Tonic Industries Holdings Limited
東力實業控股有限公司

Stock Code: 0978

INTERIM REPORT 2011

CORPORATE INFORMATION

Directors

Executive Directors

Dr. SO Shu Fai *(Chairman)*
Mr. MAK Bing Kau
Mr. NG Wai Hung
Mr. LAU Cheuk Lun

Independent Non-executive Directors

Mr. PANG Hon Chung
Mr. CHENG Tsang Wai
Dr. CHUNG Hing Wah, Paul

Executive Committee

Dr. SO Shu Fai *(Committee Chairman)*
Mr. MAK Bing Kau
Mr. NG Wai Hung
Mr. LAU Cheuk Lun

Audit Committee

Mr. PANG Hon Chung *(Committee Chairman)*
Mr. CHENG Tsang Wai
Dr. CHUNG Hing Wah, Paul

Remuneration Committee

Mr. CHENG Tsang Wai *(Committee Chairman)*
Mr. PANG Hon Chung
Dr. SO Shu Fai

Company Secretary

Mr. LAU Cheuk Lun

Auditor

ANDA CPA Limited

Registered Office

P.O. Box 309 GT, Ugland House
South Church Street
George Town, Grand Cayman
Cayman Islands, British West Indies

Head Office and Principal Place of Business

13/F., Guangdong Investment Tower
148 Connaught Road Central
Hong Kong

Share Registrars and Transfer Office

In Hong Kong

Tricor Tengis Limited
26/F, Tesbury Centre
28 Queen's Road East
Hong Kong

In Cayman Islands

Butterfield Fund Services (Cayman) Limited
Butterfield House, 68 Fort Street
PO Box 705, George Town
Grand Cayman, Cayman Islands
British West Indies

Principal Bankers

China CITIC Bank Corporation Limited
Bank of Communications Co., Ltd.
Hong Kong Branch
Standard Chartered Bank (Hong Kong) Limited

Website

www.tonic.com.hk
www.irasia.com/listco/hk/tonic

Stock Code

978

INTERIM FINANCIAL STATEMENTS

The board of directors (the "Board") of Tonic Industries Holdings Limited (the "Company") presents the unaudited consolidated interim results of the Company and its subsidiaries (the "Group") for the six months ended 30 September 2011 (the "Period") together with the comparative figures for the previous corresponding period as follows:

UNAUDITED CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 September 2011

		Six months ended 30 September	
		2011	2010
		Unaudited	Unaudited
	Notes	**HK$'000**	HK$'000
Turnover	*5*	**101,475**	18,212
Cost of sales		**(103,431)**	(17,859)
Gross (loss)/profit		**(1,956)**	353
Other income		**1,681**	3,919
Gain on deconsolidation of a subsidiary	*6*	**–**	241,407
Provision for financial guarantee liabilities relating to the borrowings of a deconsolidated subsidiary	*7*	**–**	(78,837)
Provision against inventories		**–**	(1,466)
Selling and distribution costs		**(299)**	(1,892)
Administrative expenses		**(15,330)**	(19,615)
(Loss)/profit from operations		**(15,904)**	143,869
Finance costs	*8*	**(7,824)**	(13,744)
(Loss)/profit before tax		**(23,728)**	130,125
Income tax	*9*	**–**	–
(Loss)/profit for the period attributable to equity holders of the Company	*10*	**(23,728)**	130,125
(Loss)/earnings per share	*11*		
Basic (HK cents per share)		**(2.2)**	123

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 September 2011

	Six months ended 30 September	
	2011	2010
	Unaudited	Unaudited
	HK$'000	HK$'000
(LOSS)/PROFIT FOR THE PERIOD	**(23,728)**	130,125
Other comprehensive income/(loss):		
Exchange differences arising on translation of foreign operations	**6,632**	(492)
Total comprehensive (loss)/income for the period attributable to equity holders of the Company	**(17,096)**	129,633

