

The background of the cover is a vibrant green and yellow gradient with several large, semi-transparent white arrows pointing towards the right. The overall design is modern and dynamic, suggesting growth and forward momentum.

**TONIC**

東力實業控股有限公司

Tonic Industries Holdings Limited

(Stock Code : 0978)

**2010**

INTERIM REPORT

## CORPORATE INFORMATION

### Directors

#### Executive Directors

Mr. LING Siu Man, Simon  
*(Chairman and Managing Director)*  
Mr. WONG Ki Cheung  
Ms. LI Fung Ching, Catherine

#### Independent Non-executive Directors

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

### 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

Flat K2, Block 2, 2/F,  
Kaiser Estate  
51 Man Yue Street,  
Hung Hom,  
Kowloon,  
Hong Kong

### Auditors

Anda CPA Limited

### Audit Committee

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

### Remuneration Committee

Mr. CHENG Tsang Wai *(Chairman)*  
Mr. PANG Hon Chung  
Ms. LI Fung Ching, Catherine

### Executive Committee

Mr. LING Siu Man, Simon *(Chairman)*  
Mr. WONG Ki Cheung  
Ms. LI Fung Ching, Catherine

### Principal Bankers

China CITIC Bank Corporation Limited  
Hang Seng Bank Limited  
The Hongkong and Shanghai Banking  
Corporation Limited

### 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

### Website

[www.tonic.com.hk](http://www.tonic.com.hk)  
[www.irasia.com/listco/hk/tonic](http://www.irasia.com/listco/hk/tonic)

### Stock Code

978

The board of directors (the "Board") of Tonic Industries Holdings Limited (the "Company") announces that the unaudited condensed interim consolidated financial statements (the "Interim Financial Statements") of the Company and its subsidiaries (the "Group") for the six months ended 30 September 2010 (the "Period") together with the comparative figures for the previous corresponding period are as follows:

## UNAUDITED CONDENSED CONSOLIDATED INCOME STATEMENT

		For the six months ended 30 September	
	Notes	2010 Unaudited HK\$'000	2009 Unaudited HK\$'000
<b>Turnover</b>	3	<b>18,212</b>	436,823
Cost of sales		<b>(17,859)</b>	(587,503)
<b>Gross profit/(loss)</b>		<b>353</b>	(150,680)
Gain on disposal of properties		–	6,496
Other income		<b>3,919</b>	15,895
Gain on deconsolidation of a subsidiary	4	<b>241,407</b>	–
Provision for financial guarantee liabilities relating to borrowings of a deconsolidated subsidiary	5	<b>(78,837)</b>	–
Provision against inventories		<b>(1,466)</b>	(108,001)
Selling and distribution costs		<b>(1,892)</b>	(858)
Administrative expenses		<b>(19,615)</b>	(27,725)
<b>Profit/(loss) from operations</b>		<b>143,869</b>	(264,873)
Finance costs	6	<b>(13,744)</b>	(9,616)
<b>Profit/(loss) before tax</b>		<b>130,125</b>	(274,489)
Income tax	7	–	11,510
<b>Profit/(loss) for the period attributable to equity holders of the Company</b>	8	<b>130,125</b>	(262,979)
<b>Earnings/(loss) per share</b>	9		
Basic (HK cents per share)		<b>12.30</b>	(24.86)
Diluted (HK cents per share)		<b>N/A</b>	N/A

## UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	For six months ended 30 September	
	2010 Unaudited HK\$'000	2009 Unaudited HK\$'000
<b>Profit/(loss) for the period</b>	<b>130,125</b>	(262,979)
<b>Other comprehensive income:</b>		
Exchange differences arising on translation of foreign operations	(492)	307
<b>Total comprehensive income for the period attributable to equity holders of the Company</b>	<b>129,633</b>	(262,672)

## UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	At 30 September 2010 Unaudited HK\$'000	At 31 March 2010 Audited HK\$'000
<b>Non-current assets</b>			
Property, plant and equipment	11	367,861	400,807
<b>Current assets</b>			
Inventories		–	1,466
Accounts receivables	12	6,338	831
Prepayments, deposits and other receivables		1,742	935
Due from a deconsolidated subsidiary		142,185	–
Current tax assets		–	1,919
Cash and bank balances		7,011	30,176
		157,276	35,327
<b>Current liabilities</b>			
Accounts payables	13	163,783	319,210
Accruals and other payables		67,144	82,249
Borrowings		325,785	412,094
Provision for financial guarantee liabilities	5	78,837	–
Due to a deconsolidated subsidiary		142,185	–
Due to directors		–	629
Current tax liabilities		13,717	13,785
		791,451	827,967
<b>Net current liabilities</b>		<b>(634,175)</b>	<b>(792,640)</b>
<b>Total assets less current liabilities</b>		<b>(266,314)</b>	<b>(391,833)</b>
<b>Non-current liabilities</b>			
Deferred tax liabilities		27,363	31,477
<b>NET LIABILITIES</b>		<b>(293,677)</b>	<b>(423,310)</b>
<b>Capital and reserves</b>			
Share capital		105,789	105,789
Reserves		(399,466)	(529,099)
<b>TOTAL EQUITY</b>		<b>(293,677)</b>	<b>(423,310)</b>

## UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to equity holders of the Company						
	Share capital	Share premium account	Contributed surplus	Asset revaluation reserve	Exchange fluctuation reserve	Retained profits/ (accumulated losses)	Total
	Unaudited HK\$'000	Unaudited HK\$'000	Unaudited HK\$'000	Unaudited HK\$'000	Unaudited HK\$'000	Unaudited HK\$'000	Unaudited HK\$'000
<b>For the six months ended 30 September 2010</b>							
At 1 April 2010	105,789	71,388	280	74,068	7,463	(682,298)	(423,310)
Total comprehensive income for the period	-	-	-	-	(492)	130,125	129,633
Written back on deconsolidation of a subsidiary	-	-	-	(2,407)	-	2,407	-
At 30 September 2010	<u>105,789</u>	<u>71,388</u>	<u>280</u>	<u>71,661</u>	<u>6,971</u>	<u>(549,766)</u>	<u>(293,677)</u>
<b>For the six months ended 30 September 2009</b>							
At 1 April 2009	105,789	71,388	280	97,711	7,180	104,332	386,680
Total comprehensive income for the period	-	-	-	-	307	(262,979)	(262,672)
Written back on disposal of properties	-	-	-	(2,892)	-	3,236	344
At 30 September 2009	<u>105,789</u>	<u>71,388</u>	<u>280</u>	<u>94,819</u>	<u>7,487</u>	<u>(155,411)</u>	<u>124,352</u>

## UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	<b>For six months ended 30 September</b>	
	<b>2010 Unaudited HK\$'000</b>	2009 Unaudited HK\$'000
Net cash used in operating activities	<b>(23,526)</b>	(42,612)
Net cash (used in)/generated from investing activities	<b>(147)</b>	23,792
Net cash generated from/(used in) financing activities	<b>641</b>	(13,514)
Net decrease in cash and cash equivalents	<b>(23,032)</b>	(32,334)
<b>Cash and cash equivalents at 1 April</b>	<b>16,998</b>	26,733
Effects of changes in foreign exchange rate	<b>(831)</b>	(589)
<b>Cash and cash equivalents at 30 September</b>	<b>(6,865)</b>	(6,190)
<b>Analysis of balances of cash and cash equivalents</b>		
Cash and bank balances	<b>7,011</b>	4,604
Bank overdrafts — secured	<b>(13,876)</b>	(10,794)
	<b>(6,865)</b>	(6,190)

## NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

### 1. Basis of preparation and accounting policies

The Group incurred a profit attributable to equity holders of the Company of approximately HK\$130,125,000 for the six months ended 30 September 2010 (2009: loss of HK\$262,979,000) and as at 30 September 2010 the Group had net current liabilities of approximately HK\$634,175,000 (31 March 2010: HK\$792,640,000) and net liabilities of approximately HK\$293,677,000 (31 March 2010: HK\$423,310,000) respectively. These conditions indicate the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern. Therefore, the Group may be unable to realise its assets and discharge its liabilities in the normal course of business.

