THIS COMPOSITE DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of the Offer or this Composite Document and/or the Form of Acceptance or as to the action to be taken, you should consult a licensed securities dealer or registered institution in securities, a bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your Shares, you should at once hand this Composite Document and the accompanying Form of Acceptance to the purchaser(s) or the transferee(s) or to the bank, licensed securities dealer, registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or transferee(s). This Composite Document should be read in conjunction with the accompanying Form of Acceptance, the contents of which form part of the terms of the Offer contained therein.

TONIC INDUSTRIES HOLDINGS LIMITED
東力實業控股有限公司*
(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 978)

SKILL CHINA LIMITED
華能有限公司
(Incorporated in the BVI with limited liability)

COMPOSITE DOCUMENT RELATING TO MANDATORY UNCONDITIONAL CASH OFFER BY

Quam Securities & Futures 華富嘉洛證券期貨

FOR AND ON BEHALF OF SKILL CHINA LIMITED FOR ALL THE ISSUED SHARES OF HK$0.01 EACH IN TONIC INDUSTRIES HOLDINGS LIMITED (OTHER THAN THOSE SHARES ALREADY OWNED OR AGREED TO BE ACQUIRED BY SKILL CHINA LIMITED)

Financial adviser to Tonic Industries Holdings Limited

SOMERLEY LIMITED

Financial adviser to Skill China Limited

Quam Capital 華富嘉洛企業融資

Independent financial adviser to the Independent Board Committee

Access Capital

A letter from the Board is set out on pages 11 to 14 of this Composite Document.

A letter from Quam Capital is set out on pages 15 to 24 of this Composite Document.

A letter from the Independent Board Committee containing its recommendation in respect of the Offer to the Independent Shareholders is set out on pages 25 to 26 of this Composite Document.

A letter from the independent financial adviser, Access Capital, containing its advice to the Independent Board Committee is set out on pages 27 to 38 of this Composite Document.

The procedures for acceptance of the Offer and other related information are set out on pages I-1 to I-7 in Appendix I to this Composite Document and in the accompanying Form of Acceptance. Acceptances of the Offer should be received by the Registrar by no later than 4:00 p.m. on Friday, 31 December 2010 or such later time and/or date as the Offeror may decide and announce in accordance with the Takeovers Code.

* *For identification purposes only*

10 December 2010

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The expected timetable set out below is indicative only and may be subject to change. Further announcement(s) will be made as and when appropriate.

	2010
Offer opens for acceptance	Friday, 10 December
Latest time and date for acceptance of the Offer *(Notes 1 and 3)*	4:00 p.m. on Friday, 31 December
Closing Date *(Note 1)*	Friday, 31 December
Announcement of the results of the Offer or as to whether the offer has been revised or extended, on the website of the Stock Exchange *(Note 1)*	by 7:00 p.m. on Friday, 31 December
Latest date of posting of remittance in respect of valid acceptances received on or before the latest time for acceptance of the Offer *(Note 2)*	Monday, 10 January 2011

Notes:

1. The latest time for acceptance of the Offer is 4:00 p.m. on Friday, 31 December 2010. The Offer, which is unconditional, will be closed on Friday, 31 December 2010 unless the Offeror revises or extends the Offer in accordance with the Takeovers Code. The Offeror reserves the right to extend the Offer until such date it may determines pursuant to the Takeovers Code. The Offeror will issue an announcement on Friday, 31 December 2010 as to whether the Offer has been revised, extended or expired and, in relation to any extension of the Offer, to state either the next closing date or that the Offer will remain open until further notice.

2. Payment will be made as soon as possible, but in any event within 10 days of the date of receipt by the Registrar, from the Shareholders accepting the Offer, of the valid requisite documents. Please refer to the paragraph headed "Settlement" in Appendix I to this Composite Document.

3. Acceptances of the Offer shall be irrevocable and not capable of being withdrawn, except in the circumstances as set out in paragraph 4 headed "Right of withdrawal" in Appendix I to this Composite Document.

All time and date references contained in this Composite Document refer to Hong Kong time and dates.

In this Composite Document, unless the context otherwise requires, the following expressions have the following meanings:

"Access Capital"	a corporation licensed under the SFO to carry out Type 1 (dealing in securities), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under the SFO
"acting in concert"	the same meaning ascribed to it under the Takeovers Code
"Administrators"	the administrators appointed pursuant to the Creditor Scheme
"associate"	the same meaning ascribed to it under the Takeovers Code
"Board"	the board of Directors
"BVI"	the British Virgin Islands
"Capital Reduction"	the reduction of the par value of each issued Old Share from HK$0.10 to HK$0.001 by the cancellation of HK$0.099 of the paid-up capital on each Old Share pursuant to the Capital Reorganisation
"Capital Reorganisation"	the restructuring of the share capital of the Company which became effective on 3 December 2010 and comprised the Capital Reduction, the Share Sub-division and the Share Consolidation
"Cayman Companies Law"	the Companies Law (2009 Revision) of the Cayman Islands (as amended)
"CCASS"	the Central Clearing and Settlement System established and operated by Hong Kong Securities Clearing Company Limited
"Circular"	the circular of the Company dated 28 June 2010 in respect of, among other things, the Capital Reorganisation, the Group Reorganisation and Creditor Scheme, the Subscription of New Shares and the issue of Remuneration Shares

"Claim"	any debt, liability, or obligation of the Company which arose on or before the Effective Date (whether known or unknown, whether present or future, whether actual or contingent, whether liquidated or unliquidated, ascertained or sounding only in damages) irrespective of whether the debt or claim arose by virtue of contract, at law, in equity or otherwise, which would be admissible to proof in a compulsory winding up of the Company under either the Companies Ordinance or the Cayman Companies Law and which includes, without limitation, a debt or liability to pay money or money's worth, any liability under any statute or enactment, any liability for breach of trust, any liability in contract (including any guarantee liability of the Company), tort or bailment and any liability arising out of an obligation to make restitution
"Closing Date"	Friday, 31 December 2010, the closing date of the Offer, which is 21 days after the date on which the Composite Document is posted, or if the Offer is extended, any subsequent closing date of the Offer as extended and announced by the Offeror in accordance with the Takeovers Code
"Companies Ordinance"	the Companies Ordinance (Cap 32) of the Laws of Hong Kong as amended from time to time
"Company"	Tonic Industries Holdings Limited (Stock Code: 978), an exempted company incorporated in the Cayman Islands with limited liability, the Shares of which are listed on the Main Board of the Stock Exchange
"Completion"	completion of the Subscription Agreement which took place on 3 December 2010
"Composite Document"	this composite offer and response document jointly issued by the Company and the Offeror, which sets out, among other things, details of the Offer
"Concert Group"	the Offeror and parties acting in concert with it
"Connected Person(s)"	the meaning ascribed to it under the Listing Rules
"Court"	the Grand Court of the Cayman Islands
"Courts"	collectively the Hong Kong Court and the Court

"Creditor Scheme"	the creditor scheme as set out in the scheme document issued by the Company to the Creditors dated 5 August 2010 (as amended by a supplemental scheme document dated 12 October 2010 issued by the Company to the Creditors)
"Creditors"	any person with a non-preferential Claim (and only to the extent of the non-preferential portion if the Claim consists of both preferential and non-preferential parts (whether asserted or not))
"Custodian"	Leader Up Holding Limited (威陞控股有限公司), a company incorporated in Hong Kong with limited liability and the custodian for the Custodian Shares
"Custodian Shares"	(a) 618,492,476 Old Shares Success Forever Limited is obligated to place with the Custodian in accordance with the terms of the Custody Agreement; and (b) all shares, rights or other interests in the Company issued by reference to the number of Custodian Shares held by the Custodian immediately prior to such issue arising as a result of a capitalisation of reserves or share premium, a consolidation or sub-division or reclassification of its shares or arising as a result of a merger or demerger
"Custody Agreement"	the custody agreement dated 15 January 2010 entered into among the Custodian, the Offeror and Success Forever Limited in relation to the custody of the Custodian Shares as amended, varied, supplemented from time to time
"Debenture"	a deed of debenture creating fixed and floating charges over the assets of GGP executed by GGP in favour of the Offeror on 15 January 2010
"Directors"	the directors of the Company
"Dr. So"	Dr. So Shu Fai, one of the ultimate beneficial owners of the Offeror
"DTCFL"	Deloitte & Touche Corporate Finance Limited, the financial advisers to the Company in relation to the Restructuring Proposal

"DTCFL's Remuneration Shares"	26,447,249 New Shares, representing approximately 2.48% of the issued share capital of the Company as enlarged by the issue of the Subscription Shares and the Remuneration Shares, issued to DTCFL as settlement of the professional fees charged by DTCFL
"Effective Date"	3 December 2010, being the date on which the Creditor Scheme becomes binding and effective
"Escrow Agent"	Rays Chan & Co., a certified public accountant practising in Hong Kong and the escrow agent pursuant to the Escrow Agreement
"Escrow Agreement"	the escrow agreement dated 15 January 2010 (as amended by the supplemental deed dated 26 February 2010) entered into among the Escrow Agent, the Company and the Offeror in relation to the escrow of the earnest money paid by the Offeror as amended, varied, supplemented from time to time
"Executive"	the Executive Director of the Corporate Finance Division of the SFC from time to time or any of its delegate
"Facility"	the loan facility in the principal amount of HK$40,000,000 made available to GGP under the Loan Agreement
"Form of Acceptance"	the accompanying form of acceptance and transfer of the Shares in respect of the Offer
"Former Group"	the Company and its subsidiaries prior to completion of the Group Reorganisation
"GGP"	Grand Golden Profit Limited (創金利有限公司), a company incorporated under the laws of Hong Kong with limited liability and one of the Retained Subsidiaries
"Group" or "Retained Group"	the Company and its subsidiaries after completion of the Group Reorganisation
"Group Reorganisation"	the group reorganisation of the Company which became effective on 3 December 2010, resulting in the existing Group comprising the Company and the Retained Subsidiaries (together with all intermediary holding companies)