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 September 2011

	Notes	At 30 September 2011 Unaudited HK$'000	At 31 March 2011 Audited HK$'000
Non-current assets			
Property, plant and equipment	*13*	**227,273**	227,411
Current assets			
Inventories		**10,848**	7,172
Accounts receivables	*14*	**3,666**	9,801
Prepayments, deposits and other receivables		**2,145**	2,054
Due from a scheme subsidiary	*15*	**–**	122,055
Cash and bank balances		**42,779**	8,927
		59,438	150,009
Current liabilities			
Accounts payables	*16*	**1,368**	2,245
Accruals and other payables		**23,443**	31,038
Borrowings	*17*	**69,700**	186,755
Due to directors		**1,000**	1,000
Current tax liabilities		**289**	258
		95,800	221,296
Net current liabilities		**(36,362)**	(71,287)
Total assets less current liabilities		**190,911**	156,124
Non-current liabilities			
Borrowings	*17*	**133,180**	81,765
Deferred tax liabilities		**16,312**	15,844
		149,492	97,609
NET ASSETS		**41,419**	58,515
Capital and reserves			
Share capital	*18*	**10,685**	10,685
Reserves		**30,734**	47,830
TOTAL EQUITY		**41,419**	58,515

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 September 2011

	Attributable to equity holders of the Company						
	Share capital Unaudited HK$'000	Share premium Unaudited HK$'000	Contributed reserve Unaudited HK$'000	Property revaluation reserve Unaudited HK$'000	Foreign currency translation reserve Unaudited HK$'000	Accumulated losses Unaudited HK$'000	Total Unaudited HK$'000
At 1 April 2011 – Audited	10,685	75,022	–	43,423	(10,476)	(60,139)	58,515
Total comprehensive income/ (loss) for the period	–	–	–	–	6,632	(23,728)	(17,096)
At 30 September 2011	10,685	75,022	–	43,423	(3,844)	(83,867)	41,419
At 1 April 2010 – Audited	105,789	71,388	280	74,068	7,463	(682,298)	(423,310)
Total comprehensive income/ (loss) for the period	–	–	–	–	(492)	130,125	129,633
Written back on deconsolidation of a subsidiary	–	–	–	(2,407)	–	2,407	–
At 30 September 2010	105,789	71,388	280	71,661	6,971	(549,766)	(293,677)

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 September 2011

	Six months ended 30 September	
	2011	2010
	Unaudited	Unaudited
	HK$'000	HK$'000
Net cash used in operating activities	**(23,772)**	(23,526)
Net cash used in investing activities	**(79)**	(147)
Net cash generated from financing activities	**54,000**	641
Net increase/(decrease) in cash and cash equivalents	**30,149**	(23,032)
Cash and cash equivalents at beginning of period	**8,927**	16,998
Effects of changes in foreign exchange rate	**3,703**	(831)
Cash and cash equivalents at end of period	**42,779**	(6,865)
Analysis of balances of cash and cash equivalents		
Cash and bank balances	**42,779**	7,011
Bank overdrafts – secured	**–**	(13,876)
	42,779	(6,865)

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 September 2011

1. General information

The Company is incorporated in the Cayman Islands as a limited liability company and its shares are listed on the Main Board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The directors of the Company (the "Directors") consider that the Company's holding company and ultimate holding company is Skill China Limited ("Skill China"), a limited liability company incorporated in the British Virgin Islands. The addresses of the registered office and principal place of the Company are P.O. Box 309 GT, Ugland House, South Church Street, George Town, Grand Cayman Cayman Islands, British West Indies and 13/F., Guangdong Investment Tower, 148 Connaught Road Central, Hong Kong, respectively.

The Company is an investment holding company and the principal activities of its subsidiaries are manufacture, processing and sales of electronic consumer products and related components.

2. Basis of preparation

The Group incurred a loss attributable to equity holders of the Company of approximately HK$23,728,000 for the six months ended 30 September 2011 (Six months ended 30 September 2010: a profit of HK$130,125,000) and as at 30 September 2011 the Group had net current liabilities of approximately HK$36,362,000 (31 March 2011: HK$71,287,000). These conditions therefore indicate the existence of a material uncertainty in relation to the Group's ability to continue as a going concern. In view of such circumstance, the Directors have given careful consideration to the future liquidity and performance of the Group and its available sources of finance in assessing whether the Group will have sufficient financial resources to continue as a going concern. The unaudited condensed consolidated interim financial statements ("Interim Financial Statements") have been prepared on a going concern basis because the ultimate holding company has agreed to provide adequate funds for the Group to meet its liabilities as they fall due.