In the opinion of the Directors, the Interim Financial Statements prepared on the basis that the proposed restructuring (the "Restructuring Proposal") of the Company, as defined in the Company's Circular dated 28 June 2010, will be implemented in accordance with its terms and the Group will be able to improve its financial position and business upon completion of the Restructuring Proposal. As at date of these Interim Financial Statements, the Directors are not aware of any circumstances or reasons that would likely affect the implementation of the Restructuring Proposal. In light of the foregoing, the Directors opined that it is appropriate to prepare the Interim Financial Statements on a going concern basis. The Interim Financial Statements do not incorporate any adjustments for possible failure of the Restructuring Proposal and the continuance of the Group as a going concern.

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 ("HKICPA") and with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). They have been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through profit or loss.

These Interim Financial Statements do not include all the information and disclosures required in a complete set of the financial statements, and should be read in conjunction with the Group's annual consolidated financial statements for the year ended 31 March 2010.

The accounting policies adopted in the preparation of these 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 2010 except for the adoption of a revised standard stated below.

### Classification of Land Leases

The adoption of amendment to HKAS 17 "Leases" has resulted in a change in accounting policy for the classification of leasehold land of the Group. Previously, leasehold land was classified as an operating lease and stated at cost less accumulated amortisation. In accordance with the amendment, leasehold land is classified as a finance lease and stated at cost less accumulated depreciation if substantially all risks and rewards of the leasehold land have been transferred to the Group. As the present value of the minimum lease payments (i.e. the transaction price) of the land held by the Group amounted to substantially all of the fair value of the land as if it was freehold, the leasehold land of the Group has been classified as a finance lease. The amendment has been applied retrospectively to unexpired leases at the date of adoption of the amendment on the basis of information existing at the inception of the leases.

The amendment resulted in changes in the consolidated amounts reported in the financial statements as follows:

	<b>At</b>	At
	<b>30 September</b>	31 March
	<b>2010</b>	2010
	<b>Unaudited</b>	Audited
	<b>HK\$'000</b>	HK\$'000
Increase in property, plant and equipment	<b>28,320</b>	35,032
Decrease in prepaid land lease payments	<b>(28,320)</b>	<u>(35,032)</u>

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

### Deconsolidation of a subsidiary

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. Heun Ho Yin and Huen Yuen Fun have been 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 has been lost since then. The results, assets and liabilities and cash flows of this subsidiary were deconsolidated from the Interim Financial Statements of the Group with effect from 30 June 2010.

## 2. Segment information

The Group is solely engaged in manufacture and trading of consumer electronic products.

Segment profits or losses do not include interest income, gains on equity investments at fair value through profit or loss, gain on deconsolidation of a subsidiary, provision for financial guarantee liabilities relating to borrowings of a deconsolidation subsidiary, finance costs, income tax and unallocated corporate income and expenses. Segment assets do not include tax assets, cash and bank balances, and other unallocated corporate assets.

The Group accounts for intersegment sales and transfers as if the sales or transfers were made to third parties, i.e. at current market prices.

- (a) The Group has only one operating segment of electronic products and components. Information about reportable segment profit or loss and segment assets is analysed below:

	<b>For the six months ended 30 September</b>	
	<b>2010</b>	2009
	<b>Unaudited</b>	Unaudited
	<b>HK\$'000</b>	HK\$'000
Revenue from external customers	<b>18,212</b>	436,823
Segment loss	<b>18,703</b>	266,805
Interest income	<b>2</b>	12
Interest expenses	<b>13,744</b>	9,616
Depreciation and amortisation	<b>9,105</b>	29,017
Income tax credit	<b>–</b>	11,510
Other material non-cash item:		
Gains on equity investments at fair value through profit or loss	<b>–</b>	1,920
Gain on deconsolidation of a subsidiary	<b>241,407</b>	–
Provision for financial guarantee liabilities in respect of borrowings of a deconsolidated subsidiary	<b>78,837</b>	–
Provision against inventories	<b>1,466</b>	108,001
Additions to segment non-current assets	<b>16</b>	11,985

	<b>At 30 September 2010 Unaudited HK\$'000</b>	At 31 March 2010 Audited HK\$'000
Segment assets	<b>375,941</b>	404,039

(b) Reconciliations of reportable segment profit or loss:

	<b>For the six months ended 30 September</b>	
	<b>2010 Unaudited HK\$'000</b>	2009 Unaudited HK\$'000
Total loss of reportable segments	<b>(18,703)</b>	(266,805)
Other unallocated profit	<b>148,828</b>	3,826
Consolidated profit/(loss) for the period	<b>130,125</b>	(262,979)

### 3. Turnover

The Group's turnover is analysed as follows:

	<b>For the six months ended 30 September</b>	
	<b>2010 Unaudited HK\$'000</b>	2009 Unaudited HK\$'000
Design, manufacture and sale of electronic products and components	<b>18,212</b>	436,823

#### 4. Gain on deconsolidation of a subsidiary

As disclosed in note 2 to these Interim Financial Statements, the Directors considered that the control over the TEL had been lost since 30 June 2010. The results, assets and liabilities and cash flows of these subsidiaries were therefore deconsolidated from the consolidated financial statements of the Group since then.

	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)
	<hr/>
Gain on deconsolidation of net liabilities of the deconsolidated subsidiary	(381,591)
Impairment of amounts due from the deconsolidated subsidiary	140,184
	<hr/>
Net gain on deconsolidation of the subsidiary	<u>(241,407)</u>

#### 5. Provision for financial guarantee liabilities relating to borrowings of a deconsolidated subsidiary

The Company had given corporate guarantees to certain banks to secure for general banking facilities granted to TEL, and approximately HK\$78,837,000 (2009: HK\$ nil) of which were utilised by TEL. Upon deconsolidation of TEL on 30 June 2010, it is probable that the Company will be liable to the claims under any of those guarantees. Accordingly, a provision for financial guarantee liabilities of approximately HK\$78,837,000 (2009: HK\$ nil) has been made against the probable uncovered exposures to be borne by the Company under such guarantees.

## 6. Finance costs

	For the six months ended 30 September	
	2010 Unaudited HK\$'000	2009 Unaudited HK\$'000
Interest on:		
Bank and other borrowings wholly repayable within five years	13,744	9,541
Finance leases	—	75
	<u>13,744</u>	<u>9,616</u>

## 7. Income tax

No provision for profits tax has been made for the six months ended 30 September 2010 (2009: Nil) as the Group did not generate any assessable profits arising in the tax jurisdictions in which the Group operates.

