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 2006

FINANCIAL HIGHLIGHTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2006

- Turnover amounted to HK$1,578,422,000, increased by 28% as compared with last corresponding period.
- Net profit for the Period attributable to equity holders of the Company amounted to HK$21,543,000, increased by 27% as compared with last corresponding period.
- Basic earnings per share amounted to HK2.3 cents, increased by 28% as compared with last corresponding period.
- Shareholders equity as at 30 September 2006 amounted to HK$520,262,000.

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 2006 (the "Period") together with the comparative figures for the previous corresponding period are as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

	Notes	**For six months ended 30 September 2006 Unaudited** *HK$'000*	2005 Unaudited *HK$'000*
Revenue	*2*	**1,578,422**	1,232,616
Cost of sales		**(1,511,714)**	(1,171,134)
Gross profit		**66,708**	61,482
Other revenue		**10,949**	5,099
Selling and distribution costs		**(4,029)**	(4,647)
Administrative expenses		**(34,649)**	(33,756)
Finance costs		**(17,005)**	(10,225)
Profit before tax	*3*	**21,974**	17,953
Tax	*4*	**(431)**	(947)
Net profit for the Period attributable to equity holders of the Company		**21,543**	17,006
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		**2.3 cents**	1.8 cents
– Diluted		**N/A**	N/A

CONDENSED CONSOLIDATED BALANCE SHEET

	Notes	30 September 2006 Unaudited *HK$'000*	31 March 2006 Audited *HK$'000*
NON-CURRENT ASSETS			
Fixed assets		**627,455**	633,120
Prepaid land lease payments		**34,965**	35,277
Deposits for acquisition of fixed assets		**36,607**	31,765
Intangible assets		**21,465**	17,233
Available-for-sale investments		**14,219**	14,219
Non-current portion of other receivables		**5,706**	5,706
Non-current portion of loan receivables		**188**	281
		740,605	737,601
CURRENT ASSETS			
Cash and bank balances		**106,166**	99,971
Accounts and other receivables	*6*	**421,990**	307,203
Inventories		**451,671**	354,277
Tax recoverable		**226**	1,700
Equity investments at fair value through profit or loss		**6,576**	10,380
Prepaid land lease payments		**9,521**	9,521
		996,150	783,052
CURRENT LIABILITIES			
Accounts and other payables	*7*	**686,033**	520,938
Borrowings due within one year		**331,521**	254,588
Tax payable		**3,963**	1,310
		1,021,517	776,836
NET CURRENT ASSETS/ (LIABILITIES)		**(25,367)**	6,216
TOTAL ASSETS LESS CURRENT LIABILITIES		**715,238**	743,817
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings		**166,788**	206,239
Net deferred tax liabilities		**28,188**	29,512
		194,976	235,751
		520,262	508,066
EQUITY			
Share capital	*8*	**95,289**	95,289
Reserves	*9*	**424,973**	403,248
Proposed dividend		**–**	9,529
		520,262	508,066

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 2006.

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 2007.

- Amendment to HKAS 19, "Actuarial gains and losses, group plans and disclosures"
- Amendment to HKAS 21, "Net investment in a foreign operation"
- Amendment to HKAS 39, "Cash flow hedge accounting of forecast intragroup transactions"
- Amendment to HKAS 39, "The fair value option"
- Amendment to HKAS 39 and HKFRS4, "Financial guarantee contracts"
- HK(IFRIC)-Int 4, "Determining whether an arrangement contains a lease"

The adoption of new/revised HKAS 19 (Amendment), 21 (Amendment), 39 (Amendment), HKFRS 4 (Amendment) and HK(IFRIC)-Int 4 did not result in substantial changes to the Group's accounting policies.

The following new standards, amendments to standards and interpretations have been issued but are not effective for 2006/07 and have not been early adopted.

- Amendment to HKAS 1, "Capital disclosures", effective for annual periods beginning on or after 1 January 2007
- HKFRS 7, "Financial instruments: Disclosures", effective for annual periods beginning on or after 1 January 2007
- HK(IFRIC)-Int 8, "Scope of HKFRS 2", effective for annual periods beginning on or after 1 May 2006
- HK(IFRIC)-Int 9, "Reassessment of embedded derivatives", effective for annual periods beginning on or after 1 June 2006
- HK(IFRIC)-Int 10, "Interim financial reporting and impairment", effective for annual periods beginning on or after 1 November 2006

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**	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment revenue:								
Sales to external customers	**966,581**	541,233	**343,470**	470,873	**268,371**	220,510	**1,578,422**	1,232,616