"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	The Hong Kong Special Administrative Region of the PRC
"Hong Kong Court"	the High Court of Hong Kong
"Independent Board Committee"	the independent board committee of the Company comprising all the independent non-executive Directors, namely, Messrs. PANG Hon Chung, CHENG Tsang Wai and CHUNG Hing Wah, Paul, formed to give recommendations to the Independent Shareholders on the Offer
"Independent Shareholder(s)"	Shareholder(s), other than the Offeror
"Joint Announcement"	the announcement of the Company dated 5 October 2010 in respect of, among other things, the modifications to the Creditor Scheme, waiver of conditions precedent of the Subscription Agreement and the Offer
"Last Trading Day"	14 January 2010, being the last trading date prior to the signing of the Subscription Agreement
"Latest Practicable Date"	8 December 2010, being the latest practicable date prior to the date of this Composite Document for ascertaining certain information contained herein
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Loan"	the amount of loan under the Facility which is outstanding, owing and/or payable to the Offeror from time to time under the Loan Agreement
"Loan Agreement"	the loan agreement dated 15 January 2010 (as amended by the supplemental loan agreement dated 24 June 2010) entered into between GGP (as borrower) and the Offeror (as lender) in relation to the advance of the Loan, as amended, varied, supplemented from time to time

"Main Board"	the securities market operated by the Stock Exchange prior to the establishment of growth enterprise market ("GEM") (excluding the options market) which stock market continues to be operated by the Stock Exchange in parallel with GEM. For the avoidance of doubt, the Main Board excludes GEM
"Mr. Ling"	Mr. Ling Siu Man, Simon, the Director, the chairman of the Company and a shareholder of the Company
"New Shares"	ordinary shares of the Company with a par value of HK$0.01 in the share capital of the Company after the completion of the Capital Reorganisation and as at the Latest Practicable Date, and all other (if any) stock or shares from time to time and for the time being ranking pari passu therewith and all other (if any) stock or shares in the share capital of the Company resulting from any sub-division, consolidation or re-classification thereof
"Offer"	the unconditional mandatory cash offer for all the issued New Shares (other than those already owned or agreed to be acquired by the Offeror) being made by Quam Securities on behalf of the Offeror
"Offeror"	Skill China Limited, a company incorporated in the BVI with limited liability which is ultimately beneficially owned as to 90% by Dr. So, 5% by Mr. Ge Zhang and 5% by the family trust of Mr. Chan Wai Dune
"Offer Price"	HK$0.10635 per New Share payable in cash by the Offeror under the Offer
"Offer Shares"	all the issued New Share(s) other than those already owned or agreed to be acquired by the Offeror
"Old Shares"	ordinary shares of the Company with a par value of HK$0.10, and all other (if any) stock or shares from time to time and for the time being ranking pari passu therewith, before completion of the Capital Reorganisation
"Option Shares"	63,473,398 New Shares, representing approximately 5.94% of the enlarged share capital of the Company upon Completion transferred from the Offeror to Schemeco for the purposes of the Creditor Scheme

"Overseas Shareholder(s)"	Independent Shareholder(s) whose address(es) as shown on the register of members of the Company is (are) outside Hong Kong
"PRC"	the People's Republic of China
"Quam Capital"	Quam Capital Limited, a licensed corporation to carry out Type 6 (advising on corporate finance) regulated activity under the SFO and the financial adviser to the Offeror in respect of the Offer
"Quam Securities"	Quam Securities Company Limited, a licensed corporation to carry out Type 1 (dealing in securities), Type 2 (dealing in futures contracts), Type 4 (advising on securities) and Type 9 (asset management) regulated activities under the SFO
"Relevant Period"	the period beginning six months prior to 10 January 2010, (being the date of the Company's announcement in respect of, among other things, a possible change in control of the Company) and ended on the Latest Practicable Date
"Registrar"	Tricor Tengis Limited, the Company's branch share registrar in Hong Kong located at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong
"Remuneration Shares"	the Somerley's Remuneration Shares and the DTCFL's Remuneration Shares
"Restructuring Proposal"	the restructuring of the Company involving, among other things, the Capital Reorganisation, the Group Reorganisation, the Creditor Scheme and the Subscription
"Retained Subsidiaries"	the group of subsidiaries comprising Tonic Electronics (B.V.I.) Limited, Tonic Marketing Limited, 東莞鑫聯數碼科技有限公司 (Dongguan Xin Lian Digital Technology Co., Ltd.*), Grand Golden Profit Limited (創金利有限公司), 東莞悦金數碼科技有限公司 (Dongguan Yuejin Digital Technology Company Limited*), Tonic DVB Marketing Limited, 冠華港貿易（深圳）有限公司 (Guan Hua Gang Trading (Shenzhen) Co. Ltd.*) and Champion Apex Limited (華先有限公司)

"Scheme Subsidiaries"	the subsidiaries of the Former Group other than the Retained Group
"Schemeco"	a special purpose company incorporated under laws of Hong Kong by the Administrators for the purpose of the Creditor Scheme
"SFC"	the Securities and Futures Commission of Hong Kong
"SFO"	the Securities and Futures Ordinance (Cap 571) of the Laws of Hong Kong as amended from time to time
"Share Consolidation"	the consolidation of every 10 issued and unissued shares in the share capital of the Company after the Capital Reduction and Share Sub-division into one New Share pursuant to the Capital Reorganisation
"Share Sub-division"	the sub-division where each authorised but unissued Share of par value HK$0.10 each will be sub-divided into 100 Shares of par value HK$0.001 each
"Shareholders"	shareholders of the Company
"Shares"	the Old Shares, or the New Shares, and all other (if any) stock or shares from time to time and for the time being ranking pari passu therewith and all other (if any) stock or shares in the share capital of the Company resulting from any sub-division, consolidation or re-classification thereof, as the case may be
"Share Charge"	a share charge executed on 15 January 2010 by the Company as chargor in favour of the Offeror as chargee over 100% of the shareholdings in GGP
"Somerley"	Somerley Limited, the financial advisers to the Company
"Somerley's Remuneration Shares"	the Tranche 1 Remuneration Shares and the Tranche 2 Remuneration Shares
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Subscription"	the subscription of the Subscription Shares by the Offeror pursuant to the Subscription Agreement

"Subscription Agreement"	the subscription agreement dated 15 January 2010 (as amended by the supplemental subscription agreement dated 24 June 2010) entered into among the Company (as issuer), the Offeror (as subscriber) and Dr. So (as guarantor) in relation to the Subscription, as amended, varied, supplemented from time to time
"Subscription Price"	the sum of HK$80,000,000 (i.e. approximately HK$0.0879 per Subscription Share) paid by the Offeror pursuant to the Subscription Agreement
"Subscription Shares"	the 909,785,366 New Shares with a par value of HK$0.01 each subscribed for by the Offeror, representing approximately 85.15% of the issued share capital of the Company as enlarged by the allotment and issue of the Subscription Shares and the Remuneration Shares immediately upon Completion
"substantial Shareholder"	the same meaning ascribed to it under the Takeovers Code
"Takeovers Code"	the Hong Kong Code on Takeovers and Mergers
"Tranche 1 Remuneration Shares"	21,157,799 New Shares, representing approximately 1.98% of the issued share capital of the Company as enlarged by the issue of the Subscription Shares and the Remuneration Shares, issued to Somerley as settlement of part of professional fees charged by Somerley
"Tranche 2 Remuneration Shares"	5,289,450 New Shares, representing approximately 0.50% of the issued share capital of the Company as enlarged by the issue of the Subscription Shares and the Remuneration Shares, issued to Somerley as settlement of part of professional fees charged by Somerley
"%"	per cent

TONIC INDUSTRIES HOLDINGS LIMITED
東力實業控股有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 978)

Executive Directors:
LING Siu Man, Simon *(Chairman and Managing Director)*
WONG Ki Cheung
LI Fung Ching, Catherine

Independent Non-Executive Directors:
PANG Hon Chung
CHENG Tsang Wai
CHUNG Hing Wah, Paul

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

Principal place of business:
Flat K2, Block 2, 2/F
Kaiser Estate
51 Man Yue Street
Hung Hom
Kowloon
Hong Kong

10 December 2010

To the Shareholders

Dear Sir or Madam,

MANDATORY UNCONDITIONAL CASH OFFER BY QUAM SECURITIES COMPANY LIMITED FOR AND ON BEHALF OF SKILL CHINA LIMITED FOR ALL THE ISSUED SHARES OF HK$0.01 EACH IN TONIC INDUSTRIES HOLDINGS LIMITED (OTHER THAN THOSE SHARES ALREADY OWNED OR AGREED TO BE ACQUIRED BY SKILL CHINA LIMITED)

INTRODUCTION

Further to the Circular, the joint announcements made by the Company and the Offeror dated 26 July 2010 and 5 October 2010, and the announcements of the Company dated 2 August 2010, 11 August 2010, 27 August 2010, 30 August 2010, 28 September 2010,

* *For identification purposes only*

12 October 2010, 28 October 2010, 17 November 2010 and 29 November 2010, in respect of, among other things, the Capital Reorganisation, the Group Reorganisation and the Creditor Scheme, the Subscription and the issue of Remuneration Shares, it was announced on 3 December that Completion took place on 3 December 2010.