## 8. Profit/(loss) for the period

Profit/(loss) before tax is arrived at after charging/(crediting) the followings:

	For the six months ended 30 September	
	2010 Unaudited HK\$'000	2009 Unaudited HK\$'000
Amortisation of research and development costs	—	3,905
Depreciation	9,105	25,112
Interest expenses	13,744	9,616
Gain on disposal of properties	—	(6,496)
Gain on equity investments at fair value through profit or loss	—	(1,920)
Interest income	(2)	(12)
	<u>(2)</u>	<u>(12)</u>

## 9. Earnings/(loss) per share

The calculation of basic earnings/(loss) per share attributable to equity holders of the Company is based on the profit for the six months ended 30 September 2010 attributable to equity holders of the Company of approximately HK\$130,125,000 (2009: loss of HK\$262,979,000) and the weighted average number of 1,057,889,962 (2009: 1,057,889,962) ordinary shares in issue during the period.

No diluted loss per share is presented as the Company has not had any dilutive potential ordinary shares.

## 10. Dividend

The Directors do not recommend the payment of an interim dividend for the six months ended 30 September 2010 (2009: Nil).

## 11. Addition to property, plant and equipment

During the period, the Group incurred approximately HK\$16,000 (six months ended 30 September 2009: approximately HK\$11,985,000) for purchase of furniture and equipment, motor vehicles and moulds.

## 12. Accounts receivables

The aged analysis of the Group's accounts receivables at end of the reporting period is as follows:

	<b>At 30 September 2010 Unaudited HK\$'000</b>	At 31 March 2010 Audited HK\$'000
30 days or less	<b>5,678</b>	831
31 to 60 days	<b>660</b>	–
	<b>6,338</b>	831

### 13. Accounts payables

The aged analysis of the Group's accounts payables at end of the reporting period is as follows:

	At 30 September 2010 Unaudited HK\$'000	At 31 March 2010 Audited HK\$'000
30 days or less	–	134
61 to 90 days	–	225
Over 90 days	<b>163,783</b>	318,851
	<b>163,783</b>	<b>319,210</b>

### 14. Litigations

A number of lawsuits and claims were lodged against certain subsidiaries of the Group which remain outstanding as follows:

#### (a) Gold Beam Developments Limited ("GB")

- (i) On 16 November 2009, Fung Shing Steel Company Limited issued a writ of summons in the District Court of Hong Kong against a direct wholly-owned subsidiary of the Company, namely GB, in respect of goods sold and delivered in the amount of HK\$429,365. GB is currently preparing the defense.
- (ii) On 2 March 2010, Wang Fa Steel Company Limited issued a writ of summons in the District Court of Hong Kong against GB in respect of a debt in the amount of HK\$95,866 together with interest and costs. Pleadings closed on 14 May 2010.

#### (b) Technotrend Trading Limited

On 23 November 2009, Technotrend Trading Limited, an indirect wholly-owned subsidiary of the Company, issued a writ of summons in the High Court of Hong Kong against the former customer Technotrend GmbH for goods sold and delivered in the sum of US\$2,541,464 (approximately HK\$19,691,265) together with interest and costs. The case is in the stage of service of the Writ Summons against Technotrend GmbH.

(c) **Tonic Digital Products Limited (“TDPL”)**

On 29 January 2010, Victor Company of Japan Ltd. (“JVC”) issued a summons in the United States District Court, Southern District of New York against TDPL, an indirect wholly-owned subsidiary of the Company, in respect of breach of the settlement agreement between JVC and TDPL dated 1 January 2008 in the amount of Japanese Yen 58,592,400 (approximately HK\$5,097,539) and damages by reason of TDPL’s unauthorised use and infringement of JVC’s trademark rights in the VHS logo and infringement of JVC’s patent rights in the VHS recorder patents. The summons has been served on TDPL.

(d) **Tonic Electronics Limited (“TEL”)**

(i) On 12 September 2009, Super Victory Enterprises Limited issued a writ of summons in the District Court of Hong Kong against an indirect wholly-owned subsidiary of the Company, namely TEL, in respect of goods sold and delivered in the amount of US\$85,988 (approximately HK\$666,231) together with interest and costs. TEL is currently preparing the defense.

(ii) On 13 November 2009, Stmicroelectronics Asia Pacific PTE Limited issued a writ of summons in the High Court of Hong Kong against TEL in respect of goods sold and delivered in amount of US\$279,742 (approximately HK\$2,167,439) together with interest and costs. TEL is currently preparing the defense.

(iii) On 27 November 2009, Lucky Harvest (HK) Company Limited issued a writ of summons in the High Court of Hong Kong against TEL in respect of goods sold and delivered in the amount of HK\$1,121,066 together with interest and costs. TEL is currently preparing the defense.

(iv) On 30 November 2009, Skytech (Hong Kong) Limited issued a writ of summons in the High Court of Hong Kong against TEL in respect of goods sold and delivered in the amount of HK\$1,122,861 together with interest and costs. Judgment against TEL was obtained on 1 February 2010. Enforcement of judgment is yet to be made.

(v) On 11 January 2010, Edal Electronics Company Limited issued a writ of summon in the District Court of Hong Kong against TEL in respect of goods sold and delivered in the amount of HK\$232,280 together with interest and costs. TEL has filed a defense on 22 March 2010.

(vi) On 2 February 2010, Strategic Financial Relations Limited issued a writ of summon in the District Court of Hong Kong against TEL in respect of a debt in the amount of HK\$126,358 for public relations consultancy services rendered. Pleadings closed on 15 April 2010 and documents have been filed for discovery.

- (vii) On 5 February 2010, Sai Hing Plastic Bags Factory (Hong Kong) Limited issued a writ of summon in the District Court of Hong Kong against TEL in respect of a contract sum in the amount of HK\$462,310 together with interest and costs and HK\$345,525 together with interest and costs. Pleadings closed on 17 May 2010.
  - (viii) On 28 April 2010, a winding up petition was filed against TEL by an ex-employee of TEL claiming for payment in the aggregate sum of HK\$1,235,811 together with interest thereon from TEL as stated in the award obtained by Ng Hing Wing and other ex-employees against TEL on 26 January 2010. The unsettled amounts of HK\$1,235,811 are yet to be paid and were fully accrued in other payables at 31 March 2010. Subsequently, TEL was wound up by the High Court of Hong Kong on 30 June 2010. Messrs. Huen Ho Yin and Huen Yuen Fun have been appointed as the Joint and Several Provisional Liquidators of TEL by the official receiver on the same date.
  - (ix) On 14 May 2010, 深圳市長橋凱達貨運有限公司 (Shenzhen Changqiao Kaida Cargo Company Limited) issued a writ of summon in the District Court of Hong Kong against TEL, in respect of transportation services in the amount of RMB876,596 (approximately HK\$994,060) together with interest and costs.
- (e) **TEL and GB**
- On 21 June 2010, Fung Shing Steel Company Limited issued a writ of summon in the District Court of Hong Kong against TEL and GB, in respect of debt in the amount of HK\$329,365 together with interest and costs. The dispute is at preliminary stage, and the Group will prepare the defense accordingly.
- (f) **TEL and Tonic Digital Products Limited ("TDPL")**
- (i) On 11 November 2008, Thomson Hong Kong Holdings Limited ("Plaintiff"), a former customer of the Company, filed a writ of summons with the High Court of Hong Kong against the Company and two of its indirect wholly-owned subsidiaries namely, TEL and TDPL (collectively known as the "Defendants"), in respect of disputes relating, inter alia, goods returned for refund by Plaintiff, claiming damages in the sum of US\$4,289,664 (approximately HK\$33,244,897) together with interest and costs. The Defendants filed Defense and Counterclaim and the Plaintiff filed Reply and Defense to Counterclaim on 17 March 2009. The claims of the Plaintiff relate, inter alia, to refund of the purchase price of goods sold and delivered by TDPL to the Plaintiff. Based on the case pleaded by the Plaintiff and the information now available to the Defendants, the Defendants have a defense with merits to such claim. The parties are attempting to resolve interlocutory matters before the trial date for the case is fixed.

