>(5,242)</u>	<u>(4,632)</u>
Share of loss of an associate									<u>-</u>	<u>(100)</u>
Profit before tax									<u>12,483</u>	<u>28,458</u>
Tax									<u>(618)</u>	<u>(1,645)</u>
Net profit attributable to shareholders									<u>11,865</u>	<u>26,813</u>

3. Profit before Tax

	For the six months ended 30 September	
	2004	2003
	Unaudited	Unaudited
	HK\$'000	HK\$'000
Profit before tax is arrived at after charging/(crediting):		
Amortisation of trademarks	125	125
Amortisation of research and development costs	2,352	1,754
Depreciation	34,823	30,333
Interest on borrowings	5,242	4,632
Interest income	(19)	(73)

4. Tax

Hong Kong profits tax has been provided at the applicable rate of 17.5% (2003: 17.5%) on the estimated assessable profits arising in Hong Kong during the Period. Taxes on profits assessable in the People's Republic of China ("PRC") have been provided at the rates of tax prevailing in the PRC 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 attributable to shareholders of HK\$11,865,000 (2003: HK\$26,813,000) and the weighted average of 635,259,975 shares (2003: 635,259,975 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 receivable of HK\$305,796,000 (31 March 2004: HK\$256,270,000; 30 September 2003: HK\$298,124,000), the aging analysis of which is as follows:

	30 September 2004 Unaudited HK\$'000	31 March 2004 Audited HK\$'000	30 September 2003 Unaudited HK\$'000
0-30 days	158,387	212,944	221,895
31-60 days	81,873	28,617	25,426
Over 60 days	65,536	14,709	50,803
	<u>305,796</u>	<u>256,270</u>	<u>298,124</u>

The majority of the Group's sales are on terms of L/C at sight and the others on 60 days open account basis.

7. Accounts and other payables

Included in accounts and other payables are accounts payable of HK\$737,349,000 (31 March 2004: HK\$448,061,000; 30 September 2003: HK\$403,417,000), the aging analysis of which is as follows:

	30 September 2004 Unaudited HK\$'000	31 March 2004 Audited HK\$'000	30 September 2003 Unaudited HK\$'000
0-30 days	369,869	205,743	190,383
31-60 days	176,061	134,891	108,784
61-90 days	114,993	43,472	62,154
Over 90 days	76,426	63,955	42,096
	<u>737,349</u>	<u>448,061</u>	<u>403,417</u>

The majority of the Group's purchases are on 90 days open account basis.

8. Share capital

	30 September 2004 Unaudited HK\$'000	31 March 2004 Audited HK\$'000	30 September 2003 Unaudited HK\$'000
<i>Authorised:</i>			
1,200,000,000 ordinary shares of HK\$0.10 each	<u>120,000</u>	<u>120,000</u>	<u>120,000</u>
<i>Issued and fully paid:</i>			
635,259,975 (31 March 2004: 635,259,975) ordinary shares of HK\$0.10 each	<u>63,526</u>	<u>63,526</u>	<u>63,526</u>

9. Reserves

	Share premium HK\$'000	Contributed surplus HK\$'000	Exchange fluctuation reserve HK\$'000	Asset revaluation reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
Balance at 1 April 2004	28,735	280	(6,844)	86,320	221,346	329,837
Exchange difference on translation of overseas subsidiaries' financial statements	–	–	(680)	–	–	(680)
Net profit for the period	–	–	–	–	11,865	11,865
Balance at 30 September 2004	<u>28,735</u>	<u>280</u>	<u>(7,524)</u>	<u>86,320</u>	<u>233,211</u>	<u>341,022</u>

10. Contingencies

Contingent liabilities in respect of bills discounted with recourse at 30 September 2004 was HK\$64,507,000 (31 March 2004: HK\$1,079,000; 30 September 2003: HK\$15,698,000).

11. Commitments

(a) Capital commitments in respect of fixed assets

	30 September 2004 Unaudited HK\$'000	31 March 2004 Audited HK\$'000	30 September 2003 Unaudited HK\$'000
Contracted for but not provided in the financial statements	<u>2,033</u>	<u>52,851</u>	<u>7,943</u>
Authorised but not contracted for	–	–	–
	<u>2,033</u>	<u>52,851</u>	<u>7,943</u>

(b) Commitments to buy and sell foreign currencies amounted to HK\$163,737,000 and Nil respectively (31 March 2004: HK\$46,302,000 and Nil respectively; 30 September 2003: HK\$77,950,000 and HK\$40,738,100 respectively).