The Interim Financial Statements have been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and the applicable disclosure requirements of Appendix 16 of the Rules Governing the Listing of Securities on the Stock Exchange.

The Interim Financial Statements do not include all the information and disclosures required in a full set of financial statements, and should be read in conjunction with the Group's annual consolidated financial statements for the year ended 31 March 2011.

The preparation of the Interim Financial Statements in conformity with HKAS 34 requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year-to-date basis. Actual results may differ from these estimates.

The accounting policies adopted in the preparation of the Interim Financial Statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 March 2011.

3. Adoption of new and revised Hong Kong Financial Reporting Standards

In the current period, the Group has adopted all the new and revised Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA that are relevant to its operations and effective for its accounting period beginning on 1 April 2011. HKFRSs comprise Hong Kong Financial Reporting Standards; HKASs and Interpretations. The adoption of these new and revised HKFRSs did not result in significant changes to the Group's accounting policies, presentation of the Group's financial statements and amounts reported for the current period and prior periods.

The Group has not applied the new and revised HKFRSs that have been issued but are not yet effective. The Group has already commenced an assessment of the impact of those new and revised HKFRSs but is not yet in a position to state whether these new and revised HKFRSs would have a material impact on its results of operations and financial position.

4. Segment information

Management has determined the operating segments based on the internal reports reviewed by the chief operating decision maker for the purpose of allocating resources to segments and assessing their performance. The Group has only one operating segment of manufacture, processing and sales of electronic consumer products and related components. The information of the Group's operating and reportable segment is analysed as follows:

(a) Information about the reportable segment profit or loss and assets:

	Six months ended 30 September	
	2011	2010
	Unaudited	Unaudited
	HK$'000	HK$'000
Revenue from external customers	**101,475**	18,212
Segment loss	**8,836**	18,703
Interest income	**8**	2
Interest expenses	**7,824**	13,744
Depreciation	**6,027**	9,105
Other material non-cash item:		
provision against inventories	**–**	1,466
Additions to segment non-current assets	**79**	16

	At 30 September 2011	At 31 March 2011
	Unaudited	Audited
	HK$'000	HK$'000
Segment assets	**243,599**	246,338

(b) Reconciliations of the reportable segment profit or loss:

	Six months ended 30 September	
	2011	2010
	Unaudited	Unaudited
	HK$'000	HK$'000
Total loss of reportable segments	**(8,836)**	(18,703)
Gain on deconsolidation of a subsidiary	**–**	241,407
Provision for financial guarantee liabilities in respect of the borrowings of a deconsolidated subsidiary	**–**	(78,837)
Other unallocated and corporate loss	**(14,892)**	(13,742)
Consolidated (loss)/profit for the period	**(23,728)**	130,125

5. Turnover

The Group's turnover is analysed as follows:

	Six months ended 30 September	
	2011	2010
	Unaudited	Unaudited
	HK$'000	HK$'000
Manufacture and sales of electronic consumer products and related components	**99,293**	18,212
Service fees from processing of electronic consumer products and related components	**2,182**	–
	101,475	18,212

6. Gain on deconsolidation of a subsidiary

During the comparative period, as detailed in the Company's announcement dated 6 July 2010, a direct wholly-owned subsidiary of the Company, Tonic Electronics Limited ("TEL") was wound up by the High Court of Hong Kong. Messrs. Huen Ho Yin and Huen Yuen Fun were appointed as the Joint and Several Provisional Liquidators of TEL by the official receiver on 30 June 2010, the Directors considered that the control over this subsidiary had been lost since then. The results, assets and liabilities and cash flows of that subsidiary were deconsolidated from the Interim Financial Statements of the Group with effect from 30 June 2010.

