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 2008

The board of directors (the "Board") 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 2008 (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	
		2008	2007
		Unaudited	Unaudited
	Notes	**HK$'000**	HK$'000
Revenue	*2*	**1,545,706**	1,128,319
Cost of sales		**(1,455,615)**	(1,054,388)
Gross profit		**90,091**	73,931
Gain on disposal of a property		**29,254**	326
Other income and gains		**221**	9,095
Selling and distribution costs		**(3,036)**	(2,514)
Administrative expenses		**(48,444)**	(49,044)
Finance costs		**(16,654)**	(15,850)
Profit before tax	*3*	**51,432**	15,944
Tax	*4*	**(650)**	(289)
Profit for the Period attributable to equity holders of the Company		**50,782**	15,655
Interim dividend		**Nil**	Nil
Interim dividend per share		**N/A**	N/A
Earnings per share attributable to equity holders of the Company	*5*		
– Basic		**4.8 cents**	1.6 cents
– Diluted		**N/A**	N/A

CONDENSED CONSOLIDATED BALANCE SHEET

	Notes	30 September 2008 Unaudited HK$'000	31 March 2008 Audited HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment		**748,125**	736,084
Prepaid land lease payments		**41,089**	43,279
Intangible assets		**21,681**	22,716
Non-current portion of an other receivable		**2,470**	2,470
Deposits for acquisition of items of property, plant and equipment		**190**	2,399
		813,555	806,948
CURRENT ASSETS			
Inventories		**599,324**	526,835
Accounts and bills receivables	*6*	**257,872**	207,724
Factored accounts receivables	*7*	**234,635**	118,451
Current portion of loans receivable		**–**	93
Prepayments, deposits and other receivables		**32,050**	21,342
Prepaid land lease payments		**1,551**	971
Equity investments at fair value through profit or loss		**2,880**	4,080
Tax recoverable		**158**	–
Cash and bank balances		**53,314**	31,031
		1,181,784	910,527
CURRENT LIABILITIES			
Accounts payables	*8*	**637,864**	507,856
Accrued liabilities and other payables		**42,357**	53,143
Interest-bearing bank and other borrowings		**312,059**	303,183
Bank advances on factored accounts receivables		**234,635**	118,451
Derivative financial instruments		**602**	3,325
Tax payable		**19,328**	18,635
		1,246,845	1,004,593
NET CURRENT LIABILITIES		**(65,061)**	(94,066)
TOTAL ASSETS LESS CURRENT LIABILITIES		**748,494**	712,882
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings		**75,780**	96,686
Net deferred tax liabilities		**54,256**	54,446
		130,036	151,132
		618,458	561,750
EQUITY			
Equity attributable to equity holders of the Company			
Issued capital	*9*	**105,789**	105,789
Reserves		**512,669**	455,961
		618,458	561,750

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The Board is 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 2008.

The following amendments to standards and interpretations are effective in these unaudited condensed consolidated interim financial statements:

– HKAS 39 and HKFRS 7 Amendments	Reclassification of Financial Assets
– HK(IFRIC) – Int 12	Service Concession Arrangements
– HK(IFRIC) – Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

Adoption of the above amendments to standards and interpretations does not have significant impact on the Group's operating results or financial position.

The Group has not applied any new and revised 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. SEGMENT INFORMATION

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

The following tables present unaudited revenue for the Group's geographical segments and business segments for the six months ended 30 September 2008 and 2007 respectively.

Geographical segments

	Americas		Europe		Asia Pacific countries		Consolidated	
	2008	2007	**2008**	2007	**2008**	2007	**2008**	2007
	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	**973,340**	431,392	**218,547**	470,235	**353,819**	226,692	**1,545,706**	1,128,319

Business segments

	Electronic products and components		Home appliance products		Corporate		Consolidated	
	2008	2007	**2008**	2007	**2008**	2007	**2008**	2007
	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	**1,359,266**	956,901	**186,440**	171,418	**–**	–	**1,545,706**	1,128,319
Other segment revenue	**991**	9,911	**344**	232	**–**	–	**1,335**	10,143
Total	**1,360,257**	966,812	**186,784**	171,650	**–**	–	**1,547,041**	1,138,462
Segment results	**40,102**	27,736	**1,355**	9,235	**(1)**	(3)	**41,456**	36,968
Interest income and unallocated income							**27,846**	1,044
Unallocated expenses							**(1,216)**	(6,218)
Finance costs							**(16,654)**	(15,850)
Profit before tax							**51,432**	15,944
Tax							**(650)**	(289)
Profit for the Period							**50,782**	15,655

3. PROFIT BEFORE TAX

	For the six months ended 30 September	
	2008	2007
	Unaudited	Unaudited
	HK$'000	HK$'000
Profit before tax is arrived at after charging/(crediting):		
Amortisation of trademarks	**141**	139
Amortisation of research and development costs	**5,867**	5,571
Depreciation	**32,991**	36,113
Interest on interest-bearing bank borrowings	**16,654**	15,850
Gain on disposal of a property	**(29,254)**	(326)
Fair value loss on equity investments at fair value through profit or loss	**1,200**	6,192
Interest income	**(71)**	(739)