Immediately after Completion, the transfer of the Option Shares by the Offeror to Schemeco and the allotment and issue of the Remuneration Shares, and as at the Latest Practicable Date, the Offeror was interested in 846,311,968 New Shares, representing approximately 79.21% of the enlarged issued share capital of the Company. Accordingly, the Offeror is required to make an unconditional mandatory cash offer for all the issued New Shares other than those New Shares already owned or agreed to be acquired by the Offeror pursuant to Rule 26.1 of the Takeover Code.

The Independent Board Committee comprising all independent non-executive Directors (who have no direct or indirect interest in the Offer), namely, Messrs. PANG Hon Chung, CHENG Tsang Wai and CHUNG Hing Wah, Paul, has been formed to make recommendation in respect of the Offer to the Independent Shareholders. Access Capital has been appointed as the independent financial adviser to advise the Independent Board Committee on the Offer. The appointment of Access Capital has been approved by the Independent Board Committee.

The purpose of this Composite Document is to provide you with, among other things, information relating to the Group, the Offeror and the Offer as well as setting out the letter from the Independent Board Committee containing its recommendation to the Independent Shareholders in respect of the Offer and the letter from Access Capital containing its advice to the Independent Board Committee in respect of the Offer.

THE OFFER

Quam Securities is making, for and on behalf of the Offeror, the Offer to acquire all the issued New Shares other than those already owned by the Offeror on the following basis:

For each Offer Share . . . . HK$0.10635 in cash

The Offer is unconditional in all respects.

Pursuant to the Subscription Agreement, the Offeror subscribed for 909,785,366 Subscription Shares at the Subscription Price of HK$80,000,000, representing approximately HK$0.087933 per Subscription Share. In connection with the Subscription, the Offeror has agreed to pay the sum of HK$10,000,000 as earnest money to settle the professional fees incurred for the implementation of the Restructuring Proposal. Upon Completion and following the transfer of the Option Shares by the Offeror to Schemeco and the allotment and issue of the Remuneration Shares, the Offeror was interested in 846,311,968 New Shares (representing approximately 79.21% of the entire issued share capital of the Company) as at the Latest Practicable Date. On the basis of the above, the Offer is made on the basis of HK$0.10635 for each Offer Share in cash.

The Offer Price of HK$0.10635 per Offer Share is higher than the Subscription Price per Share under the Subscription Agreement and represents:

(a) a discount of approximately 92.1% to the theoretical closing price of HK$1.34 per Share based on the closing price of HK$0.134 per Old Share as quoted on the Stock Exchange on 28 December 2009, being the last trading day pending the issue of the announcement in accordance with Rule 3.7 of the Takeovers Code;

(b) a discount of approximately 93.7% to the theoretical closing price of HK$1.69 per Share based on the closing price of HK$0.169 per Old Share as quoted on the Stock Exchange on the Last Trading Day;

(c) a discount of approximately 93.3% to the average theoretical closing price of HK$1.59 per Share based on the average closing price of HK$0.159 per Old Share as quoted on the Stock Exchange for the last five consecutive trading days up to and including the Last Trading Day;

(d) a discount of approximately 92.5% to the average theoretical closing price of HK$1.419 per Share based on the average closing price of HK$0.1419 per Old Share as quoted on the Stock Exchange for the last ten consecutive trading days up to and including the Last Trading Day;

(e) a discount of approximately 89.8% to the theoretical closing price of HK$1.04 per Share based on the closing price of HK$0.104 per Old Share as quoted on the Stock Exchange on 4 October 2010, being the last trading day immediately preceding the date of the Joint Announcement;

(f) a discount of approximately 93.0% to the closing price of HK$1.51 per Share as quoted on the Stock Exchange on the Latest Practicable Date; and

(g) a premium to the theoretical audited consolidated net liabilities per Share of approximately HK$4.00 as at 31 March 2010 (based on the audited consolidated net liabilities of the Group as at 31 March 2010 of approximately HK$423,310,000 and the 1,057,889,962 Old Shares in issue as at 31 March 2010).

As at the Latest Practicable Date, there are a total of 1,068,468,860 New Shares in issue, and the Company does not have any outstanding warrants, options, derivatives or other securities carrying any conversion or subscription rights into Shares.

Further terms of the Offer are set out in Appendix I to this Composite Document and in the accompanying Form of Acceptance. If a Shareholder wishes to accept the Offer in respect of one or all of his/her Share(s), he/she should complete the accompanying Form of Acceptance in accordance with the instructions set out therein.

FURTHER INFORMATION OF THE OFFER

Please also refer to the letter from Quam Capital and Appendix I to this Composite Document for further information in relation to the Offer, the making of the Offer to the Shareholders residing in overseas countries, taxation, acceptance and settlement procedures of the Offer.

INFORMATION ON THE GROUP

The Company is a company incorporated in Cayman Islands with limited liability, the shares of which are listed on the Main Board. The Group is principally engaged in the manufacturing and trading of consumer electronic products.

INFORMATION ON THE OFFEROR

The Offeror is a company incorporated in the BVI with limited liability. Please refer to the letter from Quam Capital contained in this Composite Document for more information about it.

INTENTIONS OF THE OFFEROR REGARDING THE GROUP

Your attention is drawn to the letter from Quam Capital contained in this Composite Document which sets out the intentions of the Offeror regarding the business of the Group and the biographies of the proposed new Directors. The Board is of the view that the Offeror's plan in respect of the Group and its employees is in the best interest of the Company and the Shareholder as a whole.

RECOMMENDATION

Your attention is drawn to the letters from the Independent Board Committee and Access Capital, respectively, which set out their recommendations and opinions in relation to the Offer and the principal factors considered by them before arriving at their recommendations. You are also advised to read the remainder of this Composite Document and the Form of Acceptance in respect of the acceptance and settlement procedures of the Offer.

Yours faithfully,
By order of the Board
Tonic Industries Holdings Limited
LING Siu Man, Simon
Chairman & Managing Director

Quam CAPITAL 華富嘉洛企業融資

Quam Capital Limited

A Member of The Quam Group

10 December 2010

To the Independent Shareholders

Dear Sir or Madam,

**MANDATORY UNCONDITIONAL CASH OFFER
BY QUAM SECURITIES COMPANY LIMITED FOR AND
ON BEHALF OF SKILL CHINA LIMITED
FOR ALL THE ISSUED SHARES OF HK$0.01 EACH
IN TONIC INDUSTRIES HOLDINGS LIMITED
(OTHER THAN THOSE SHARES ALREADY OWNED OR AGREED TO
BE ACQUIRED BY SKILL CHINA LIMITED)**

INTRODUCTION

Reference is made to the Circular, the joint announcements made by the Company and the Offeror dated 26 July 2010 and 5 October 2010, and the announcements of the Company dated 2 August 2010, 11 August 2010, 27 August 2010, 30 August 2010, 28 September 2010, 12 October 2010, 28 October 2010, 17 November 2010 and 29 November 2010, in respect of, among other things, the Capital Reorganisation, the Group Reorganisation and the Creditor Scheme, the Subscription and the issue of Remuneration Shares.

The Completion took place on 3 December 2010. Immediately after Completion and the transfer of the Option Shares by the Offeror to Schemeco and the allotment and issue of the Remuneration Shares, and as at the Latest Practicable Date, the Offeror was interested in 846,311,968 Shares, representing approximately 79.21% of the enlarged issued share capital of the Company. Accordingly, the Offeror is required to make a mandatory unconditional cash offer to acquire all the issued New Shares other than those New Shares already owned by the Offeror pursuant to Rule 26.1 of the Takeovers Code.

This letter sets out, among other things, the details of the Offer, information on the Offeror and the intention of the Offeror regarding the Group. Further details of the terms of the Offer are set out in Appendix I to the Composite Document of which this letter forms part, and in the accompanying Form of Acceptance. Terms used in this letter shall have the same meaning as those defined in the Composite Document unless the context otherwise requires.

The Independent Shareholders are strongly advised to consider carefully the information contained in the letter from the Board, letter from the Independent Board Committee and letter from Access Capital as set out in the Composite Document.

THE OFFER

Principal terms of the Offer

Quam Securities is making, for and on behalf of the Offeror, the Offer to acquire all the issued Shares other than those already owned by the Offeror on the following basis:

The Offer

For each Offer Share . . . . .HK$0.10635 in cash

The Offer is unconditional in all respects.

Pursuant to the Subscription Agreement, the Offeror subscribed for 909,785,366 Subscription Shares at the Subscription Price of HK$80,000,000, representing approximately HK$0.087933 per Subscription Share. In connection with the Subscription, the Offeror has agreed to pay the sum of HK$10,000,000 as earnest money to settle the professional fees incurred for the implementation of the Restructuring Proposal. Upon Completion and following the transfer of the Option Shares by the Offeror to Schemeco and the allotment and issue of the Remuneration Shares, the Offeror was interested in 846,311,968 New Shares (representing approximately 79.21% of the entire issued share capital of the Company) as at the Latest Practicable Date. On the basis of the above, the Offer is made on the basis of HK$0.10635 for each Offer Share in cash.

As at the Latest Practicable Date, there are a total of 1,068,468,860 New Shares in issue, and the Company does not have any outstanding warrants, options, derivatives or other securities carrying any conversion or subscription rights into Shares.