Business segments

	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*
Segment revenue:								
Sales to external customers	**1,447,678**	1,114,252	**130,744**	118,364	**–**	–	**1,578,422**	1,232,616
Other revenue	**2,485**	2,227	**607**	933	**–**	–	**3,092**	3,160
Total	**1,450,163**	1,116,479	**131,351**	119,297	**–**	–	**1,581,514**	1,235,776
Segment results	**31,532**	26,479	**(374)**	1,708	**(1)**	(3)	**31,157**	28,184
Interest income and unallocated income							**7,857**	1,939
Unallocated expenses							**(35)**	(1,945)
Finance costs							**(17,005)**	(10,225)
Profit before tax							**21,974**	17,953
Tax							**(431)**	(947)
Net profit for the Period attributable to equity holders of the Company							**21,543**	17,006

3. Profit before Tax

	For the six months ended 30 September	
	2006	2005
	Unaudited	Unaudited
	HK$'000	*HK$'000*
Profit before tax is arrived at after charging/(crediting):		
Amortisation of trademarks	**131**	125
Amortisation of research and development costs	**3,495**	2,127
Depreciation	**32,760**	37,372
Interest on borrowings	**17,005**	10,225
Gain on disposal of other investments	**(2,916)**	(307)
Unrealised holding (gain)/losses on other investments	**(2,112)**	1,721
Interest income	**(388)**	(155)

4. Tax

Hong Kong profits tax has been provided at the applicable rate of 17.5% (2005: 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 for the Period attributable to equity holders of the Company of HK$21,543,000 (2005: HK$17,006,000) and the weighted average of 952,889,962 shares (2005: 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 receivables of HK$402,877,000 (31 March 2006: HK$277,427,000), the aging analysis of which is as follows:

	30 September 2006 Unaudited ***HK$'000***	31 March 2006 Audited *HK$'000*
0 – 30 days	**293,254**	140,346
31 – 60 days	**86,379**	36,343
61 – 90 days	**18,619**	23,814
Over 90 days	**4,625**	76,924
	402,877	277,427

The Group's sales are on terms of L/C at sight and the others on 60 days to 120 days open account basis.

7. Accounts and other payables

Included in accounts and other payables are accounts payables of HK$586,768,000 (31 March 2006: HK$441,887,000), the aging analysis of which is as follows:

	30 September 2006 Unaudited ***HK$'000***	31 March 2006 Audited *HK$'000*
0 – 30 days	**179,220**	164,073
31 – 60 days	**158,152**	117,403
61 – 90 days	**124,935**	42,881
Over 90 days	**124,461**	117,530
	586,768	441,887

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

8. Share capital

	30 September 2006 Unaudited ***HK$'000***	31 March 2006 Audited *HK$'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 2006: 952,889,962) ordinary shares of HK$0.10 each	**95,289**	95,289

9. Reserves

	Share premium	Contributed surplus	Exchange fluctuation reserve	Asset revaluation reserve	Retained profits	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Balance at 1 April 2006	59,098	280	(5,240)	91,613	257,497	403,248
Exchange difference on translation of overseas subsidiaries' financial statements	–	–	182	–	–	182
Net profit for the Period	–	–	–	–	21,543	21,543
Balance at 30 September 2006	**59,098**	**280**	**(5,058)**	**91,613**	**279,040**	**424,973**

10. Contingent liabilities

Contingent liabilities in respect of bills discounted with recourse at 30 September 2006 was HK$1,223,000 (31 March 2006: HK$nil).

11. Commitments

(a) Capital commitments in respect of fixed assets

	30 September 2006 Unaudited	31 March 2006 Audited
	HK$'000	*HK$'000*
Contracted for but not provided in the financial statements	**2,156**	4,005
Authorised but not contracted for	**–**	–
	2,156	4,005

(b) Commitments to buy and sell foreign currencies amounted to HK$439,949,000 and HK$85,800,000 respectively (31 March 2006: HK$526,496,000 and Nil respectively).

12. Related party transactions

The Group did not sell audio and video products and related components during the Period (2005: HK$7,158,000) 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 (2005: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review and Prospects

For the six months ended 30 September 2006, the Group achieved a turnover of approximately HK$1,578 million, representing an increase of 28% over the corresponding period of 2005. EBITDA and profit attributable to shareholders were HK$75 million and HK$22 million respectively, representing a 11% and 27% increase over the corresponding period of 2005.

During the Period, the Group registered increased demands for its various products. New features were added to enhance the products developed by the Group in the past few years. Products such as VCR+DVD combo, VCR+DVD/RW combo, digital satellite receivers and cable set top box delivered better profit margins and sales.