- (ii) On 24 August 2009, TEL and TDPL issued a writ of summons in the High Court of Hong Kong against a former customer Alco Holdings Limited for goods sold and delivered in the sum of US\$820,912 (approximately HK\$6,360,427) for TEL and US\$288,977 (approximately HK\$2,238,994) for TDPL. The action is in the preliminary stage with exchange of documents in progress.
  - (iii) On 14 September 2009, Multimedia Devices Limited issued a writ of summons in the High Court of Hong Kong against TEL and TDPL in respect of returned goods in the amount of US\$1,167,598 (approximately HK\$9,046,556) for TEL and US\$213,147 (approximately HK\$1,651,461) for TDPL. TEL and TDPL are currently preparing the defense.
  
- (g) **TEL and Tonic Trading Development Limited (“TTDL”)**

On 14 August 2009, J.C. Electronics Co. Limited issued a writ of summons in the High Court of Hong Kong against two indirect wholly-owned subsidiaries of the Company, namely TEL and TTDL respectively, regarding goods sold and delivered in the amount of HK\$10,541,664 together and HK\$4,743,444 together with interest and costs respectively. Defense was filed and the actions are still in preliminary stage and so it is too early to evaluate the probable outcome.
  
- (h) **Tonic Trading Development Limited (“TTDL”)**
  - (i) On 20 November 2009, Max Components Limited issued a writ of summons in the District Court of Hong Kong against an indirect wholly-owned subsidiary of the Company, namely TTDL, in respect of goods sold and delivered in the amount of US\$56,346 (approximately HK\$436,571). TTDL is currently preparing the defense.
  - (ii) On 27 November 2009, Skytec (Hong Kong) Limited issued a writ of summons in the District Court of Hong Kong against TTDL in respect of goods sold and delivered in the amount of HK\$938,099 together with interests and costs. TTDL had filed the defense on 14 January 2010.
  - (iii) On 11 January 2010, Edal Electronics Company Limited issued a writ of summon in the District Court of Hong Kong against TTDL in respect of goods sold and delivered in the amount of HK\$442,926 together with interest and costs. TTDL has filed the defense on 22 March 2010.

(i) **Tonic Technology Limited (“TTL”)**

- (i) On 9 December 2009, Yan Hsin Da Electronics Limited issued a writ of summons in the District Court of Hong Kong against a direct wholly-owned subsidiary of the Company, namely TTL, in respect of goods sold and delivered in the amount of US\$31,396 (approximately HK\$243,316) together with interest and costs. TTL is currently preparing the defense.
- (ii) On 10 February 2010, D-Plus Limited filed the form of claim in the Small Claims Tribunal against TTL in respect of goods supplied in the amount of HK\$50,000 together with interest and costs. Order against TTL was obtained on 15 March 2010.

(j) **Dongguan Tonic Electronic Co., Ltd. (“Dongguan TEL”) and TEL Civil petitions**

On 20 October 2009, 深圳市晶峰科技開發有限公司 (Shenzhen Jingfeng Technology Development Co., Ltd.\*) lodged a civil petition with the Third People’s Court of Dongguan City, Guangdong Province against TEL and Dongguan TEL (matter number: (2009) 東三民四初字第621號) seeking a judgment on the outstanding sum of RMB1,571,852 together with interests thereon in respect of good supplied and cost of legal proceedings. Two buildings of Dongguan TEL in Dongguan have been sequestered.

(k) **Dongguan TEL**

*Judgments*

- (i) On 14 December 2009, the Third People’s Court of Dongguan City, Guangdong Province issued a judgment (document number: (2009) 東三法民二初字第2231號) ordering Dongguan TEL to repay 奇燁電子(東莞)有限公司 (Qiye Electronic (Dongguan) Company Limited\*) a sum of RMB455,165.88 together with interest thereon in relation to the outstanding payment for goods sold and delivered and the court fees of RMB4,078. Dongguan TEL has not settled the payment within the prescribed time period but the parties has entered into a mediation agreement on 1 June 2010 pursuant to which Dongguan TEL shall settle repay the sum of RMB455,165.88 together with interest of RMB36,322 and the legal cost of RMB4,078 to 奇燁電子(東莞)有限公司 (Qiye Electronic (Dongguan) Company Limited\*) by 31 August 2010.

- (ii) On 11 May 2010, the Third People's Court of Dongguan City, Guangdong Province issued a judgment (document number: (2009) 東三法民二初字第2733號) ordering Dongguan TEL to repay 東莞市國貿水電安裝工程有限公司 (Dongguan City Guomao Plumbing and Electrical Company Limited\*) a sum of RMB 9,800,000 together with the interest thereon and the legal cost of RMB46,860 within 15 days from the date of judgment. The payment has not been settled by Dongguan TEL within the prescribed time period. Dongguan TEL is in negotiations with 東莞市國貿水電安裝工程有限公司 (Dongguan City Guomao Plumbing and Electrical Company Limited\*) to postpone the making of payment.

*Civil petitions*

- (iii) On 24 November 2009, 倪列松 (Ni Lie Song\*) lodged a civil petition with the Third People's Court of Dongguan City, Guangdong Province against Dongguan TEL seeking a judgment on an outstanding sum of RMB588,475.82 together with interest thereon in relation to the goods supplied by 興業電子工具行 (Xing Ye Electronic Company Limited\*) to Dongguan TEL.
- (iv) On 8 December 2009, 高新錫業 (惠州) 有限公司 (Gaoxin Tin (Huizhou) Company Limited\*) lodged a civil petition with the Third People's Court of Dongguan City, Guangdong Province against Dongguan TEL seeking a judgment on an outstanding sum of RMB1,915,893 together with interest thereon in relation to the goods supplied.

*Civil mediation agreements*

- (v) On 10 December 2009, through the mediation of the Third People's Court of Dongguan City, Guangdong Province, 東莞市添寶電子有限公司 (Dongguan City Tianbao Electronic Company Limited\*) and Dongguan TEL reached a civil mediation agreement (document number: (2009) 東三法民二初字第2714號) pursuant to which an outstanding sum of RMB120,713 in relation to the goods sold and delivered shall be settled by Dongguan TEL in six monthly installments commencing on 20 January 2010 with the last installment and costs of hearing to be made on or before 20 June 2010. The payment has not been settled by Dongguan TEL within the prescribed time period. Dongguan TEL is in negotiations with 東莞市添寶電子有限公司 (Dongguan City Tianbao Electronic Company Limited\*) to postpone the making of payment.