Comparisons of value

The Offer Price of HK$0.10635 per Offer Share is higher than the Subscription Price per Share under the Subscription Agreement and represents:

(a) a discount of approximately 92.1% to the theoretical closing price of HK$1.34 per Share based on the closing price of HK$0.134 per Old Share as quoted on the Stock Exchange on 28 December 2009, being the last trading day pending the issue of the announcement in accordance with Rule 3.7 of the Takeovers Code;

(b) a discount of approximately 93.7% to the theoretical closing price of HK$1.69 per Share based on the closing price of HK$0.169 per Old Share as quoted on the Stock Exchange on the Last Trading Day;

(c) a discount of approximately 93.3% to the average theoretical closing price of HK$1.59 per Share based on the average closing price of HK$0.159 per Old Share as quoted on the Stock Exchange for the last five consecutive trading days up to and including the Last Trading Day;

(d) a discount of approximately 92.5% to the average theoretical closing price of HK$1.419 per Share based on the average closing price of HK$0.1419 per Old Share as quoted on the Stock Exchange for the last ten consecutive trading days up to and including the Last Trading Day;

(e) a discount of approximately 89.8% to the theoretical closing price of HK$1.04 per Share based on the closing price of HK$0.104 per Old Share as quoted on the Stock Exchange on 4 October 2010, being the last trading day immediately preceding the date of the Joint Announcement;

(f) a discount of approximately 93.0% to the closing price of HK$1.51 per Share as quoted on the Stock Exchange on the Latest Practicable Date; and

(g) a premium to the theoretical audited consolidated net liabilities per Share of approximately HK$4.00 as at 31 March 2010 (based on the audited consolidated net liabilities of the Group as at 31 March 2010 of approximately HK$423,310,000 and the 1,057,889,962 Old Shares in issue as at 31 March 2010).

Highest and lowest prices

The highest and lowest closing prices of the Shares as quoted on the Stock Exchange in the six-month period prior to 10 January 2010 (being the date of the Company's announcement in relation to, among other things, a possible change in control of the Company, issued pursuant to Rule 3.7 of the Takeovers Code), and up to the Latest Practicable Date was HK$0.219 per Old Share on 4 September 2009 (the theoretical closing price of HK$2.19 per New Share) and HK$0.092 per Old Share (the theoretical closing price of HK$0.92 per New Share) on 30 June and 2 July 2010, respectively.

Total consideration and financial resources

As at the Latest Practicable Date, the Company had a total of 1,068,468,860 New Shares in issue. Assuming that there is no change in the issued share capital of the Company prior to the close of the Offer, and based on the Offer Price of HK$0.10635 per Offer Share, the entire issued share capital of the Company is valued at approximately HK$113.6 million, and all of the 222,156,892 Offer Shares are valued at approximately HK$23.6 million.

Quam Capital is satisfied that sufficient financial resources are available to the Offeror to satisfy the full acceptance of the Offer. The Offeror finances the amount for the full acceptance of the Offer by its internal resources.

Effect of accepting the Offer

By accepting the Offer, the Independent Shareholders will sell their Shares to the Offeror or its nominee free from all liens, claims and encumbrances and with all rights attached to them, including the rights to receive all dividends and other distributions declared, made or paid on or after the Completion.

The procedures for acceptance and further terms of the Offer are set out in Appendix I to the Composite Document.

Overseas Shareholders

The attention of the Overseas Shareholders is drawn to paragraph 6 in Appendix I to the Composite Document.

Stamp duty

Seller's ad valorem stamp duty arising in connection with acceptances of the Offer, amounting to HK$1.00 for every HK$1,000 or part thereof of the greater of (i) the consideration payable by the Offeror in respect of the relevant acceptance; and (ii) the market value of the Shares, will be payable by the Independent Shareholders who accept the Offer and will be deducted from the consideration payable to such Independent Shareholders. The Offeror will pay the buyer's ad valorem stamp duty on its own behalf and the seller's ad valorem stamp duty on behalf of the accepting Independent Shareholders in respect of the Offer Shares accepted under the Offer.

Settlement of the consideration

The amounts due to the Independent Shareholders who accept the Offer should be paid by the Offeror to the Independent Shareholders as soon as possible but in any event within 10 days of the date of receipt of a duly completed acceptance in accordance with the Takeovers Code. Settlement of the amounts due to the Independent Shareholders who accept the Offer will be implemented in full without regard to any lien, right of set-off, counterclaim or other analogous right to which the Offeror may otherwise be, or claim to be, entitled against such Independent Shareholders.

DEALINGS IN SECURITIES OF THE COMPANY

Details of the dealings in securities of the Company by the Concert Group are set out in the section headed "Additional disclosure of interests" in Appendix V to the Composite Document.

Compulsory acquisition

The Offeror does not intend to exercise any right which may be available to it to compulsorily acquire any outstanding Offer Shares not acquired under the Offer after the close of the Offer.

INFORMATION ON THE GROUP

Details of the information on the Company are set out in the letter from the Board of the Composite Document.

Financial information on the Former Group is set out in Appendix II to the Composite Document.

INFORMATION ON THE OFFEROR

Skill China Limited is a company incorporated in the BVI on 29 December 2009 with limited liability whose principal business is investment holding. As at the date of Completion and the Latest Practicable Date, the Offeror is wholly-owned by Fortune Alliance Group Limited which in turn is owned (i) as to 90% by Jointprofit Limited, a company wholly-owned by Dr. So; (ii) as to 5% by Greatkind Limited, a company wholly-owned by Mr. Ge Zhang ("Mr. Ge"); and (iii) as to 5% by Cheergreat Limited, a company wholly-owned by the family trust of Mr. Chan Wai Dune, of which Mr. Chan Wai Dune ("Mr. Chan") is one of the beneficiaries. Each of Fortune Alliance Group Limited, Jointprofit Limited, Greatkind Limited and Cheergreat Limited is incorporated in the BVI with limited liability whose principal business is investment holding. The board of directors of the Offeror comprises Dr. So, Mr. Ge, and Mr. Chan. The board of directors of Fortune Alliance Group Limited comprises Dr. So, Mr. Ge, Mr. Chan and Mr. So Man Cho. The sole director of Jointprofit Limited is Dr. So. The sole director of Greatkind Limited is Mr. Ge. The board of directors of Cheergreat Limited comprises Mr. Chan, Mrs. Chan Mau Lai Yung and Mr. Mou Key Cho Ralph. Save for the entering into of the Subscription Agreement, the Custody Agreement, the Escrow Agreement the Loan Agreement, the escrow agreement dated 3 December 2010 (which entered into between the Escrow Agent, the Schemeco, the Company and the Offeror in relation to the escrow of the Subscription Price paid by the Offeror, which shall be released to the Schemeco upon the written instruction of the Administrators) and the facility agreement dated 3 December 2010 (which entered into between GGP (as borrower) and the Offeror (as lender) pursuant to which the Offeror made available to GGP an unsecured and interest-free loan facility in the aggregate principal amount of HK$30,000,000), the Offeror has not conducted any business activities and has not acquired any other assets since its incorporation.

The biographies of Dr. So are set out in the section headed "Proposed change to board composition of the Company" of this letter. The brief biographies of Mr. Ge and Mr. Chan are set out below:

Mr. Ge is one of the pioneers of 3D auto-stereo technology. He successfully started his own independent 3D display high technology research and development business in China in 2005. Mr. Ge is the Chief Executive Officer of Shenzhen Super Perfect Optics Limited, an accredited "Software and High-Tech Enterprise" in China, since its incorporation in 2007. Prior to beginning his 3D technology research and development business, Mr. Ge specialised in software technology and intellectual property. He has over 15 years of experience in the international technology business.

Mr. Chan has over 29 years of experience in the finance sector, particularly in auditing and taxation areas. He is a certified public accountant and is a fellow member of the Hong Kong Institute of Certified Public Accountants, the Association of Chartered Certified Accountants and the Taxation Institute of Hong Kong. Mr. Chan is currently a Standing Committee Member of CPPCC of Guangzhou Municipal Committee and a member of the Executive Council of China Overseas Friendship Association. Mr. Chan was a member of the Selection Committee for the establishment of the First Government of the Hong Kong Special Administrative Region, and has served as an independent non-executive director at a few Hong Kong public listed companies before.

INTENTION OF THE OFFEROR REGARDING THE GROUP

It is the intention of the Offeror that following Completion, the Retained Group will continue with its existing principal activities of manufacturing and trading of consumer electronic products (subject to the finalisation of the Creditor Scheme by the Company, its creditors and the Offeror). The Offeror will conduct a detailed review of the business and operations of the Retained Group in order to formulate a long term strategy for the Retained Group and explore other business or investment opportunities in enhancing its future business development and strengthening its revenue bases. As at the Latest Practicable Date, the Offeror does not have any plan to inject any assets or businesses into the Retained Group or to procure the Company to acquire or dispose of any assets other than in the ordinary course of business following Completion. Any acquisition or disposal of assets or business of the Retained Group in the future, if any, will be in compliance with the Listing Rules and the Takeovers Code (if applicable). The Retained Group will continue to seek new business opportunities to improve its profitability and prospects, and may diversify into other business should suitable opportunities arise.

PROPOSED CHANGE TO BOARD COMPOSITION OF THE COMPANY

The Offeror has no intention to make major changes to the employees of the Group save for change in the composition of the Board.

The Board is currently made up of six Directors, comprising three executive Directors being Mr. Ling Siu Man, Simon, Mr. Wong Ki Cheung and Ms. Li Fung Ching, Catherine; and three independent non-executive Directors being Mr. Pang Hon Chung, Mr. Cheng Tsang Wai and Dr. Chung Hing Wah, Paul. Mr. Ling Siu Man, Simon, Mr. Wong Ki Cheung and Ms. Li Fung Ching, Catherine will resign from the Board with effect from the earliest time as permitted under the Takeovers Code. Mr. Ling Siu Man, Simon, Mr. Wong Ki Cheung and Ms. Li Fung Ching, Catherine have tendered their resignation as Director, with effect from the earliest date permitted under the Takeovers Code. The Board has approved the appointments of Dr. So, Mr. Mak Bing Kau, Mr. Ng Wai Hung and Mr. Lau Cheuk Lun as executive Directors, with effect from 11 December 2010, being the day immediately after the posting of the Composite Document.