INTERIM DIVIDEND

The Directors have resolved not to declare any interim dividend in respect of the Period (2003: HK1 cent per share).

BUSINESS REVIEW AND OUTLOOK

For the six months ended 30 September 2004, the Group achieved a turnover of approximately HK\$1,384,071,000, an increase of 51.5% as compared with HK\$913,627,000 recorded in the corresponding period last year. EBITDA and profit attributable to shareholders were HK\$55,025,000 and HK\$11,865,000 respectively.

Competition in the consumer electronics market remained fierce and the 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. The effect of the increased cost carried forward to the second quarter of this year. The prices had started to come down since July. The costs of other materials such as metals and plastics also stayed on high levels. The persistently high costs had adversely affected the Group's margin.

The Group continued to invest resources in the research and development of new digital products so as to keep pace with the rapidly changing market. Our product and engineering departments in Hong Kong, Shenzhen and Dongguan work very closely with solution providers and component suppliers. Most of the major new products include digital amusement centre, digital satellite receivers, cable set top boxes, LCD TV and DVD recorders were launched this year and we expect them to generate significant and constant contributions to the Group in the coming years.

The marketing division for digital satellite receivers saw steady progress. Orders were delivered and initial customer reactions were very encouraging. Our research indicated strong potential demand for these products in the market and discussions with important ODM and OEM customers in Europe and Middle East have been promising. We have confidence that this business will become a significant contributor of the Group in the future.

The business of the Home Appliance Division remained steady and contributed approximately 10% to the Group's turnover. The OEM/ODM segment of the business performed particularly well. However, the own brand business has not made any significant contribution. The Home Appliance Division develops and sells mainly high-end home appliance products including steam stations, air purifiers, wine cellars, espresso/cappuccino makers, etc.

The construction of the new factory in Shek Pai is expected to complete in early 2005 and will boost the Group's production capacity by at least 60%. Although this project imposed on the Group additional financial constraints, we anticipate increase in our turnover and financial resources when the factory becomes fully operational in the middle of next year. In addition, with the price of finished products and materials expected to stabilize next year, the Group anticipates a gradual increase of the margin to a more satisfactory level.

FINANCIAL REVIEW

The prices of flash memory and RAM increased by more than 30% within a few months during the second half of last financial year up till July this year when they went down rapidly. The phenomenon lowered the Group's normal margin by approximately 2-3%. The prices of metals and plastics also remained high in the period, the price increase of these materials was more gradual, allowing us to shift a portion of the increase to the customers, hence posing a less significant effect on our margin.

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 will be used to refinance the Group's existing credit facility and the cost of construction of the new factory buildings in Dongguan. Under the terms of the loan agreement, Mr. Simon Ling is required to maintain at least 40% of the shareholdings 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 of 30 September 2004, the Group had total borrowings of approximately HK\$418,435,000, of which HK\$410,300,000 was in bank borrowings and HK\$8,135,000 was for obligations under finance leases. The Group's borrowings are denominated in Hong Kong dollars and bear interest mainly at floating rates. Bank balances and cash amounted to HK\$110,199,000 and are mainly denominated in Hong Kong dollars. Gearing ratio was 76%, from calculation based on net borrowings over shareholders funds. The higher gearing ratio was the result of more capital expenditure on new factory buildings. The Group do not anticipate spending material amounts on fixed assets in the next two years.

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 will purchase or sale 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.

EMPLOYEES RELATIONS

As at 30 September 2004, the Group had 130 staff stationed in Hong Kong and 12,000 employees working in the PRC factories. Total salaries and wages amounted to approximately HK\$65 million for the Period. Salaries and wages are normally reviewed annually on the basis of staff performance appraisals and market conditions. The Group provides its 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 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 with management.

CODE OF BEST PRACTICE

None of the Directors of the Company is aware of any information that would reasonably indicate that the Company had not been for any part of the accounting period ended 30 September 2004 covered by the interim report in compliance with the Code of Best Practice as set out in Appendix 14 of the Listing Rules.

PUBLICATION OF DETAILED INTERIM RESULTS ANNOUNCEMENT ON THE STOCK EXCHANGE'S WEBSITE

A detailed interim results announcement containing all the information required by paragraphs 46(1) to 46(6) inclusive of Appendix 16 of the Listing Rules will be published on the Stock Exchange's website (<http://www.hkex.com.hk>) in due course.

DIRECTORS OF THE COMPANY

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 December 2004