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 2005

FINANCIAL HIGHLIGHTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2005

- Turnover amounted to HK$1,232,616,000.
- Net profit attributable to shareholders amounted to HK$17,006,000.
- Basic earnings per share amounted to HK1.8 cents.
- Shareholders equity as at 30 September 2005 amounted to HK$532,139,000.

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 2005 (the "Period") together with the comparative figures for the previous corresponding period are as follows:

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

		For six months ended 30 September	
		2005	2004
		Unaudited	Unaudited
	Notes	***HK$'000***	*HK$'000*
Turnover	*2*	**1,232,616**	1,384,071
Cost of sales		**(1,171,134)**	(1,331,159)
Gross profit		**61,482**	52,912
Other revenue		**5,099**	9,674
Selling and distribution costs		**(4,647)**	(8,287)
Administrative expenses		**(33,756)**	(36,574)
Profit from operating activities		**28,178**	17,725
Finance costs		**(10,225)**	(5,242)
Profit before tax	*3*	**17,953**	12,483
Tax	*4*	**(947)**	(618)
Net profit attributable to shareholders		**17,006**	11,865
Interim dividend		**Nil**	Nil
Interim dividend per share		**N/A**	N/A
Earnings per share	*5*		(restated)
– Basic		**1.8 cents**	1.7 cents
– Diluted		**N/A**	N/A

CONDENSED CONSOLIDATED BALANCE SHEET

	Notes	**30 September 2005 Unaudited** *HK$'000*	31 March 2005 Audited *HK$'000*
NON-CURRENT ASSETS			
Fixed assets		**623,296**	626,250
Prepaid land lease payments		**74,526**	75,560
Deposits for acquisition of fixed assets		**11,467**	2,031
Intangible assets		**14,822**	13,470
Long-term investments		**23,759**	–
Other receivable		**–**	23,759
Other non-current assets		**375**	469
		748,245	741,539
CURRENT ASSETS			
Cash and bank balances		**121,316**	98,353
Accounts and other receivables	*6*	**445,388**	265,797
Inventories		**311,084**	257,210
Tax recoverable		**3,258**	2,499
		881,046	623,859
CURRENT LIABILITIES			
Accounts and other payables	*7*	**544,814**	334,555
Borrowings due within one year		**368,536**	287,010
Tax payable		**3,752**	–
		917,102	621,565
NET CURRENT ASSETS/ (LIABILITIES)		**(36,056)**	2,294
TOTAL ASSETS LESS CURRENT LIABILITIES		**712,189**	743,833
NON-CURRENT LIABILITIES			
Long term borrowings		**143,718**	187,613
Deferred tax		**36,332**	36,332
		180,050	223,945
		532,139	519,888
CAPITAL AND RESERVES			
Share capital	*8*	**95,289**	95,289
Reserves	*9*	**436,850**	415,070
Proposed dividend		**–**	9,529
		532,139	519,888

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. The 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 the interim financial statements are the same as those used in the annual financial statements for the year ended 31 March 2005, except in relation to the new and revised Hong Kong Financial Reporting Standards ("HKFRSs", which also include HKASs and Interpretations) that affect the Group and are adopted for the first time for the current period's financial statements. The adoption of the standards has had no material impact on the accounting policies of the Group and the methods of computation in the Group's condensed consolidated financial statements except the followings:

(a) *HKAS 17 – Leases*

In prior periods, leasehold land and buildings held for own use were stated at cost/valuation less accumulated depreciation and any impairment losses.

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 because the title of the land is not expected to pass to the Group by the end of lease term, and is reclassified from fixed assets to prepaid land lease payments, while leasehold buildings continue to be classified as part of property, plant and equipment. Prepaid land lease payments under operating leases are initially stated at cost and subsequently amortised on the straight-line basis over the lease term.

This change in accounting policy has had no effect on the condensed consolidated income statement and retained earnings. The comparatives on the condensed consolidated balance sheet for the year ended 31 March 2005 have been restated to reflect the reclassification of leasehold land.

(b) *HKFRS 2 – Share-based Payment*

In prior periods, no recognition and measurement of share-based transactions in which employees (including Directors) were granted share options over shares in the Company was required until such options were exercised by employees, at which time the share capital and share premium were credited with the proceeds received.

Upon the adoption of HKFRS 2, when employees (including Directors) render services as consideration for equity instruments ("equity-settled transactions"), the cost of the equity-settled transactions with employees is measured by reference to the fair value at the date at which the instruments are granted. The fair value is determined by an external valuer using a binomial model. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the Company, if applicable.

In accordance with the transitional provision of HKFRS 2, share options granted after 7 November 2002 and had not yet vested on 1 April 2005 was expensed retrospectively in the income statement of the respective periods. As at 1 April 2005, the Group had no option granted after 7 November 2002 that had not yet vested on that day.