Changes in composition of the remuneration committee and executive committee

The Board approved the following changes in the composition of the remuneration committee and the executive committee, all with effect from 11 December 2010, being the day immediately after the posting of the Composite Document:

(i) Ms. Li Fung Ching, Catherine has resigned as member of the remuneration committee. Dr. So has been appointed as member of the remuneration committee; and

(ii) Mr. Ling Siu Man, Simon has resigned as chairman and member of the executive committee and Ms. Li Fung Ching, Catherine has resigned as member of the executive committee. Dr. So has been appointed as chairman and member of the executive committee and Mr. Lau Cheuk Lun has been appointed as member of the executive committee.

Any further changes to the Board will be made in compliance with the Takeovers Code and the Listing Rules and further announcement will be made pursuant to Rule 13.51(2) of the Listing Rules accordingly.

The brief biographies of the new executive Directors are set out below:

Dr. So Shu Fai, aged 59, is an executive director of SJM Holdings Limited and is currently the Chairman of Shenzhen Super Perfect Optics Limited. He is an independent non-executive director of SHK Hong Kong Industries Limited (formerly known as Yu Ming Investments Limited), which is listed on the Stock Exchange, a director of the Euronext Lisbon listed Estoril Sol, SGPS, S.A., and the chairman of the board of directors of MACAUPORT – Sociedade de Administração de Portos, S.A. Dr. So was an executive director of Shun Tak Holdings Limited (listed on the Stock Exchange) from 1991 to 2009. Dr. So is a member of the 11th National Committee of the Chinese People's Political Consultative Conference ("CPPCC"), a member of the Committee of Foreign Affairs of the National Committee of CPPCC, a consultant to the Committee for Liaison with Hong Kong, Macau, Taiwan and Overseas Chinese of the Beijing Municipal Committee of CPPCC, the honorary consul of the Republic of Portugal in the Hong Kong SAR, as well as a member of the Economic Development Council and of the Cultural Consultative Council of the Macau SAR Government. Dr. So is the president of Clube Militar de Macau, a member of the board of directors of The University of Hong Kong Foundation for Educational Development and Research, as well as a committee member of the 8th China Federation of Literary and Art Circles. He graduated with a Bachelor of Science degree from The University of Hong Kong in 1973, and received a doctoral degree in Management Studies from IMC/Southern Cross University in 2001.

Mr. Mak Bing Kau, aged 61, graduated from the University of Hong Kong with a First Class Honours Bachelor of Science degree in Electrical Engineering in 1973, and subsequently obtained a Master of Science degree in Electrical Engineering from the same University. He joined the Hongkong Electric Co., Ltd. ("HEC"), one of the two power companies in Hong Kong, in 1973 and had since held various key engineering positions in HEC, including Chief Engineer in technical services and Acting General Manager (Transmission & Distribution). He retired from HEC in late 2009 and has since been appointed as an honorary lecturer of the Electrical & Electronic Engineering Department of the University of Hong Kong. Mr. Mak is a Chartered Engineer, a Fellow of the Institution of Electrical Engineers and also a Corporate Member of the Hong Kong Institution of Engineers. He is active in engineering and community services, including serving as the Chairman of the UK's Institution of Electrical Engineers (Hong Kong Branch), an adviser of the Electrical Engineering Department of the Hong Kong Polytechnic University as well as a member of the Electrical Safety Advisory Committee of the Government of the Hong Kong Special Administrative Region.

Mr. Ng Wai Hung, aged 61, graduated from the Hong Kong Technical College in 1976, received his MBA from the Asia International Open University in 1993. Mr. Ng is a co-founder of SAE Magnetics (H.K.) Ltd. in 1980 which began from a manufacturer of recording heads for floppy disk drives, Mr. Ng has managed to transform the company to now the largest independent manufacturer of state-of-the-art magnetic recording heads for hard disk drives (HDD), In Dongguan where SAE's manufacturing facility locates, Mr.

Ng has established close working relationships with foreign investors and government officials of the city. Furthermore, Mr. Ng plays many active roles in community services in various institutions, for example, he founded the Hong Kong Critical Components Manufacturers Association (HKCCMA) in 1998, serves the business and professional communities including the Chairman of the Science and Technology Committee of the Asia Pacific Academy for Productivity and Innovation, the Board of Governors of the East-West Strategic Development Commission, and the council member of the Better Hong Kong Foundation.

Mr. Lau Cheuk Lun, aged 56, is currently the Finance Director of Shenzhen Super Perfect Optics Limited. Mr. Lau has worked in Toronto, Canada for CIBA Vision Canada Inc. for 16 years until 2005, the most recent post being Chief Financial Officer. In January 2006, Mr. Lau joined Bio Treat Technology Limited, a publicly listed company on Singapore Stock Exchange, as Chief Financial Officer, until June 2010, after which he joined Shenzhen Super Perfect Optics Limited. Mr. Lau holds several accounting designations namely, A.C.A (England and Wales), C.P.A. (Hong Kong) and F.C.C.A. (U.K.).

MAINTAINING THE LISTING STATUS OF THE COMPANY

The Stock Exchange has stated that if, at the close of the Offer, less than the minimum prescribed percentage applicable to the listed issuer, being 25% of the issued Shares, are held by the public, or if the Stock Exchange believes that:

– a false maket exists or may exist in the trading of the Shares; or

– that there are insufficient shares in public hands to maintain an orderly market;

it will consider exercising its discretion to suspend dealings in the Shares.

The Offeror intends that the Company will maintain the listing status of the Shares on the Main Board of the Stock Exchange upon the close of the Offer. The directors of the Offeror and the new directors to be appointed to the Board will jointly and severally undertake to the Exchange to take appropriate steps to ensure that sufficient public float exists in the Shares.

In order to ensure that immediately upon the close of the Offer, there will be not less than 25% of the Company's entire issued ordinary share capital held by the public, the Offeror has engaged Get Nice Securities Limited, who will act as the placing agent for the Offeror to secure other investors on a fully-underwritten basis, who are independent investors not connected with the directors, the chief executives and the substantial shareholders of the Offeror and the Company and their respective subsidiaries and associates (as defined in the Listing Rules), to place, upon closing of the Offer, a sufficient number of Subscription Shares held by the Offeror which shall restore the minimum 25% public float. The placing agreement (as amended by a supplemental placing agreement) entered into by the Offeror and the placing agent is legally binding and irrevocable, and is conditional upon completion of the Subscription.

It should be noted that if the Company remains a listed company on the Stock Exchange, the Stock Exchange will closely monitor all future acquisitions or disposals of assets by the Company. Any acquisitions or disposals of assets by the Company will be subject to the provisions of the Listing Rules. Pursuant to the Listing Rules, the Stock Exchange has the discretion to require the Company to issue an announcement and/or a circular to the Shareholders irrespective of the size of any proposed transaction, particularly when such proposed transaction represents a departure from the principal activities of the Company. The Stock Exchange also has the power pursuant to the Listing Rules to aggregate a series of acquisitions of assets by the Company and any such acquisitions may result in the Company being treated as if it were a new listing applicant subject to the requirements of new listing applications as set out in the Listing Rules.

TAX IMPLICATIONS

None of the Offeror, Quam Capital or Quam Securities or any of their respective directors or any other parties involved in the Offer is in a position to advise the Independent Shareholders on their individual tax implications. The Independent Shareholders are recommended to consult their own professional advisers as to the tax implications that may arise from accepting the Offer. None of the Offeror, Quam Capital or Quam Securities, or any of their respective directors or any other parties involved in the Offer accepts any responsibility for any tax effect on, or liabilities of, the Independent Shareholders.

ACCEPTANCE AND SETTLEMENT

Your attention is drawn to the further details regarding the procedures for acceptance and settlement and acceptance period as set out in Appendix I to the Composite Document and the Form of Acceptance.

GENERAL

To ensure equality of treatment of all Independent Shareholders, those registered Independent Shareholders who hold the Shares as nominees for more than one beneficial owner should, as far as practicable, treat the holding of each beneficial owner separately. It is essential for the beneficial owners of the Shares whose investments are registered in the names of nominees to provide instructions to their nominees of their intentions with regard to the Offer.

All documents and remittances sent to the Independent Shareholders by ordinary post will be sent to them at their own risk. Such documents and remittances will be sent to the Independent Shareholders at their respective addresses as they appear in the register of members of the Company or in the case of joint Independent Shareholders, to the Independent Shareholder whose name appears first in the register of members of the Company. None of the Offeror, Quam Capital or Quam Securities, or any of their respective directors or professional advisers or any other parties involved in the Offer will be responsible for any loss or delay in transmission or any other liabilities that may arise as a result thereof.

ADDITIONAL INFORMATION

You are advised to read carefully the letter from the Independent Board Committee and the letter from Access Capital as contained in this Composite Document before deciding whether or not to accept the Offer.

Your attention is drawn to the additional information set out in the appendices to the Composite Document.

Yours faithfully,
For and on behalf of
QUAM CAPITAL LIMITED
Gary Mui
Executive Director

TONIC INDUSTRIES HOLDINGS LIMITED
東力實業控股有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 978)

10 December 2010

To the Independent Shareholders

Dear Sir or Madam,

MANDATORY UNCONDITIONAL CASH OFFER BY QUAM SECURITIES COMPANY LIMITED FOR AND ON BEHALF OF SKILL CHINA LIMITED FOR ALL THE ISSUED SHARES OF HK$0.01 EACH IN TONIC INDUSTRIES HOLDINGS LIMITED (OTHER THAN THOSE SHARES ALREADY OWNED OR AGREED TO BE ACQUIRED BY SKILL CHINA LIMITED)

INTRODUCTION

We refer to the composite offer and response document (the "Composite Document") dated 10 December 2010 jointly issued by the Company and the Offeror, of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Composite Document unless the context otherwise requires.