4. TAX

Hong Kong profits tax has been provided at the rate of 16.5% (2007: 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 ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The calculation of basic earnings per share for the Period is based on the profit for the Period attributable to equity holders of the Company of HK$50,782,000 (2007: HK$15,655,000) and the weighted average of 1,057,889,962 ordinary shares (2007: 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 BILLS RECEIVABLES

The aged analysis of the Group's accounts and bills receivables as at the balance sheet date is as follows:

	30 September 2008 Unaudited HK$'000	31 March 2008 Audited HK$'000
0 – 30 days	**144,578**	126,393
31 – 60 days	**47,489**	32,993
61 – 90 days	**32,224**	16,950
Over 90 days	**33,581**	31,388
	257,872	207,724

The Group's trading terms with its customers are mainly on credit. The credit period is generally 30 days, extending up to 90 days for major customers. The Group's accounts and bills receivables are non-interest-bearing and their carrying amounts approximate to their fair values.

7. FACTORED ACCOUNTS RECEIVABLES

The aged analysis of the Group's factored accounts receivables as at the balance sheet date is as follows:

	30 September 2008 Unaudited HK$'000	31 March 2008 Audited HK$'000
0 – 30 days	**79,591**	40,172
31 – 60 days	**103,896**	31,231
61 – 90 days	**45,689**	36,728
Over 90 days	**5,459**	10,320
	234,635	118,451

The maturity date of the factored accounts receivables range from 60 to 90 days. No impairment is made on the factored accounts receivables.

8. ACCOUNTS PAYABLES

The aged analysis of the Group's accounts payables as at the balance sheet date is as follows:

	30 September 2008 Unaudited HK$'000	31 March 2008 Audited HK$'000
0 – 30 days	**141,098**	230,043
31 – 60 days	**144,029**	66,951
61 – 90 days	**100,280**	67,128
Over 90 days	**252,457**	143,734
	637,864	507,856

The Group's accounts payables are non-interest-bearing and are on 30 days to 120 days open account basis. The carrying amounts of the accounts payables approximate to their fair values.

9. SHARE CAPITAL

	30 September 2008 Unaudited HK$'000	31 March 2008 Audited HK$'000
Authorised:		
3,000,000,000 (31 March 2008: 1,200,000,000) ordinary shares of HK$0.10 each	**300,000**	120,000
Issued and fully paid:		
1,057,889,962 (31 March 2008: 1,057,889,962) ordinary shares of HK$0.10 each	**105,789**	105,789

10. CONTINGENT LIABILITIES

On 11 November 2008. Thomson Hong Kong Holdings Limited ("Plaintiff"), a former customer of the Group, filed a writ of summons with the High Court of Hong Kong against the Company and two of its indirect wholly-owned subsidiaries namely, Tonic Digital Products Limited and Tonic Electronics Limited (collectively known as the "Defendants"), in respect of disputes relating, inter alia, goods returned for refund by the Plaintiff, claiming damages in the sum of US$4,289,664.15 (approximately HK$33,244,897.16) together with interests. The Defendants are currently preparing their defence. Since the disputes are at preliminary stage, no provision has been made by the Group.

11. COMMITMENTS

(a) Capital commitments in respect of fixed assets

	30 September 2008 Unaudited HK$'000	31 March 2008 Audited HK$'000
Contracted, but not provided for:		
Equipment and tools	**177**	590

(b) As at 30 September 2008, the Group had outstanding forward currency contracts with an aggregate notional amount of approximately HK$324 million (31 March 2008: HK$502 million) to hedge payables denominated in United States dollars.

12. COMPARATIVE AMOUNTS

Certain comparative amounts have been reclassified to conform with the presentation and accounting treatment for the Period.

INTERIM DIVIDEND

The Board has resolved not to declare any interim dividend in respect of the Period (2007: Nil).

MANAGEMENT DISCUSSION & ANALYSIS

Group Result

Turnover of the Group for the Period reached approximately HK$1,546 million, an increase of approximately 37% against the same period last year. EBITDA and profit attributable to shareholders were approximately HK$107 million and HK$51 million respectively, representing a 45% and 224% increase when compared with the corresponding period of 2007.

Business Review

The increased turnover was mainly attributable to the rise in demand for satellite receivers and digital/cable set top boxes as a result of the switch from analogue to digital television services worldwide.

During the Period, increase in raw materials prices, labour costs and manufacturing overheads, and high crude oil price and appreciation of the Renminbi continued to pose pressure on the production cost of the Group, squeezing its gross profit.

The substantial increase in net profit for the Period was mainly due to the accounting profit of approximately HK$29 million from the disposal of a property then occupied by Mr. Ling Siu Man, Simon ("Mr. Ling"), chairman, managing director and controlling shareholder of the Company.