	Six months ended 30 September 2010 Unaudited HK$'000
Net liabilities of the subsidiary deconsolidated on 30 June 2010 were as follows:	
Property, plant and equipment	26,625
Prepayments, deposits and other receivables	87
Current tax assets	1,919
Amounts due from the Group	142,185
Cash and bank balances	131
Accounts payables	(153,377)
Accruals and other payables	(22,554)
Amounts due to the Group	(282,369)
Borrowings	(90,124)
Deferred tax liabilities	(4,114)
Gain on deconsolidation of net liabilities of the deconsolidated subsidiary	(381,591)
Impairment of amounts due from the deconsolidated subsidiary	140,184
Net gain on deconsolidation of the subsidiary	(241,407)

7. Provision for financial guarantee liabilities relating to the borrowings of a deconsolidated subsidiary

During the comparative period, the Company had given corporate guarantees to certain banks to secure for general banking facilities of approximately HK$78,837,000 utilised by TEL. Upon deconsolidation of TEL on 30 June 2010, it was probable that the Company will be liable to the claims of the equivalent amounts utilised by TEL under those guarantees. Accordingly, a provision for financial guarantee liabilities of approximately HK$78,837,000 was made against the potential uncovered exposures to be borne by the Company under such guarantees. Such uncovered financial guarantee exposures, in form of the creditor scheme claims, was subsequently released from the Group and discharged upon the successful implementation of the capital and group reorganisation (the "Restructuring") of the Company on 3 December 2010 (the "Effective Date").

8. Finance costs

	Six months ended 30 September	
	2011	2010
	Unaudited	Unaudited
	HK$'000	HK$'000
Interest on borrowings wholly repayable within five years:		
Bank and other borrowings	**6,975**	13,744
Loans from the ultimate holding company	**400**	–
Loans from a non-controlling shareholder of the Company	**449**	–
	7,824	13,744

9. Income tax

No provision for profits tax has been made for the six months ended 30 September 2011 (Six months ended 30 September 2010: HK$nil) as the Group did not generate any assessable profits arising in the tax jurisdictions in which the Group operates.

10. (Loss)/profit for the period

(Loss)/profit before tax is arrived at after charging/(crediting) the followings:

	Six months ended 30 September	
	2011	2010
	Unaudited	Unaudited
	HK$'000	HK$'000
Depreciation	**6,027**	9,105
Directors' remunerations	**830**	1,166
Interest expenses	**7,824**	13,744
Interest income	**(8)**	(2)

11. (Loss)/earnings per share

The calculation of the (loss)/earnings per share is based on the loss attributable to equity holders of the Company of approximately HK$23,728,000 for the six months ended 30 September 2011 (Six months ended 30 September 2010: profit of HK$130,125,000) and the weighted average number of 1,068,468,860 (Six months ended 30 September 2010: 105,788,996, as restated) ordinary shares in issue during the period calculated as adjusted to reflect the share consolidation taken place on the Effective Date.

No diluted (loss)/earnings per share is presented as there were no potential dilutive ordinary shares outstanding for both periods.

12. Dividend

The Directors do not recommend the payment of an interim dividend for the six months ended 30 September 2011 (Six months ended 30 September 2010: HK$nil).

13. Additions to property, plant and equipment

During the period, the Group incurred approximately HK$79,000 (Six months ended 30 September 2010: HK$16,000) for purchase of furniture, fixtures, leasehold improvement and motor vehicles.

14. Accounts receivables

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 seeks to maintain strict control over its outstanding receivables in order to minimise credit risk. Overdue balances are reviewed regularly by senior management.

The aging analysis of accounts receivables at end of the reporting period, based on invoice date, is as follows:

	At 30 September 2011 Unaudited HK$'000	At 31 March 2011 Audited HK$'000
30 days or less	**3,666**	5,261
31 to 60 days	**–**	4,540
	3,666	9,801

15. Due from a scheme subsidiary

During the period, the scheme subsidiary has disposed of its leasehold land and buildings ("the Pledged Properties") which were secured for the Group's bank and other loans (collectively the "Xin Lian Loans") of approximately RMB103,000,000 (equivalent to approximately HK$122,055,000) borrowed by an indirect wholly-owned subsidiary of the Company. The Xin Lian Loans has been fully settled by the proceeds from the disposal of the Pledged Properties. Under the Xin Lian Loans arrangement, the equivalent amount due from the scheme subsidiary has been simultaneously recovered and released upon the repayment of the Xin Lian Loans through the disposal of the Pledged Properties.