We have been appointed as members of the Independent Board Committee to consider the terms of the Offer and to advise you as to whether, in our opinion, the terms of the Offer are fair and reasonable so far as the Independent Shareholders are concerned.

Access Capital has been appointed as the independent financial adviser to the Independent Board Committee to advise us in respect of the terms of the Offer. Details of its advice and principal factors taken into consideration in arriving at its recommendation are set out in the letter from Access Capital on pages 27 to 38 of the Composite Document.

* *For identification purposes only*

RECOMMENDATION

Having taken into account the terms of the Offer and the advice and recommendation of Access Capital and the principal factors and reasons taken into consideration by it in arriving at its opinion, we consider that the terms of the Offer are not fair or reasonable so far as the Independent Shareholders are concerned. Accordingly, we recommend the Independent Shareholders not to accept the Offer.

Yours faithfully,
For and on behalf of
the Independent Board Committee of
Tonic Industries Holdings Limited

Mr. Pang Hon Chung | **Mr. Cheng Tsang Wai** | **Dr. Chung Hing Wah, Paul**

Independent Non-executive Directors

Set out below is the full text of the letter of advice from Access Capital to the Independent Board Committee in relation to the Offer, which has been prepared for the purpose of inclusion in this composite offer document.

Access Capital

Suite 606, 6th Floor
Bank of America Tower
12 Harcourt Road
Central

10 December 2010

To the Independent Board Committee of
Tonic Industries Holdings Limited

Dear Sirs,

MANDATORY UNCONDITIONAL CASH OFFER BY QUAM SECURITIES COMPANY LIMITED FOR AND ON BEHALF OF SKILL CHINA LIMITED FOR ALL THE ISSUED SHARES IN TONIC INDUSTRIES HOLDINGS LIMITED (OTHER THAN THOSE SHARES ALREADY OWNED OR AGREED TO BE ACQUIRED BY SKILL CHINA LIMITED)

I. INTRODUCTION

We refer to out appointment as the independent financial adviser to the Independent Board Committee in relation to the Offer, details of which are set out in the letter from the Board (the "Letter from the Board") contained in the composite offer document of the Company dated 10 December 2010 (the "Composite Document"), of which this letter forms part. Unless the context requires otherwise, terms defined in the Composite Document have the same meanings in this letter.

On 15 January 2010, the Company entered into the Subscription Agreement with the Offeror pursuant to which the Company conditionally agreed to allot and issue to the Offeror, and the Offeror conditionally agreed to subscribe for 909,785,366 New Shares with a par value of HK$0.01 each at the Subscription Price of HK$80,000,000. The Completion took place on 3 December 2010. Immediately upon Completion and following the transfer of the Option Shares by the Offeror to Schemeco and the allotment and issue of the Remuneration Shares, the Offeror was interested in 846,311,968 Shares, representing approximately 79.21% of the issued share capital of the Company. Pursuant to the Takeovers Code, the Offeror is required to make an unconditional mandatory cash offer for the all the issued Shares, other than those already owned by or agreed to be acquired by the Offeror.

As at the date hereof, the Company has three independent non-executive Directors, namely, Mr. Pang Hon Chung, Mr. Cheng Tsang Wai and Dr. Chung Hing Wah, Paul. The Independent Board Committee, comprising all the independent non-executive Directors, has been established for the purpose of advising the Independent Shareholders as to whether the terms of the Offer are fair and reasonable and as to acceptance. We have been appointed as the independent financial adviser to advise the Independent Board Committee in these respects, and to give our opinion in relation to the Offer for the Independent Board Committee's consideration when making its recommendation to the Independent Shareholders. Our appointment has been approved by the Independent Board Committee.

II. BASIS AND ASSUMPTIONS OF OUR OPINION

In formulating our opinion, we have relied solely on the statements, information, opinions and representations contained in the Composite Document and the information and representations provided to us by the Company and/or the Directors. We have assumed that all such statements, information, opinions and representations contained or referred to in the Composite Document or otherwise provided or made or given by the Company and/or its senior management staff and/or the Directors and for which it is/they are solely responsible were true and accurate and valid at the time they were made and given and continue to be true and valid as at the date hereof. We have assumed that all the opinions and representations made or provided by the Directors and/or the senior management staff of the Company contained in the Composite Document have been reasonably made after due and careful enquiry. We have also sought and obtained confirmation from the Company and/or its senior management staff and/or the Directors that no material facts have been omitted from the information provided and referred to in the Composite Document. We consider that we have reviewed all information and documents which are made available to us to enable us to reach an informed view and to justify our reliance on the information provided so as to provide a reasonable basis for our opinion. We have no reason to doubt the truth, accuracy and completeness of the statements, information, opinions and representations provided to us by the Company and/or its senior management staff and/or the Directors and their respective advisers or to believe that material information has been withheld or omitted from the information provided to us or referred to in the aforesaid documents. We have not, however, carried out any independent verification of the information provided, nor have we conducted any independent investigation into the business or affairs of the Group.

We have not considered the tax consequences on the Independent Shareholders of acceptance of the Offer since these are particular to their individual circumstances. In particular, Independent Shareholders who are resident overseas or subject to overseas taxes or Hong Kong taxation on securities dealings should consider their own tax positions and, if in any doubt, should consult their own professional advisers.

III. PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion in respect of the Offer, we have taken into consideration the following principal factors:

1. Background information

The Group is principally engaged in manufacture and trading of consumer electronic products. As at the Latest Practicable Date, the Group had its manufacturing operations in Shi Pai, the PRC for the manufacture and domestic sales of the Group's products including set top boxes.

As set out in the Company's interim report for the six months ended 30 September 2009 (the "2009 Interim Report"), the Former Group continued to be affected by the looming global financial crisis and for the six months ended 30 September 2009, the Former Group recorded a turnover of approximately HK$437 million, representing a decrease of approximately 67.9% as compared to the corresponding period in 2008. For the same period, loss attributable to Shareholders amounted to approximately HK$263 million, as compared to the profit attributable to Shareholders of approximately HK$50.8 million for the corresponding period in 2008. Sales of the Former Group for the six months ended 30 September 2009 decreased and, in particular, export sales to markets in Europe and America plunged by 82% and working capital pressure increased against the credit crunch.

In addition, the US government stopped subsidizing consumers in purchasing digital set top boxes and that further dampened sales of set top boxes to the market. Accordingly, the Former Group decided to consolidate and streamline its businesses while to scale down the operations scale, in particular its exports sales, in order to alleviate the financial situation of the Former Group. Due to the immense pressure on the cash flow of the Former Group, it also delayed salaries payment to certain workers and staff. With a view to further reduce costs and mitigate the loss-making position of the Former Group, it had suspended its respective factory operations in Qi Shi and Tangxia, the PRC since March 2009 and December 2009, respectively.

Given the then prevailing financial position of the Former Group, the Company had been engaged in discussions with its banks to explore the possibility of seeking a forbearance of its banking facilities with a view to strengthening the Former Group's overall cash flow position, the Company had also considered the necessity of fund raising exercises that might be able to relieve the immediate liquidity problem of the Former Group. Accordingly, the Directors also engaged in discussions with independent investor for a possible injection of new capital by way of loan and equity. After arm's length negotiations between the Company and the Offeror, the Offeror conditionally agreed to subscribe for the Subscription Shares and the Company decided that the indebtedness of the Company shall be restructured by way of the Creditor Scheme. Subsequently on 27 January 2010, the Board announced the Restructuring Proposal in relation to the financial restructuring of the Former Group which involved, among other things, the Capital

Reorganisation, the Group Reorganisation, the Creditor Scheme and the Subscription. Details of the Restructuring Proposal are set out in the Company's circular dated 28 June 2010.

Set out below is a summary of the audited financial information of the Former Group for each of the two financial years ended 31 March 2009 and 2010 and the six months ended 30 September 2010 as extracted from the Company's latest annual report and interim report.

	For the year ended 31 March		For the six months ended 30 September
	2009	**2010**	**2010**
	HK$'000	*HK$'000*	*HK$'000*
Turnover	2,055,805	486,237	18,212
Cost of sales	(2,064,790)	(522,321)	(17,859)
Gross (loss)/profit	(8,985)	(36,084)	353
Gain on deconsolidation of a subsidiary	–	–	241,407
Provision for financial guarantee liabilities relating to borrowings of a deconsolidated subsidiary	–	–	(78,837)
Provision for impairment of assets	(60,697)	(224,832)	–
Provision against inventories	(10,981)	(426,945)	(1,466)
(Loss)/profit from operations	(126,742)	(782,942)	143,869
(Loss)/profit for the year/period attributable to equity holders of the Company	(174,887)	(790,414)	130,125

	As at 31 March		As at 30 September
	2009	**2010**	**2010**
	HK$'000	*HK$'000*	*HK$'000*
Current assets	532,780	36,089	157,276
Non-current assets	712,789	400,045	367,861
Current liabilities	(744,262)	(827,967)	(791,451)
Non-current liabilities	(114,627)	(31,477)	(27,363)
Net current liabilities	(211,482)	(791,878)	(634,175)
Net assets/(liabilities)	386,680	(423,310)	(293,677)

The Former Group's turnover for the year ended 31 March 2010 dropped significantly from approximately HK$2,055.8 million to approximately HK$486.2 million. The loss for the year attributable to equity holders of the Company increased significantly from approximately HK$174.9 million to approximately HK$790.4 million for the year ended 31 March 2010. As explained in the Company's annual report for 2010 (the "Annual Report"), having faced the most severe global and financial crisis in history, many of the Former Group's customers and markets were adversely affected. In particular, the global economic downturn had resulted in the demand for the Former Group's products in the US and European markets subsided substantially during the financial year. Accordingly, the business turnover and financial results of the Former Group had deteriorated substantially during the financial year. The Former Group also recorded significant losses in respect of provision for impairment of assets (i.e. mainly property, plant and equipment) in the aggregate amount of approximately HK$224.8 million and provision against inventories and loss on auctions of sequestrated inventories totaling approximately HK$426.9 million.