Prospects

Going ahead, the Group expects to continue to benefit from the replacement of analogue mode by digital mode in countries all over the world. It will focus on developing low-cost set top boxes for different countries in anticipation of a surge in demand to prepare for the arrival of digital broadcasting.

In the foreseeable future, with the global financial turmoil slowing down economies, particularly in the United States and Europe, demand for consumer electronics are expected to contract presenting a difficult operating environment to the Group. To counter the drop in demand from the United States and European markets, the Group has diversified sales to the PRC, Asia and South America markets. The Group will continue to implement cost saving measures and closely monitor production costs, with the aim of maintaining competitiveness. It will also keep directing resources into research and development of new high-end consumer electronic products such as advanced version of the blu-ray disc player, IPTV products and high definition set top boxes to meet quality requirement of consumers.

Liquidity and Financial Resources

As at 30 September 2008, the net asset value of the Group attributable to equity holders amounted to approximately HK$618 million (31 March 2008: approximately HK$562 million), including cash and bank balances of approximately HK$53 million (31 March 2008: approximately HK$31 million) which were denominated mainly in Hong Kong dollar.

The trade receivable balance as at 30 September 2008 was approximately HK$493 million (31 March 2008: approximately HK$326 million), including factored accounts receivables of HK$235 million (31 March 2008: approximately HK$118 million). Except for the factored receivables which had credit insurance coverage, all other trade receivables were on letter of credit.

As at 30 September 2008, the Group had aggregate borrowings of approximately HK$622 million (31 March 2008: approximately HK$518 million), of which approximately HK$612 million was bank borrowings and approximately HK$10 million was for obligations under finance leases. The Group's borrowings are denominated in Hong Kong dollar and bear interest mainly on HIBOR basis. The gearing ratio of the Group, calculated based on net borrowings over shareholders' funds, was 92% (31 March 2008: 87%). The higher gearing ratio was mainly attributed to the increase in bank advances on factored receivables.

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 2008, the outstanding balance of the loan was HK$37.5 million. Pursuant to the terms of the loan agreement, Mr. Ling, 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 Group is not exposed to any material currency fluctuation risks, as most of its receivables as well as payables are in US dollar. The Group has natural hedges against currency risks and follows the policy of not engaging in speculative activities. In addition, the Group receives Renminbi for domestic sales, which has been sufficient to offset Renminbi expenses of factories in the PRC.

Litigation

On 11 November 2008, Thomson Hong Kong Holdings Limited ("Plaintiff"), a former customer of the Group, filed a writ of summons with the High Court of Hong Kong against the Company and two of its indirect wholly-owned subsidiaries namely, Tonic Digital Products Limited and Tonic Electronics Limited (collectively known as the "Defendants"), in respect of disputes relating, inter alia, goods returned for refund by the Plaintiff, claiming damages in the sum of US$4,289,664.15 (approximately HK$33,244,897.16) together with interest. The Defendants are currently preparing their defence.

On 20 October 2006, Tonic Digital Products Limited commenced legal proceedings against the former customer Senlan Limited ("Senlan") for goods sold and delivered in the sum of US$456,135 (equivalent to approximately HK$3,557,853) together with interest. By reason of failure of Senlan to comply with the court order, its defence was struck out by the court and judgment was entered against it on 31 July 2008. According to ruling of the court, Senlan should pay Tonic Digital the sum of US$456,135 plus interest on such sum at judgment rate for the period between 20 October 2006 and the date of full payment.

Employee relations

As at 30 September 2008, the Group had approximately 7,000 employees in Hong Kong and the PRC (as at 31 March 2008: 8,200). Staff cost including salaries and wages for the six months ended 30 September 2008 totalled approximately HK$93 million (six months ended 30 September 2007: approximately HK$87 million). Employee remuneration packages of the Group are generally structured with 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, medical insurance and work-related personal accident insurance. Employees may also be granted share options at the discretion of the Board in accordance with 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 the management of the Group.

CODE OF CORPORATE GOVERNANCE PRACTICES

The Group is committed to ensure a high standard of corporate governance. For the six months ended 30 September 2008, the Group has applied the principles and complied with the code provisions ("Code Provisions") 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 Provision A.2.1 stipulates that the roles of Chairman and chief executive officer should be separated and should not be performed by the same individual. Mr. Ling is the chairman and chief executive officer of the Group. He is responsible for the Group's overall strategic planning, management of the Board's affairs. 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.

Code Provision 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 Provision 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. The Board considers that Mr. Ling, being the chairman and managing director of the Company, should not be subject to retirement by rotation to ensure continuity of leadership and stabililty for growth of the Company.

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 2008 Annual Report issued on 18 July 2008.

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

Hong Kong, 19 December 2008

As at the date of this announcement, the Board comprises Mr. Ling Siu Man, Simon, Mr. Wong Ki Cheung, Ms. Li Fung Ching, Catherine, Mr. Au Wai Man and Mr. Lam Kwai Wah as Executive Directors and Mr. Pang Hon Chung, Mr. Cheng Tsang Wai and Dr. Chung Hing Wah, Paul as Independent Non-executive Directors.