16. Accounts payables

The aging analysis of accounts payables at the end of the reporting period, based on the invoice date, is as follows:

	At 30 September 2011 Unaudited HK$'000	At 31 March 2011 Audited HK$'000
30 days or less	**606**	327
31 to 90 days	**–**	1,748
Over 90 days	**762**	170
	1,368	2,245

17. Borrowings

	At 30 September 2011 Unaudited HK$'000	At 31 March 2011 Audited HK$'000
Bank loans	–	112,575
Loans from the ultimate holding company	**69,700**	64,700
Loans from a non-controlling shareholder of the Company	**49,000**	–
Other loans	**84,180**	91,245
	202,880	268,520
Secured	**124,180**	131,245
Unsecured	**78,700**	137,275
	202,880	268,520
Carrying amounts repayable:		
– within one year or on demand, disclosed as current liabilities	**69,700**	186,755
– in the second year, disclosed as non-current liabilities	**133,180**	81,765
	202,880	268,520

At the end of the reporting period, the Group's other loans of approximately HK$84,180,000 (31 March 2011: HK$91,245,000) were secured by the mortgages over the Group's leasehold land and buildings which had the aggregate carrying amounts of approximately HK$174,272,000 (31 March 2011: HK$172,518,000) and equipment and tools with the carrying amounts of approximately HK$nil (31 March 2011: HK$14,199,000). The loans from the ultimate holding company of HK$40,000,000 (31 March 2011: HK$40,000,000) were secured by a share charge over the entire issued share capital of a wholly-owned subsidiary of the Company. Loans from a non-controlling shareholder of the Company are unsecured and repayable on 31 December 2012.

18. Share capital

	At 30 September 2011 Unaudited HK$'000	At 31 March 2011 Audited HK$'000
Authorised:		
30,000,000,000 ordinary shares of HK$0.01 each	**300,000**	300,000
Issued and fully paid:		
1,068,468,860 ordinary shares of HK$0.01 each	**10,685**	10,685

A summary of changes in the authorised and issued share capital of the Company is as follows:

	Notes	Number of shares	Nominal value of shares HK$'000
Authorised:			
At 1 April 2010		3,000,000,000	300,000
Share Subdivision	*(b)*	297,000,000,000	–
Share Consolidation	*(c)*	(270,000,000,000)	–
At 31 March 2011, 1 April 2011 and 30 September 2011		30,000,000,000	300,000
Issued and fully paid:			
At 1 April 2010		1,057,889,962	105,789
Capital Reduction	*(a)*	–	(104,731)
Share Consolidation	*(c)*	(952,100,966)	–
Issue of New Shares	*(d)*	962,679,864	9,627
At 31 March 2011, 1 April 2011 and 30 September 2011		1,068,468,860	10,685

Notes:

(a) Upon completion of the capital reorganisation on the Effective Date, the issued share capital of the Company was reduced by cancelling the paid up capital to the extent of HK$0.099 on each issued existing share on the Effective Date such that the nominal value of all the issued existing share was reduced from par value of HK$0.10 to HK$0.001 each (the "Capital Reduction").

(b) Upon completion of the capital reorganisation on the Effective Date, each of the authorised but unissued share of par value HK$0.10 each in the share capital of the Company was subdivided into 100 shares of par value HK$0.001 each on the Effective Date (the "Share Subdivision").

(c) Upon the Capital Reduction and Share Subdivision becoming effective, the share consolidation was implemented by consolidation of every 10 issued and unissued shares of par value HK$0.001 each into one consolidated share of par value HK$0.01 each in the share capital of the Company (the "Share Consolidation").

(d) The Company entered into the subscription agreement with the subscriber, Skill China Limited, on 15 January 2010 (as amended by the supplemental subscription agreement dated 24 June 2010). In accordance with the subscription agreement, the subscriber subscribed for an aggregate of 909,785,366 subscription shares with a par value of HK$0.01 each in the share capital of the Company at the subscription price of approximately HK$0.0879 per subscription share resulting in the cash consideration of HK$80 million. These shares were issued and allotted to the subscriber on the Effective Date, and 63,473,398 subscriptions shares of which were transferred to the schemeco on the same day as option shares for the purpose of the creditor scheme.