- (vi) On 11 March 2010, through the mediation of the Third People's Court of Dongguan City, Guangdong Province, 上海全毅快遞有限公司東莞分公司 (Shanghai Quanyi Courier Services Company Limited\*, Dongguan Branch) and Dongguan TEL reached a civil mediation agreement (document number: (2010) 東三法民二初字第78號) pursuant to which Dongguan TEL shall repay the outstanding courier fees of RMB11,971 and costs of hearing in the sum of RMB50 on or before 30 May 2010. The payment has not been settled by Dongguan TEL within the prescribed time period. Dongguan TEL is in negotiations with 上海全毅快遞有限公司東莞分公司 (Shanghai Quanyi Courier Services Company Limited\*, Dongguan Branch) to postpone the making of payment.
- (vii) On 11 March 2010, through the mediation of the Third People's Court of Dongguan City, Guangdong Province, 東莞市格菱電梯有限公司 (Dongguan City Ge Ling Dian Ti Company Limited\*) reached a civil mediation agreement with Dongguan TEL (document number: (2010) 東三法民二初字第221號) pursuant to which Dongguan TEL shall repay the outstanding lift maintenance fees in the sum of RMB68,560 and costs of hearing in the sum of RMB757 on or before 30 June 2010. Dongguan TEL is in negotiations with 東莞市格菱電梯有限公司 (Dongguan City Ge Ling Dian Ti Company Limited\*) to postpone the making of payment.
- (viii) On 16 March 2010, through the mediation of the Third People's Court of Dongguan City, Guangdong Province, 東莞市日盛印刷有限公司 (Dongguan City Risheng Printing Company Limited\*) and Dongguan TEL reached a civil mediation agreement (document number: (2010) 東三法民二初字第506號) pursuant to which Dongguan TEL shall repay the outstanding sum of RMB165,131.53 in relation to the goods supplied and costs of hearing in the sum of RMB3,147 on or before 30 June 2010. Dongguan TEL is in negotiations with 東莞市日盛印刷有限公司 (Dongguan City Risheng Printing Company Limited\*) to postpone the making of payment.
- (ix) On 16 April 2010, through the mediation of the Third People's Court of Dongguan City, Guangdong Province, 任肖娥 (Ren Xiao E\*) and Dongguan TEL reached a civil mediation agreement (document number: (2010) 東三法民二初字第505號) pursuant to which Dongguan TEL shall repay the outstanding sum of RMB234,049.55 in relation to the goods supplied and costs of hearing in the sum of RMB4,161 on or before 30 June 2010. Dongguan TEL is in negotiations with 任肖娥 (Ren Xiao E\*) to postpone the making of payment.

(l) TEL and 東莞塘廈鎮石潭布東輝電子廠 (Dongguan Tangxia Town Shitanpu Donghui Electronics Factory\*)

On 31 December 2009, 東莞暉龍包裝材料有限公司 (Dongguan Huilong Packaging Company Limited\*) lodged a civil petition with the Third People's Court of Dongguan City, Guangdong Province against TEL and 東莞塘廈鎮石潭布東輝電子廠 (Dongguan Tangxia Town Shitanpu Donghui Electronic Factory\*) seeking a judgment on an outstanding sum of RMB16,228.13 together with interest of RMB1,125 thereon in relation to the good supplied.

(m) Tonic Technology (Shenzhen) Ltd. (東力科技 (深圳) 有限公司) and Dongguan Xin Lian Digital Technology Co., Ltd. (東莞鑫聯數碼科技有限公司)  
*Civil Petitions*

(i) On 9 January 2010, 上海韻生機電有限公司 (Shanghai Xie Sheng Mechanics Co., Ltd\*) lodged a civil petition with the People's Court of Futian District, Shenzhen City, Guangdong Province against Tonic Technology (Shenzhen) Ltd. and Dongguan Xin Lian Digital Technology Co., Ltd. seeking a judgment on an outstanding sum of RMB264,740 together with interest from October 2009 up to the date of repayment in relation to electronic goods supplied. So far as was known to the Directors or chief executive of the Company, legal proceedings have commenced and are ongoing but no judgment has been passed by the court.

(ii) On 11 January 2010, 東莞永安科技有限公司 (Dongguan Yongan Technology Co. Ltd.\*) lodged a civil petition with the People's Court of Futian District, Shenzhen City, Guangdong Province against Tonic Technology (Shenzhen) Ltd. and Dongguan Xin Lian Digital Technology Co., Ltd. seeking a judgment on an outstanding sum of RMB315,100 together with interest thereon in relation to the goods supplied. So far as was known to the Directors or chief executive of the Company, legal proceedings have commenced and are ongoing but no judgment has been passed by the court.

(iii) On 5 February 2010, 梅州聯科電路有限公司 (Meizhou Lianke Circuit Co., Ltd.\*) lodged a civil petition with the People's Court of Futian District, Shenzhen City, Guangdong Province against Tonic Technology (Shenzhen) Ltd. and Dongguan Xin Lian Digital Technology Co., Ltd. seeking a judgment on an outstanding sum of RMB139,000.96 together with interest of RMB6,150.8 thereon in relation to the goods supplied. Proceedings commenced on 1 July 2010 but judgment is yet to be made by the court.

- (iv) On 25 February 2010, 廣州市東力電池實業有限公司 (Guangzhou Eastpower Battery Ind. Co., Ltd.\*) lodged a civil petition with the Third People's Court of Dongguan City, Guangdong Province against Tonic Technology (Shenzhen) Ltd. and Dongguan Xin Lian Digital Technology Co., Ltd. seeking a judgment on an outstanding sum of RMB159,283.60 together with interest of RMB5,110.75 thereon as at 28 February 2010 in relation to the goods supplied. Proceedings commenced on 7 July 2010 but judgment is yet to be made by the court.
- (v) On 10 November 2010, 東莞暉龍包裝材料有限公司 (Dongguan Huilong Packaging Company Limited\*) and 曜龍有限公司 filed a writ of summons with the First People's Court of Dongguan City against 東莞石排鑫聯電子廠 and Tonic Technology (Shenzhen) Ltd. in relation to the conflicts of a sales and purchase contract (matter number: (2010) 東一法民四初字第213號). The hearing will be held on 13 December 2010. The legal proceedings have commenced and are ongoing but no judgment has been made by the court.
- (n) **Tonic Technology (Shenzhen) Ltd. (東力科技 (深圳) 有限公司)**  
*Judgments*
- (i) On 22 December 2009, the People's Court of Futian District, Shenzhen City, Guangdong Province issued a judgment (document number: (2009) 深福法民二初字第5151號) ordering Tonic Technology (Shenzhen) Ltd. to pay 深圳市怡亞通供應鏈股份有限公司 (Shenzhen Eternal Asia Supply Chain Management Ltd.\*) a composite fees of RMB114,190.69, a value added tax in the sum of RMB1,071,664.85, the overdue fine in respect of owing repayments under an import agency agreement and related documents entered in June to September of 2009 and court fees in the sum of RMB12,961.5 within 10 days from the date of judgment. The matter was appealed by Tonic Technology (Shenzhen) Ltd and the Intermediate People's Court of Guangdong Province dismissed the appeal on 4 January 2010. The payment has not been settled by Tonic Technology (Shenzhen) Ltd. within the prescribed time period. Tonic Technology (Shenzhen) Ltd. is in negotiations with 深圳市怡亞通供應鏈股份有限公司 (Shenzhen Eternal Asia Supply Chain Management Ltd.\*) to reach a mediation agreement.