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	
	2005	2004	**2005**	2004	**2005**	2004	**2005**	2004
	HK$000	*HK$000*	***HK$000***	*HK$000*	***HK$000***	*HK$000*	***HK$000***	*HK$000*
Segment revenue:								
Sales to external customers	**541,233**	510,943	**470,873**	656,796	**220,510**	216,332	**1,232,616**	1,384,071

Business segments

	Electronic products and components		Home appliance products		Corporate		Others		Consolidated	
	2005	2004	**2005**	2004	**2005**	2004	**2005**	2004	**2005**	2004
	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	**1,114,252**	1,253,239	**118,364**	130,832	**–**	–	**–**	–	**1,232,616**	1,384,071
Other revenue	**2,227**	8,618	**933**	39	**–**	–	**–**	–	**3,160**	8,657
Total	**1,116,479**	1,261,857	**119,297**	130,871	**–**	–	**–**	–	**1,235,776**	1,392,728
Segment results	**26,479**	20,169	**1,708**	(2,489)	**(3)**	(3)	**–**	–	**28,184**	17,677
Interest income and unallocated income									**1,939**	1,017
Unallocated expenses									**(1,945)**	(969)
Profit from operating activities									**28,178**	17,725
Finance costs									**(10,225)**	(5,242)
Profit before tax									**17,953**	12,483
Tax									**(947)**	(618)
Net profit attributable to shareholders									**17,006**	11,865

3. Profit before Tax

	For the six months ended 30 September	
	2005	2004
	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	**2,127**	2,352
Depreciation	**37,372**	34,823
Interest on borrowings	**10,225**	5,242
Unrealised holding losses on other investments	**1,721**	–
Gain on disposal of other investments	**(307)**	–
Interest income	**(155)**	(19)

4. Tax

Hong Kong profits tax has been provided at the applicable rate of 17.5% (2004: 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$17,006,000 (2004: HK$11,865,000) and the weighted average of 952,889,962 shares (2004 (restated): 706,413,187 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$416,808,000 (31 March 2005: HK$227,821,000), the aging analysis of which is as follows:

	30 September 2005	31 March 2005
	Unaudited	Audited
	HK$'000	*HK$'000*
0 – 30 days	**281,808**	136,923
31 – 60 days	**76,815**	16,944
61 – 90 days	**28,021**	41,054
Over 90 days	**30,164**	32,900
	416,808	227,821

The Group's sales are on terms of L/C at sight and the others on 60 days to 90 days open account basis.

7. Accounts and other payables

Included in accounts and other payables are accounts payable of HK$459,527,000 (31 March 2005: HK$269,972,000), the aging analysis of which is as follows:

	30 September 2005 Unaudited *HK$'000*	31 March 2005 Audited *HK$'000*
0 – 30 days	**187,661**	96,630
31 – 60 days	**131,876**	42,747
61 – 90 days	**83,176**	42,791
Over 90 days	**56,814**	87,804
	459,527	269,972

The majority of the Group's purchases are on 90 days to 120 days open account basis.

8. Share capital

	30 September 2005 Unaudited *HK$'000*	31 March 2005 Audited *HK$'000*
Authorised:		
1,200,000,000 ordinary shares of HK$0.10 each	**120,000**	120,000
Issued and fully paid:		
952,889,962 (31 March 2005: 952,889,962) ordinary shares of HK$0.10 each	**95,289**	95,289

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 2005	59,098	280	(6,831)	123,146	239,377	415,070
Exchange difference on translation of overseas subsidiaries' financial statements	–	–	4,774	–	–	4,774
Net profit for the period	–	–	–	–	17,006	17,006
Balance at 30 September 2005	**59,098**	**280**	**(2,057)**	**123,146**	**256,383**	**436,850**

10. Contingencies

Contingent liabilities in respect of bills discounted with recourse at 30 September 2005 was HK$8,263,000 (31 March 2005: HK$nil).

11. Commitments

(a) Capital commitments in respect of fixed assets

	30 September 2005 Unaudited ***HK$'000***	31 March 2005 Audited *HK$'000*
Contracted for but not provided in the financial statements	**9,226**	1,320
Authorised but not contracted for	**–**	–
	9,226	1,320

(b) Commitments to buy and sell foreign currencies amounted to HK$97,075,000 and Nil respectively (31 March 2005: HK$284,518,000 and Nil respectively).

12. Related party transactions

The Group sold audio and video products and related components amounting to HK$7,158,000 (2004: HK$6,374,000) to Pioneer Ventures Limited ("PVL"), a wholly-owned subsidiary of EganaGoldpfeil (Holdings) Ltd, which is a substantial shareholder of the Company.

The sales to PVL were made according to the published prices and conditions offered to the other major customers of the Group.

INTERIM DIVIDEND

The Directors have resolved not to declare any interim dividend in respect of the Period (2004: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review and Prospects

For the six months ended 30 September 2005, the Group achieved a turnover of approximately HK$1,233 million. EBITDA and profit attributable to shareholders were HK$68 million and HK$17 million respectively, as compared with HK$55 million and HK$12 million for the last corresponding period.