On the Effective Date, 52,894,498 remuneration shares with a par value of HK$0.01 each in the share capital of the Company were issued and allotted to two financial advisors of the Company at a price of approximately HK$0.0879 per remuneration share for settlement of part of their professional fees in relation to the Restructuring.

On the Effective Date, following transfer of the option shares by Skill China to schemeco and the allotment and issue of the remuneration shares, Skill China was interested in 846,311,968 Shares, representing approximately 79.21% of the entire issued share capital of the Company. To restore the requirement of the minimum 25% public float under Rule 8.08(1)(a) of the Listing Rules, as disclosed in the joint announcement of the Company and the board of directors of Skill China dated 31 December 2010, upon the close of the offer and completion of the placing to restore the minimum 25% public float requirement, Skill China was interested in 739,164,898 shares, representing approximately 69.18% of the entire issued share capital of the Company, and remains as the controlling shareholder of the Company.

19. Approval of interim financial statements

The Interim Financial Statements were approved and authorised for issue by the Board of Directors on 29 November 2011.

INTERIM DIVIDEND

The Board has resolved not to declare any interim dividend in respect of the Period (2010: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Group Results

The Group recorded a turnover of approximately HK$101 million, negative EBITDA of approximately HK$10 million and loss attributable to equity holders of the Company of approximately HK$24 million for the six months ended 30 September 2011, compared to turnover of approximately HK$18 million, EBITDA of approximately HK$153 million and profit of HK$130 million for the corresponding period in 2010. The EBITDA and net profit for this corresponding period were, however, arrived at after crediting the one-off non-cash gain of approximately HK$241 million on the deconsolidation of a subsidiary during the process of restructuring of the Group.

Business Development and Prospects

The very slow economic recovery from the global financial crisis continued to affect the operations of the Group, forcing it to accept even narrower margins in order to stay in business. This, plus the renewed sovereign financial instability in Europe, have caused the delay in the revitalizing efforts of the Group after the restructuring since its completion in December 2010.

The Directors are optimistic that the present policy of strengthening the Group's domestic sales while, at the same time, exploring new business initiatives, particularly those with potential synergy, for widening the Group's horizon, will progressively improve the turnover and profitability of the Group.

Liquidity and Financial Resources

As at 30 September 2011, the net assets value of the Group amounted to approximately HK$41 million (31 March 2011: HK$59 million), including cash and bank balances of approximately HK$43 million (31 March 2011: HK$9 million) which were denominated mainly in Hong Kong dollars.

The trade receivable balance as at 30 September 2011 was approximately HK$3.6 million (31 March 2011: HK$9.8 million).

As at 30 September 2011, the Group's aggregate borrowings were approximately HK$203 million (31 March 2011: HK$269 million). The borrowings were denominated in Hong Kong dollars and Renminbi which bear interest mainly on market interest rate basis. The gearing ratio of the Group, calculated based on net borrowings over the total equity of the Group, was 490% (31 March 2011: 459%).

The Group is not exposed to any material currency fluctuation risks. It has natural hedges against currency risks and adheres to the policy of not engaging in speculative activities. In addition, the Group's Renminbi receipts from domestic sales could offset Renminbi expenses of the factory in the People's Republic of China (the "PRC").

Pledge of Assets

As at 30 September 2011, the Group's land and building with a net carrying amount of approximately HK$174 million (31 March 2011: HK$173 million) were pledged to secure for other borrowings (31 March 2011: bank and other borrowings) of the Group. The loans from the ultimate holding company of HK$40,000,000 (31 March 2011: HK$40,000,000) were secured by a share charge over the entire issued share capital of a wholly-owned subsidiary of the Company.

Employee relations

As at 30 September 2011, the Group had approximately 310 (31 March 2011: 320) employees in Hong Kong and the PRC. Salaries and wages for the six months ended 30 September 2011 totaled approximately HK$9.4 million (year ended 31 March 2011: approximately HK$16.8 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.