Costs of certain materials such as plastics and metal parts stabilised but was still relatively high thus continued to pose pressure on the production cost. The Group's own power generators ensure production is not affected by power shortages, but the cost of powering them was affected by high oil price during the Period. The Group's cost structure also felt the impact of the elevated minimum wage level in Guangdong Province, effective in September 2006. The Group is committed to keeping its cost under control and thus maintaining its competitiveness in the industry.

The Group complies with the European Union's RoHS Directives that came into effect on 1 July 2006, restricting the use of certain hazardous substances in electrical and electronic equipment imported by EU countries. New electrical and electronic equipment containing more than agreed levels of lead, cadmium, mercury, hexavalent chromium, polybrominated biphenyl (PBB) and polybrominated diphenyl ether (PBDE) flame retardants are banned from the EU market. In the advent of the Directives, the Group had implemented procedures and policies and purchased facilities that enable to assure compliance. The Group expects other markets such as the US to impose similar requirements and is ready to meet those standards with all adequate facilities already set up and running.

The United States Federal Communications Commission ("FCC") has adopted the major elements of the Advanced Television System Committee ("ATSC") Digital Television (DTV) Standard. In time, ATSC will replace NTSC, which is an American organisation overseeing analog TV transmissions, and digital TV transmissions is expected to be gradually implemented in the US in 2007. Based on the market responses gauged so far, demands for ATSC products such as digital high definition television (HDTV), standard definition television (SDTV), data broadcasting, and interactive television are expected to rocket in the coming year. The Group will inject more resources into research and development of ATSC products to cope with the anticipated rising demand.

The Group believes that the demand for digital products e.g. LCD-TV, DVD recorders, ATSC and DVB products will be tremendous in coming years and the Group's wide variety of digital products will be able to cater for the rising demand. The Group is committed to improving operational efficiency and cost effectiveness continuously and is optimistic in the business prospects.

Financial review

Demand for the Group's electronic products especially those with advanced features increased during the Period with demand from the American markets standing out. Sales for the Period increased by 28% as compared with those of the last corresponding period. Accordingly, cost of sales also increased against the last corresponding period. Significant sales were recorded between August and October. As a result, the accounts payable, receivable balances and stock balances were all gone up at the Period end.

On 23 March 2006, the Group 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. The balance of approximately HK$27 million will serve as the Group's working capital. Pursuant to the terms of the loan agreement, Mr. Ling Siu Man, Simon, Chairman 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 a default.

As at 30 September 2006, the Group had total borrowings of approximately HK$498 million, of which HK$467 million was bank borrowings and HK$31 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$106 million. Gearing ratio was 75%, calculated based on net borrowings over shareholder funds.

The Group is not exposed to any material currency fluctuation risks, as most of its receivables are in US dollars and its payables are also in US dollars. The Group purchases forward contracts from banks to hedge against confirmed US dollar receipts. In addition, it has Renminbi receipts from domestic sales to off set Renminbi expenses of factories in the PRC. Inflation of the Renminbi has no material impact on the Group in the short run. 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.

Employee relations

As at 30 September 2006, the Group had 160 Hong Kong and 8,300 PRC employees. Total spending on salaries and wages amounted to approximately HK$70 million for the Period. Salaries and wages are normally reviewed annually based on staff performance appraisals and market conditions. The Group provides year-end double pay, discretionary bonuses, provident funds, medical insurance and job training to its employees. Staff welfare and benefits are set with reference to prevailing labour laws and practices in Hong Kong and the PRC.

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 2006, 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 a deviation from CG Code A.4.2 in respect of retirement of Directors by rotation at least once every three years. 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 2006 Annual Report issued in July 2006 except the following Code Provision A.2.1 has been changed during the Period.

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. With effect from 1 October 2006, Mr. Ling Siu Man, Simon had tendered his resignation as Managing Director of the Company and Mr. Liu Hoi Keung, Gary was appointed as the Chief Executive Officer of the Company. Mr. Ling remains as Chairman of the Board of the Company and continues to be involved in the business development of the Company.

On behalf of the Board
LING Siu Man, Simon
Chairman

Hong Kong, 15 December 2006

As at the date of this announcement, the Board of Directors comprises seven Executive Directors – Mr. LING Siu Man, Simon, Mr. LIU Hoi Keung, Gary, Mr. LEE Ka Yue, Peter, Mr. WONG Ki Cheung, Ms. LI Fung Ching, Catherine, Mr. AU Wai Man, 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.