During the Period, market demands for the Group's products remained stable. New products such as portable DVD, cable set top boxes and digital satellite receivers have been well received by the market and demands are expected to increase in the coming years. The Group has a strong product road map and the latest products being developed include DVD recorder with hard disk and VCR compatible, LCD and CRT TV incorporating DVD function, etc. Products such as DVD recorder with its much advanced features are expected to replace traditional recording products such as VCR, and technological advancements will enable selling prices to fall making those products more affordable to the mass consumers, hence generate significant demand.

Costs of certain materials such as plastic and metal parts are still high but have stabilized. The prices of other key components such as deck mechanisms and integrated circuits have been falling gradually. Although selling price of the Group's products have also been under pressure, their general profit margin was maintained.

During the Period, we set up Tonic DVB Marketing Limited ("TDML") to specifically handle the growing digital satellite receiver business. The operating unit of TDML is in Shenzhen and will initially focus on the ODM/OEM business in Europe and the Middle East. On the other hand, we closed our own brand business in Japan under our home appliance division. However, our service to ODM/OEM customers in Japan and the rest of the world will continue. The home appliance division contributed approximately 10% of the total sales of the Group during the period and bigger contributions from it are expected in the coming years.

Anticipating surge in demand for consumer electronic products in the coming years, the Group sees the extra capacity added by the Shek Pai factory providing good support. However, the new factory imposed additional financial constraints on the Group, and those constraints are expected to be relieved when the factory becomes fully operational in the coming years and our turnover and financial resources increase.

During the Period, the Group entered into agreements to purchase 19.05% interest in the issued share capital of DK Digital AG. The consideration was settled by the capitalization of accounts receivable of approximately HK$23.8 million. Details of this transaction can be found in the circular dated 10 October 2005. The investment is classified as long term investment in the financial statements.

Financial review

With customers being conservative about market demands for their products in the first quarter, sales between April and June this year were low compared with the last corresponding period. However, sales in the second quarter picked up strongly and significant sales were recorded in August and September with customers anticipating strong peak season demands. As a result, the accounts payable and receivable balances increased at the period end. Moreover, more customers have required the Company to provide trade finance, which is cheaper to obtain in Hong Kong, and that prolonged the turnover period for accounts receivable. The net proceeds from right issue of shares of approximately HK$62 million earlier this year have strengthened the capital structure of the Company and provided additional funding for working capital.

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 has been used to refinance the Group's existing credit facility and pay the construction costs of new factory buildings. 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 at 30 September 2005, the Group had total borrowings of approximately HK$512 million, of which HK$482 million was in bank borrowings and HK$30 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$121 million and are mainly denominated in Hong Kong dollars. Gearing ratio was 74%, calculated based on net borrowings over shareholders funds.

In March 2005, the Group had raised approximately HK$62 million by way of rights issue of shares. Approximately HK$30 million had been spent for the purchase of plant and machinery and the remaining used as working capital.

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

Employees relations

As at 30 September 2005, the Group had 140 staff stationed in Hong Kong and 8,300 working in PRC factories. Total salaries and wages amounted to approximately HK$63 million for the period. 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 job training to its staff. Staff welfare is set with reference to prevailing labor laws in Hong Kong and China.

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

In the opinion of the Directors, the Company complied with the code provisions as set out in Appendix 14 of the Main Board Listing Rules ("Code") throughout the accounting period covered by this interim results announcement, except for the following deviations:

Code A.2.1 stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Mr. Ling Siu Man, Simon, the founder of the Group continues to assume the role of chairman and chief executive officer. The Group believes that the present arrangement is more effective and efficient in running the business and could bring about the best interest of the shareholders.

Code A.4.1 stipulates that non-executive directors should be appointed for a specific term, subject to re-election. The existing non-executive directors of the Company, except for Mr. Cheng Tsang Wai being an independent non-executive director of the Company, do 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, is not subject to retirement by rotation pursuant to the said Article 116.

Code A.5.4 stipulates that the Board should establish written guidelines on no less exacting terms than the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Listing Rules for relevant employees in respect of their dealings in the securities of the issuer. The aforesaid written guidelines were established by the Directors on 19 December 2005.

Code B.1.1 stipulates that the Company should establish a remuneration committee with specific written terms of reference. A remuneration committee was set up on 19 December 2005 in order to comply with the Code B.1.1. Terms of reference of the remuneration committee will be posted on the Company's website.

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

Hong Kong, 19 December 2005

At the date of this announcement, the Board of Directors comprises 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 who are executive Directors, Mr. Wong Wai Kwong, David who is a non-executive Director, Mr. Ho Fook Hong, Ferdinand, Mr. Pang Hon Chung and Mr. Cheng Tsang Wai who are independent non-executive Directors.