- (ii) On 27 January 2010, the People's Court of Futian District, Shenzhen City, Guangdong Province issued a judgment (document number: (2009) 深福法民二初字第5186號) ordering Tonic Technology (Shenzhen) Ltd. to pay 東莞德鎂精密機電產品有限公司(Dongguan Demei Electromechanical Products Co. Ltd.\*) a sum of RMB2,758,230.75 together with interest thereon in relation to the goods delivered within 10 days from the date of judgment. The payment has not been settled by Tonic Technology (Shenzhen) Ltd. within the prescribed time period. Tonic Technology (Shenzhen) Ltd. is in negotiations with 東莞德鎂精密機電產品有限公司 (Dongguan Demei Electromechanical Products Co. Ltd.\*) to reach a mediation agreement.
- (iii) On 15 April 2010, the People's Court of Futian District, Shenzhen City, Guangdong Province issued a judgment (document number: (2010) 深福法民二初字第813號) ordering Tonic Technology (Shenzhen) Limited to repay 深圳市瑞摩特科技發展有限公司 (Shenzhen Remote Tech-Developing Co., Ltd.\*) a sum of RMB1,217,865.50 in relation to the goods supplied and the court fees in the sum of RMB15,761 within 10 days from the date of judgment. The payment has not been settled by Tonic Technology (Shenzhen) Ltd. within the prescribed time period. Tonic Technology (Shenzhen) Ltd. is in negotiations with 深圳市瑞摩特科技發展有限公司 (Shenzhen Remote Tech-Developing Co., Ltd.\*) to reach a mediation agreement.
- (iv) On 15 April 2010, the People's Court of Futian District, Shenzhen City, Guangdong Province issued a judgment (document number: (2010) 深福法民二初字第5126號) ordering Tonic Technology (Shenzhen) Limited to pay 上海慧梓電子有限公司 (Shanghai Huizi Electronics Co. Ltd.\*) a sum of RMB326,060.95 in relation to the amounts due and unpaid on goods supplied, together with interest thereon and the court fees in the sum of RMB8,565 within 10 days from the date of judgment. The payment has not been settled by Tonic Technology (Shenzhen) Ltd. within the prescribed time period. Tonic Technology (Shenzhen) Ltd. is in negotiations with 上海慧梓電子有限公司 (Shanghai Huizi Electronics Co. Ltd.\*) to reach a mediation agreement.

- (v) On 19 April 2010, the People's Court of Futian District, Shenzhen City, Guangdong Province issued a judgment (document number: (2010) 深福法民二初字第1239號) ordering Tonic Technology (Shenzhen) Limited to repay 無錫威達電子科技有限公司 (Wuxi Weida Electronics Technology Co. Ltd.\*) a sum of RMB662,815.80 together with interest and legal cost of RMB 10,428 in relation to the goods supplied within 10 days from the date of judgment. The payment was not yet settled by Tonic Technology (Shenzhen) Ltd. within the prescribed time period. Tonic Technology (Shenzhen) Ltd. is in negotiations with 無錫威達電子科技有限公司 (Wuxi Weida Electronics Technology Co. Ltd.\*) to reach a mediation agreement.
- (vi) On 26 April 2010, the People's Court of Futian, Shenzhen City, Guangdong Province issued a judgment (document number: (2010) 深福法民二初字第1645號) dismissing a claim brought by 深圳市文盛包裝製品有限公司 (Wen Cheng Packaging Products Co., Ltd.\*) against Tonic Electronics (Shenzhen) Limited due to the plaintiff's failure to attend the court hearing.
- (vii) On 1 May 2010, the People's Court of Futian District, Shenzhen City, Guangdong Province issued a judgment (document number: (2010) 深福法民二初字第1029號) ordering Tonic Technology (Shenzhen) Limited to repay 深圳市航盛電路科技股份有限公司 (Shenzhen Hang Cheng Electric Circuit Technology Co., Limited\*) a sum of RMB2,235,231.75 in relation to the goods supplied within 10 days from the date of judgment. The payment has not been settled by Tonic Technology (Shenzhen) Ltd. within the prescribed time period. Tonic Technology (Shenzhen) Ltd. is in negotiations with 深圳市航盛電路科技股份有限公司 (Shenzhen Hang Cheng Electric Circuit Technology Co., Limited\*) to reach a mediation agreement.
- (viii) On 27 August 2010, the People's Court of Futian District, Shenzhen City, Guangdong Province issued a judgment (document number: (2010) 深福法民二初字第2838號) ordering Tonic Technology (Shenzhen) Limited to repay 上海格鉅科貿有限公司 a sum of RMB98,022 and legal cost of RMB 9,191 in relation to the goods supplied within 10 days from the date of judgment. The payment was not yet settled by Tonic Technology (Shenzhen) Ltd. within the prescribed time period. Tonic Technology (Shenzhen) Ltd. is in negotiations with 上海格鉅科貿有限公司 to reach a mediation agreement.

*Civil petitions*

- (ix) On 22 February 2009, 上海華虹電子進出口有限公司 (Shanghai Hua Hong Electronic Import and Export Co., Ltd.\*) lodged a civil petition with the People's Court of Futian District, Shenzhen City, Guangdong Province against Tonic Technology (Shenzhen) Limited seeking a judgment on an outstanding sum of RMB312,303.60 together with interest thereon in the amount of RMB7,214.21 in relation to the goods supplied. Tonic Technology (Shenzhen) Ltd. is in negotiations with 上海華虹電子進出口有限公司 (Shanghai Hua Hong Electronic Import and Export Co., Ltd.\*) to reach a mediation agreement.
- (x) On 19 November 2009, 寧波神博電子有限公司 (Ningbo Sunbo Electronics Co. Ltd.\*) lodged a civil petition with the People's Court of Futian District, Shenzhen City, Guangdong Province against Tonic Technology (Shenzhen) Ltd. seeking a judgment on an outstanding sum of RMB871,299.90 together with a penalty of RMB5,000 for breach of contract in relation to the goods supplied. Tonic Technology (Shenzhen) Ltd. is in negotiations with 寧波神博電子有限公司 (Ningbo Sunbo Electronics Co. Ltd.\*) to reach a mediation agreement.
- (xi) On 20 November 2009, 上海日滔集成有限公司 (Shanghai Ritao Jicheng Co. Ltd.\*) lodged a civil petition with the People's Court of Futian District, Shenzhen City, Guangdong Province against Tonic Technology (Shenzhen) Ltd. seeking a judgment on an outstanding sum of RMB570,650 together with interest thereon in relation to the goods supplied. Tonic Technology (Shenzhen) Ltd. is in negotiations with 上海日滔集成有限公司 (Shanghai Ritao Jicheng Co. Ltd.\*) to reach a mediation agreement.
- (xii) On 2 December 2009, 慈溪市海燕塑料製品有限公司 (Cixi Haiyan Plastic Products Co., Ltd.\*) lodged a civil petition with the People's Court of Futian District, Shenzhen City, Guangdong Province against Tonic Technology (Shenzhen) Limited seeking a judgment on an outstanding sum of RMB571,727.90 in relation to the goods supplied. The case was filed on 1 March 2010 in the People's Court of Futian District, Guangdong Province and a public notice (document number: (2010) 深福法民二初字 932號) has been issued by the court stating that the petition is deemed to be served within 60 days from the date of the public notice. Tonic Technology (Shenzhen) Ltd. is in negotiations with 慈溪市海燕塑料製品有限公司 (Cixi Haiyan Plastic Products Co., Ltd.\*) to reach a mediation agreement.