DIRECTORS' INTERESTS IN SHARES

As at 30 September 2011, the interests of the directors in the share capital of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), were as follows:

Long positions in ordinary shares of the Company

Name of director	**Nature of interest**	**Number of ordinary shares held**	**Percentage of the Company's issued share capital**
So Shu Fai	Corporate *(Note)*	739,164,898	69.18%
Cheng Tsang Wai	Personal	162,600	0.02%

Note:

These shares were held by Skill China Limited, which is controlled by Fortune Alliance Group Limited and in turn controlled by Jointprofit Limited, which is beneficially wholly owned by Dr. So Shu Fai, an executive director and the Chairman of the Company. Skill China Limited, Fortune Alliance Limited and Jointprofit Limited are companies incorporated in the British Virgin Islands.

Save as disclosed above, as at 30 September 2011, none of the directors had registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTOR'S RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Apart from as disclosed in the sections "Directors' Interests in Shares" above at no time during the Period were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any directors or their respective spouse or minor children, or were any such rights exercised by them; or was the Company, its holding company or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

SHARE OPTION SCHEME

The original share option scheme adopted by the Company on 18 September 1997 expired on 16 October 2007 and all outstanding options granted and not exercised also expired on 9 April 2010.

A new share option scheme, the 2011 Share Option Scheme, was adopted at the annual general meeting of the Company held on 27 September 2011 (the "Scheme") and permission for the listing of the resultant shares from the Scheme was approved by the Stock Exchange of Hong Kong on 18 October 2011. No option has been granted under the Scheme since its establishment to the date of this interim report.

SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at 30 September 2011, the following parties having interests of 5% or more of the issued share capital of the Company were recorded in the register of interests kept by the Company pursuant to Section 336 of the SFO:

Name	**Capacity and nature of interests**	**Number of ordinary shares held**		**Percentage of the Company's issued share capital**
		Long position	**Short position**	
Skill China Limited *(Note)*	Beneficially interest	739,164,898	–	69.18%
Fortune Alliance Group Limited *(Note)*	Through controlled corporation	739,164,898	–	69.18%
Jointprofit Limited *(Note)*	Through controlled corporation	739,164,898	–	69.18%

Note:
These shares are held by Skill China Limited, which is controlled by Fortune Alliance Group Limited and in turn controlled by Jointprofit Limited, which is beneficially wholly owned by Dr. So Shu Fai, an executive director and the Chairman of the Company. Skill China Limited, Fortune Alliance Group Limited and Jointprofit Limited are companies incorporated in the British Virgin Islands.

Save as disclosed above, as at 30 September 2011, no person, other than the directors, whose interests are set out in the section "Directors' Interests in Shares" above, had registered an interest or short positions in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

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 these unaudited interim financial statements for the Period.

CODE OF CORPORATE GOVERNANCE PRACTICES

The Group is committed to ensure a high standard of corporate governance. For the six months ended 30 September 2011, 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. Dr. So Shu Fai took over as Chairman of the Company since 30 December 2010 immediately after the re-structuring of the Group while the position of the chief executive office has since been left vacant. The Board considers it prudent to make appointment of the chief executive officer when the business and environment of the Group have become clearer and more predictable.

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 least once every 3 years at annual general meetings under the Company's articles of association. The Board considers that the requirement has the same effect of 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 Dr. So Shu Fai, being the Chairman of the Company, should not be subject to retirement by rotation to ensure continuity of leadership and stability for growth of the Company.

The Group's compliance with the Code 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 2011 Annual Report issued on 28 June 2011.

MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted its code of conduct regarding the directors' securities transactions on terms no less exacting than the required standard set out in the Model Code. After having made specific enquiry to all of the directors of the Company, the directors are satisfied that the required standard set out in the Model Code and its code of conduct regarding the directors' securities transactions have been fully complied with during the period covered by the interim report.

SECURITIES TRANSACTIONS BY RELEVANT EMPLOYEES

Under Code Provision A.5.4, the Board has established written guidelines on no less exacting terms than the Model Code for relevant employees in respect of their dealings in the Company's securities. "Relevant employee" includes any employee of the Group or a director or employee of a subsidiary or holding company of the issuer, because of such office or employment, is likely to be in possession of unpublished price sensitive information in relation to the Group and its securities. Having made specific enquiry of all Relevant Employees, the directors are satisfied that the required standard set out in the Model Code and its code of conduct regarding securities transaction have been complied with during the period covered by the interim report.

On behalf of the Board
Dr. So Shu Fai
Chairman

Hong Kong, 29 November 2011