We have noted from the Annual Report that because of the significance of the scope limitation and the material uncertainties relating to the possible outcome of litigations and going concern basis, the Company's auditors (the "Auditors") had not expressed an opinion on the consolidated financial statements of the Company as to whether they give a true and fair view of the state of affairs of the Company and of the Group as at 31 March 2010 and of the Group's results and cash flows for the year then ended in accordance with the Hong Kong Financial Reporting Standards. For details of the Auditors' opinion on the Company's consolidated financial statements for the year ended 31 March 2010, Shareholders are advised to read Appendix II to the Composite Document as well as the Annual Report.

For the six months ended 30 September 2010, the Former Group recorded turnover of approximately HK$18.2 million, representing a significant drop of over 90% from its turnover for the corresponding period in 2009. Despite the significant drop in the turnover, the Former Group recorded a profit for the period of approximately HK$130.1 million. As explained by the management of the Company, such net profit was mainly attributable to the recognition of a gain on the deconsolidation of a subsidiary in the amount of approximately HK$241.4 million.

As at 30 September 2010, the Former Group had total current assets of approximately HK$157.3 million and total current liabilities of approximately HK$791.5 million, representing net current liabilities of approximately HK$634.2 million. As at 30 September 2010, the Former Group had total outstanding borrowings of approximately HK$325.8 million, all repayable within one year or on demand. As at 30 September 2010, the total net liabilities of the Former Group amounted to approximately HK$293.7 million.

Pursuant to the Restructuring Proposal, the indebtedness of the Company would be restructured by way of the Creditor Scheme which enables the Former Group to deal with its indebtedness in a formal and orderly manner so that, so far as the Company is concerned, all of the Company's indebtedness and liabilities (actual and contingent) as at the effective date of the Creditor Scheme would be released and discharged. As advised by the Company, the Creditor Scheme has been approved by the Court pursuant to Section 86 of the Cayman Companies Law and the Hong Kong Court pursuant to Section 166 of the Companies Ordinance and has become effective on 3 December 2010. Accordingly, while the Former Group had net liabilities of approximately HK$293.7 million as at 30 September 2010, the successful implementation of the Restructuring Proposal involving the Capital Reorganisation, the Group Reorganisation, the Creditor Scheme and the Subscription has significantly improved the financial position of the Retained Group upon Completion.

2. The Offer

On behalf of the Offeror, Quam Securities is making an unconditional mandatory cash offer to acquire all the issued Shares, subject to the terms and conditions relating to acceptance set out in the Composite Document and the accompanying Form of Acceptance, on the following basis:

For each Offer Share . . . . HK$0.10635 in cash

The Offer Price receivable by Shareholders under the Offer is higher than the price paid by the Offeror for each Subscription Share under the Subscription Agreement and represents:

(a) a discount of approximately 92.1% to the theoretical closing price of HK$1.34 per Share based on the closing price of HK$0.134 per Old Share as quoted on the Stock Exchange on 28 December 2009, being the last trading day pending the issue of the announcement in accordance with Rule 3.7 of the Takeovers Code;

(b) a discount of approximately 93.7% to the theoretical closing price of HK$1.69 per Share based on the closing price of HK$0.169 per Old Share as quoted on the Stock Exchange on the Last Trading Day;

(c) a discount of approximately 93.3% to the average theoretical closing price of HK$1.59 per Share based on the average closing price of HK$0.159 per Old Share as quoted on the Stock Exchange for the last five consecutive trading days up to and including the Last Trading Day;

(d) a discount of approximately 92.5% to the average theoretical closing price of HK$1.419 per Share based on the average closing price of HK$0.1419 per Old Share as quoted on the Stock Exchange for the last ten consecutive trading days up to and including the Last Trading Day;

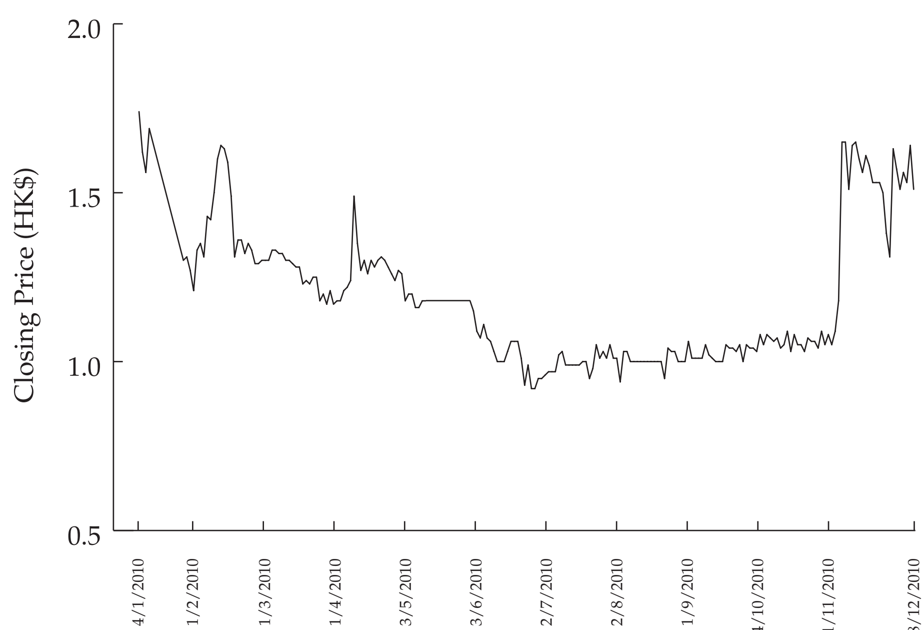
(e) a discount of approximately 89.8% to the theoretical closing price of HK$1.04 per Share based on the closing price of HK$0.104 per Old Share as quoted on the Stock Exchange on 4 October 2010, being the last trading day immediately preceding the date of the Joint Announcement; and

(f) a discount of approximately 93.0% to the closing price of HK$1.51 per Share as quoted on the Stock Exchange as at the Latest Practicable Date.

Further terms and conditions of the Offer, including the procedures for acceptance, are set out in the letter from Quam Capital contained in, and Appendix I to the Composite Document.

3. Historical Share price performance

The chart below illustrates the daily closing prices of the Shares (as adjusted by the effect of the Capital Reorganisation) as quoted on the Stock Exchange for the period from 1 January 2010 up to and including the Latest Practicable Date (the "Review Period").



Source: website of the Stock Exchange (www.hkex.com.hk)

As shown in the above chart, the closing prices of the Shares fluctuated in the range of between HK$1.30 and HK$1.70 per Share at the beginning and then declined gradually and maintained at about HK$1.00 per Share throughout the remaining of the Review Period. During the Review Period, the Shares recorded the lowest closing price of HK$0.92 per Share (recorded on 30 June 2010 and 2 July 2010) and the highest closing price of HK$1.74 per Share (recorded 11 January 2010). On 11 January 2010, being the first trading day immediately upon publication of the announcement in accordance with Rule 3.7 of the Takeovers Code, the closing price of the Shares raised to HK$1.74 per Share from the previous closing price of HK$1.34 per Share on 28 December 2009, representing an increase of approximately 30%. The trading of Shares then suspended from 15 January 2010 to 27 January 2010 pending for the release of the announcement in respect of the Restructuring Proposal (the "Restructuring Proposal Announcement"). On 28 January 2010, being the first trading day immediately upon publication of the Restructuring Proposal Announcement, the closing price of the Shares initially dropped to HK$1.30 per Share from the previous closing price of HK$1.69 per Share on 14 January 2010 but then rebounded back to HK$1.64 per Share on 12 February 2010. Since then, the closing price of the Shares declined gradually during the remaining period until October 2010 and maintained at a level slightly above HK$1.00 per Share. For the month of November 2010, the closing price of the Shares began to fluctuate and rise substantially to as high as HK$1.65 per Share. On the Latest Practicable Date, the Shares closed at HK$1.51 per Share. Based on the above, it should be noted that the Offer Price is below the lowest closing price of the Shares and represents a substantial discount of over 90% to the closing prices of the Shares throughout the whole of the Review Period.

Given that the Offer Price is substantially below the closing prices of the Shares during the whole of the Review Period and represents a significant discount of approximately 93.0% to the closing price of the Shares on the Latest Practicable Date, we are of the view that the Offer Price is not fair or reasonable to the Independent Shareholders.

4. Historical liquidity of the Shares

The table below sets out the average daily trading volume (as adjusted by the effect of the Capital Reorganisation) of the Shares during the Review Period, and the percentages as represented by such average daily trading volume to the total number of Shares in issue and the total number of Shares held by the Independent Shareholders as at the Latest Practicable Date.