- (xiii) On 3 December 2009, 深圳市威爾達電子有限公司 (Shenzhen City Wei Er Da Electronics Co., Ltd.\*) lodged a civil petition with the People's Court of Futian District, Shenzhen City, Guangdong Province against Tonic Technology (Shenzhen) Ltd. and Dongguan Xin Lian Digital Technology Co., Ltd. seeking a judgment on an outstanding sum of RMB89,480 together with all penalty payments relating to the breach of an agreement in connection with the supply of electronic goods. Tonic Technology (Shenzhen) Ltd. is in negotiations with 深圳市威爾達電子有限公司 (Shenzhen City Wei Er Da Electronics Co., Ltd.\*) to reach a mediation agreement.
- (xiv) On 22 December 2009, 上海虹日國際電子有限公司 (Shanghai Jiangri International Electronics Co. Ltd.\*) lodged a civil petition with the People's Court of Futian District, Shenzhen City, Guangdong Province against Tonic Technology (Shenzhen) Ltd. seeking a judgment on an outstanding sum of RMB332,578.31 together with interest thereon in relation to the goods supplied and the legal cost. Tonic Technology (Shenzhen) Ltd. is in negotiations with 上海虹日國際電子有限公司 (Shanghai Jiangri International Electronics Co. Ltd.\*) to reach a mediation agreement.
- (xv) On 25 December 2009, 深圳得潤精密零組件有限公司 (Shenzhen Deyuan Parts Co. Ltd.\*) lodged a civil petition with the People's Court of Futian District, Shenzhen City, Guangdong Province against Tonic Technology (Shenzhen) Ltd. seeking a judgment on an outstanding sum of RMB759,218.25 in relation to the goods supplied. Tonic Technology (Shenzhen) Ltd. is in negotiations with 深圳得潤精密零組件有限公司 (Shenzhen Deyuan Parts Co. Ltd.\*) to reach a mediation agreement.
- (xvi) On 25 December 2009, 深圳市長先科技實業有限公司 (Shenzhen City Changxian Technology Enterprise Co. Ltd.\*) lodged a petition with the People's Court of Futian District, Shenzhen City, Guangdong Province against Tonic Technology (Shenzhen) Ltd. seeking a judgment on an outstanding sum of RMB57,000 together with interest thereon in relation to the chemical products supplied and the legal cost. Tonic Technology (Shenzhen) Ltd. is in negotiations with 深圳市長先科技實業有限公司 (Shenzhen City Changxian Technology Enterprise Co. Ltd.\*) to reach a mediation agreement.

- (xvii) On 26 December 2009, 深圳市可得工貿有限公司 (Shenzhen Kede Industrial Trading Co., Ltd.\*) lodged a civil petition with the People's Court of Futian District, Shenzhen City, Guangdong Province against Tonic Technology (Shenzhen) Limited seeking a judgment on an outstanding sum of RMB920,090.20 together with interest thereon in relation to the goods supplied and the legal cost. Tonic Technology (Shenzhen) Ltd. is in negotiations with 深圳市可得工貿有限公司 (Shenzhen Kede Industrial Trading Co., Ltd.\*) to reach a mediation agreement.
- (xviii) On 30 December 2009, 深圳市文盛包裝製品有限公司 (Shenzhen Wensheng Packaging Co. Ltd.\*) lodged a civil petition with the People's Court of Futian District against Tonic Technology (Shenzhen) Ltd. seeking a judgment on an outstanding sum of RMB1,143,725.33 together with interest thereon in relation to the goods supplied. Tonic Technology (Shenzhen) Ltd. is in negotiations with 深圳市文盛包裝製品有限公司 (Shenzhen Wensheng Packaging Co. Ltd.\*) to reach a mediation agreement.
- (xix) On 30 December 2009, 東莞市高特電子有限公司 (Dongguan City Gao Te Electronics Co. Ltd.\*) lodged a civil petition with the People's Court of Futian District, Shenzhen City, Guangdong Province against Tonic Technology (Shenzhen) Ltd. seeking a judgment on an outstanding sum of RMB280,131.7 together with interest thereon in relation to the electronic products supplied and the legal cost. Tonic Technology (Shenzhen) Ltd. is in negotiations with 東莞市高特電子有限公司 (Dongguan City Gao Te Electronics Co. Ltd.\*) to reach a mediation agreement.
- (xx) On 15 January 2010, 上海巨德電子技術有限公司 (Shanghai Jude Electronic Technology Co. Ltd.\*) lodged a civil petition with the People's Court of Futian District, Shenzhen City, Guangdong Province against Tonic Technology (Shenzhen) Ltd. seeking judgment on an outstanding sum of RMB2,051,872.55 together with interest thereon in relation to the electronic products supplied and the legal cost. Tonic Technology (Shenzhen) Ltd. is in negotiations with 上海巨德電子技術有限公司 (Shanghai Jude Electronic Technology Co. Ltd.\*) to reach a mediation agreement.

- (xxi) On 15 January 2010, 上海聖瑞電器有限公司 (Shanghai Shengrui Electrical Appliances Co., Ltd.\*) lodged a civil petition with the People's Court of People's Court of Futian District, Shenzhen City, Guangdong Province against Tonic Technology (Shenzhen) Limited seeking a judgment on an outstanding sum of RMB502,785.70 together with interest thereon accruing from 31 December 2009 in relation to the electronic goods supplied and the legal cost. Tonic Technology (Shenzhen) Ltd. is in negotiations with 上海聖瑞電器有限公司 (Shanghai Shengrui Electrical Appliances Co., Ltd.\*) to reach a mediation agreement.
- (xxii) On 27 January 2010, 浙江中溫電子有限公司 (Zhejiang Zhongwen Electronics Co., Ltd.\*) lodged a civil petition to the People's Court of Futian, Shenzhen, Guangdong Province against Tonic Technology (Shenzhen) Limited seeking a judgment for an outstanding sum of RMB697,466 in relation to the goods supplied. Tonic Technology (Shenzhen) Ltd. is in negotiations with 浙江中溫電子有限公司 (Zhejiang Zhongwen Electronics Co., Ltd.\*) to reach a mediation agreement.
- (o) **Dongguan Xin Lian Digital Technology Co., Ltd. (東莞鑫聯數碼科技有限公司)**
- (i) On 14 May 2010, 高新錫業(惠州)有限公司 (Gaoxin Tin (Huizhou) Company Limited\*) and Dongguan Xin Lian Digital Technology Co., Ltd. reached a civil mediation agreement (document number: (2010) 東一法民二初字第153號) pursuant to which Dongguan Xin Lian Digital Technology Co., Ltd. shall repay a sum of RMB400,000, inclusive of the legal cost of RMB3,804, to 高新錫業(惠州)有限公司 (Gaoxin Tin (Huizhou) Company Limited) and court fees in sum of RMB5,900 to the court. On the other hand, 高新錫業(惠州)有限公司 (Gaoxin Tin (Huizhou) Company Limited\*) shall refund a sum of RMB29,334 to Dongguan Xin Lian Digital Technology Co., Ltd.
- (ii) On 16 September 2010, 揚州市賽格電纜電纜廠 issued a notice of hearing by the First People's Court of Dongguan City against Dongguan Xin Lian Digital Technology Co., Ltd. in relation to the conflicts of a sales and purchase contract (document number: (2010) 東一法民二初字第4920號) to seek for a judgment. Dongguan Xin Lian Digital Technology Co., Ltd. is in negotiations with 揚州市賽格電纜電纜廠 to reach a mediation agreement.

- (iii) On 1 November 2010, 南京圣旻科技網絡工程有限公司 issued a notice of hearing by the First People's Court of Dongguan City against Dongguan Xin Lian Digital Technology Co., Ltd. in relation to the conflicts of a sales and purchase contract (document number: (2010) 東—法民二初字第4917號). Dongguan Xin Lian Digital Technology Co., Ltd. is in negotiations with 南京圣旻科技網絡工程有限公司 to reach a mediation agreement.

\* *The English name is for identification purpose only*

## 15. Events after reporting period

Subsequent to the end of the reporting period, there are certain progress on the Group's Restructuring Proposal, and the details of which are further described in the announcements of the Company dated 5 October 2010, 12 October 2010, 28 October 2010, 17 November 2010 and 22 November 2010.

## 16. Lease commitments

At the end of the reporting period, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	At 30 September 2010 Unaudited HK\$'000	At 31 March 2010 Audited HK\$'000
– within one year	384	–
– in the second to fifth year inclusive	160	–
	<b>544</b>	<b>–</b>

## 17. Comparative figures

Due to the adoption of a revised HKFRS during the current period, the presentation of certain items, balances and the related explanatory notes to the Interim Financial Statements have been revised to comply with the new requirements. Accordingly, certain comparative figures have been re-presented to conform with the current period's presentation.

## INTERIM DIVIDEND

The Board has resolved not to declare any interim dividend in respect of the Period (2009: Nil).

## MANAGEMENT DISCUSSION AND ANALYSIS

### Group Results

The Group recorded a turnover of HK\$18 million, EBITDA of HK\$153 million and profit attributable to shareholders of HK\$130 million for the six-month ended 30 September 2010, compared to HK\$437 million, LBITDA of HK\$236 million and loss of HK\$263 million respectively for the corresponding period.

### Business Review and Prospects

With the introduction of the Investor and the successful completion of the Restructuring, the Board believe that the Group would be restored to a healthy financial position and is expected to restart new business initiatives and pursue new business development opportunities.

The Board shall continue to work with the Investor in managing the operations of the Group and every effort shall be put to continue to control costs, develop new opportunities and restructure non-core assets of the Group with a view to improve returns to shareholders.

### Business Development

The Group will focus on the domestic market and continue to develop high-end set top boxes. It will also develop own brand electrical products and sell them to rural households.

### Liquidity and Financial Resources

As at 30 September 2010, the net liability value of the Group attributable to equity holders amounted to approximately HK\$294 million (31 March 2010: approximately HK\$423 million), including cash and bank balances of approximately HK\$7 million (31 March 2010: approximately HK\$30 million) which were denominated mainly in Hong Kong dollars.

The trade receivable balance as at 30 September 2010 was approximately HK\$6 million (31 March 2010: approximately HK\$1 million).

As at 30 September 2010, the Group's aggregate borrowings was approximately HK\$326 million (31 March 2010: approximately HK\$412 million). The borrowings were denominated in Hong Kong dollars and Renminbi which bear interest mainly on market interest rate basis. The Group has net deficiency in capital at 30 September 2010 and 31 March 2010, gearing ratio is not applicable as at the that date.

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 factories in the PRC.

### Pledge of Assets

As at 30 September 2010, certain of the Group's property, plant and equipment with a net carrying amount of approximately HK\$260 million (31 March 2010: approximately HK\$281 million) were pledged to secure for bank and other borrowings of the Group.

### Employee relations

As at 30 September 2010, the Group had approximately 180 employees in Hong Kong and the PRC (as at 31 March 2010: 195). Salaries and wages for the period ended 30 September 2009 totalled approximately HK\$50.2 million (year ended 31 March 2010: approximately HK\$80.6 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 2010, 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:

### (a) 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
Ling Siu Man, Simon	Corporate <i>(note)</i>	618,492,476	58.46
Li Fung Ching, Catherine	Personal	2,142,000	0.20
Wong Ki Cheung	Personal	1,749,000	0.17
Cheng Tsang Wai	Personal	1,626,000	0.15
		<hr/>	
		624,009,476	<hr/> 58.98

*Note:* These shares were held by Success Forever Limited, a company incorporated in the British Virgin Islands, the entire issued share capital of which is beneficially owned by Mr. Ling Siu Man, Simon.

### (b) Associated corporation

As at 30 September 2010, Mr. Ling personally held 3,000 non-voting deferred shares of HK\$100 each of Tonic Electronics Limited, a subsidiary of the Company.

Save as disclosed above, as at 30 September 2010, 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.

## DIRECTORS' 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

Under a share option scheme adopted by the Company on 18 September 1997 (the "Scheme"), no option was granted or exercised during the Period. All outstanding options under the Scheme were expired on 9 April 2010.

## SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at 30 September 2010, 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		Percentage of the Company's issued share capital
		Long position	Short position	
Success Forever Limited (Note 1)	Directly beneficially owned	618,492,476 Existing Shares	–	58.46%
Skill China Limited (Note 2)	Beneficially interest	909,785,366 New Shares	–	85.99%

Notes:

- The entire issued share capital of Success Forever Limited is beneficially owned by Mr. Ling Siu Man, Simon, as disclosed in the section "Disclosure of interests" in this Appendix.
- The interest represents 909,785,366 New Shares to be subscribed by the Subscriber under the Subscription Agreement. The Subscriber is wholly-owned by Sinogrand Group Limited which in turn is owned (i) as to 59.5% by Joint profit Limited, a company wholly-owned by Dr. So; (ii) as to 39.5% by Greatkind Limited, a company wholly-owned by Mr. Ge Zhang; and (iii) as to 1% by Cheergreat Limited, a Company wholly-owned by the family trust of Mr. Chan Wai Dune, of which Mr. Chan Wai Dune is one of the beneficiaries.

Save as disclosed above, as at 30 September 2010, 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 the Interim Financial Statements 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 2010, 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 stability 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 2010 Annual Report issued on 27 July 2010.

## 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 as then in force, and 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, throughout the accounting 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 Company confirms that all Relevant Employees have complied with the written guidelines regarding securities transactions for the Period.

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

Hong Kong, 30 November 2010