Month/Period	Average daily trading volume (Number of Shares) *(Note 1)*	Average daily trading volume to the total number of Shares in issue (%) *(Note 2)*	Average daily trading volume to the total number of Shares held by the Independent Shareholders (%) *(Note 3)*
2010			
January	3,249,131	0.304%	0.987%
February	995,989	0.093%	0.303%
March	239,383	0.022%	0.073%
April	494,161	0.046%	0.150%
May	140,143	0.013%	0.043%
June	90,657	0.008%	0.028%
July	56,800	0.005%	0.017%
August	72,101	0.007%	0.022%
September	69,505	0.007%	0.021%
October	102,338	0.010%	0.031%
November	1,289,078	0.121%	0.392%
December (up to and including the Latest Practicable Date)	809,247	0.076%	0.246%

Source: website of the Stock Exchange (www.hkex.com.hk)

Notes:

1. Average daily trading volume is calculated by dividing the total trading volume for the month/period by the number of trading days (excluding any trading day on which trading of Shares on the Stock Exchange was suspended for the whole trading day) during the month/period.

2. Calculated based on 1,068,468,860 Shares in issue as at the Latest Practicable Date.

3. Calculated based on 329,141,363 Shares held by the Independent Shareholders as at the Latest Practicable Date.

As noted in the above table, the average trading volume of the Shares was generally low during the Review Period. The above table also illustrates a declining trend in the average trading volume of the Shares. As a percentage to the total number of Shares in issue as at the Latest Practicable Date, such average trading volume was in the range of approximately 0.005% and 0.304%. When taking into account only those Shares held by the Independent Shareholders as at the Latest Practicable Date, the average trading volume of the Shares was still low and amounted to less than 1.0% of the total shareholdings of the Independent Shareholders throughout the Review Period. Except for the month of January 2010 when trading of Shares took place immediately following the publication of the Company's announcement in accordance with Rule 3.7 of the Takeovers Code, the average daily trading volume of the Shares from February 2010 to November 2010 represents less than 0.2% of the total number of Shares in issue as at the Latest Practicable Date.

While there was a generally low trading liquidity of the Shares during the Review Period, we, having considered that the Offer Price represents a significant discount of approximately 93.0% to the closing price of the Shares as at the Latest Practicable Date and hence Independent Shareholders are likely to have a higher return on their investments by selling their Shares in the open market rather than accepting the Offer if they intend to realise their investments in the Shares, are of the view that the Offer Price is not fair or reasonable to the Independent Shareholders.

5. Comparable analysis and other consideration

In assessing the fairness and reasonableness of the Offer Price, it is a general practice to apply commonly used benchmarks for evaluating the value of companies. We have considered adopting the price-to-earnings approach, the price-to-book approach and the price-to-dividends approach in the evaluation of the Company. However, given that (i) the Former Group was loss-making for each of the financial years ended 31 March 2009 and 31 March 2010; (ii) the Former Group recorded net liabilities as at 31 March 2010 and 30 September 2010; and (iii) the Company did not declare or distribute any dividend for the year ended 31 March 2010, we consider neither the price-to-earnings approach, the price-to-book approach nor the price-to-dividends approach to be applicable in assessing the fairness or reasonableness of the Offer Price in the case of the Company.

We note that if taking into account the financial position of the Former Group as at 30 September 2010 which is the latest published financial information available for review, the Offer Price would represent a premium to the net liabilities of the Former Group as at 30 September 2010. However, we consider it irrelevant or inappropriate to view such premium being in favour of the Offer Price given the fact that the successful implementation of the Restructuring Proposal has already improved the financial position of the Retained Group significantly upon Completion. As such, we do not consider the comparison of the Offer Price with the net liabilities of the Former Group before Completion to be a significant factor in our analysis on the fairness and reasonableness of the Offer Price.

6. The Offeror's intention regarding the future of the Retained Group

As set out in the Letter from Quam Capital, it is the intention of the Offeror that the Retained Group will continue with its existing principal activities of manufacturing and trading of consumer electronic products. The Offeror will conduct a detailed review of the business and operations of the Retained Group in order to formulate a long term strategy for the Retained Group and explore other business or investment opportunities in enhancing its future business development and strengthening its revenue bases.

As at the Latest Practicable Date, the Offeror did not have any plan to inject any assets or businesses into the Retained Group or to procure the Company to acquire or dispose of any assets other than in the ordinary course of business. The Retained Group will continue to seek new business opportunities to improve its profitability and prospects, and may diversify into other business should opportunities arise.

The Offeror has no intention to make major change to the employees of the Group save for change in the composition of the Board. Mr. Ling Siu Man, Simon, Mr. Wong Ki Cheung and Ms. Li Fung Ching, Catherine, all being executive Directors, will resign from the Board with effect from the earliest time as permitted under the Takeovers Code. The Board has approved the appointments of Dr. So, Mr. Mak Bing Kau, Mr. Ng Wai Hung and Mr. Lau Cheuk Lun as executive Directors, with effect from 11 December 2010, being the day immediately after the posting of the Composite Document. Details of the new executive Directors are set out in the Letter from Quam Capital.

IV. RECOMMENDATION

Having considered the above-mentioned principal factors and reasons, in particular:

(i) While the Former Group had net liabilities of approximately HK$293.7 million as at 30 September 2010, the successful implementation of the Restructuring Proposal involving the Capital Reorganisation, the Group Reorganisation, the Creditor Scheme and the Subscription has significantly improved the financial position of the Retained Group; and

(ii) the Offer Price is below the lowest closing price of the Shares during the Review Period and represents a significant discount to the closing price of the Shares as at the Latest Practicable Date, and hence Independent Shareholders are likely to have a higher return on their investments by selling their Shares in the open market rather than accepting the Offer if they intend to realise their investments in the Shares, we are of the opinion that the Offer, including the Offer Price, is not fair or reasonable so far as the Independent Shareholders are concerned. We recommend the Independent Board Committee to advise the Independent Shareholders not to accept the Offer.

Yours faithfully,
For and on behalf of
Access Capital Limited

Alexander Tai	**Jimmy Chung**
Principal Director	*Principal Director*

1. PROCEDURES FOR ACCEPTANCE

To accept the Offer, you should complete and sign the Form of Acceptance in accordance with the instructions printed thereon, which instructions form part of the terms of the Offer.

(a) If the share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of your Share(s) is/are in your name, and you wish to accept the Offer, you must send the duly completed and signed Form(s) of Acceptance together with the relevant share certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) for not less than the number of Shares in respect of which you intend to accept the Offer by post or by hand to the Registrar marked "**Tonic Industries Holdings Limited Offer**" on the envelope by no later than 4:00 p.m. on the Closing Date or such later time and/or date as the Offeror may determine and announce in compliance with the Takeovers Code.

(b) If the share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of your Shares is/are in the name of a nominee company or a name other than your own, and you wish to accept the Offer whether in full or in part of your Shares, you must either:

(i) lodge your share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) with the nominee company, or other nominee, and with instructions authorising it to accept the Offer on your behalf and request it to deliver the completed Form(s) of Acceptance together with the relevant share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) to the Registrar; or

(ii) arrange for the Shares to be registered in your name by the Company through the Registrar, and send the completed Form(s) of Acceptance together with the relevant share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) to the Registrar at 26/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, by no later than 4:00 p.m. on the Closing Date; or

(iii) if your Shares have been lodged with your licensed securities dealer/registered institution in securities/custodian bank through CCASS, instruct your licensed securities dealer/registered institution in securities/custodian bank to authorize HKSCC Nominees Limited to accept the Offer on your behalf on or before the deadline set by HKSCC Nominees Limited. In order to meet the deadline set by HKSCC Nominees Limited, you should check with your licensed securities dealer/registered institution in securities/custodian bank for the timing on the processing of your instruction, and submit your instruction to your licensed securities dealer/registered institution in securities/custodian bank as required by them; or

(iv) if your Shares have been lodged with your investor participant's account maintained with CCASS, authorize your instruction via the CCASS Phone System or CCASS Internet System on or before the deadline set by HKSCC Nominees Limited.

(c) If the share certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of your Shares is/are not readily available and/or is/are lost as the case may be and you wish to accept the Offer, the Form(s) of Acceptance should nevertheless be completed and delivered to the Registrar together with a letter stating that you have lost one or more of your share certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) or that it/they is/are not readily available. If you find such document(s) or if it/they become(s) available, it/they should be forwarded to the Registrar as soon as possible thereafter. If you have lost your share certificate(s) and/or transfer receipt(s) and/or other document(s) of title you should also write to the Registrar for a letter of indemnity which, when completed in accordance with the instructions given, should be returned to the Registrar.

(d) If you have lodged transfer(s) of any of your Shares for registration in your name and have not yet received your share certificate(s), and you wish to accept the Offer in respect of your Shares, you should nevertheless complete the Form(s) of Acceptance and deliver it to the Registrar together with the transfer receipt(s) duly signed by yourself. Such action will be deemed to be an irrevocable authority to Quam Securities and/or the Offeror or their respective agent(s) to collect from the Registrar on your behalf the relevant share certificate(s) when issued and to deliver such share certificate(s) to the Registrar, and to authorise and instruct the Registrar to hold such share certificate(s), subject to the terms and conditions of the Offer, as if it was/they were delivered to the Registrar with the Form(s) of Acceptance.

(e) Acceptance of the Offer will be treated as valid only if the duly completed and signed Form(s) of Acceptance is received by the Registrar by no later than 4:00 p.m. on the Closing Date or such later time and/or date as the Offeror may determine in accordance with the requirements of the Takeovers Code and is:

(i) accompanied by the relevant share certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) and, if those share certificate(s) is/are not in your name, such other documents in order to establish your right to become the registered holder of the relevant Shares; or

(ii) from a registered Shareholder or his personal representative (but only up to the amount of the registered holding and only to the extent that the acceptance relates to Shares which are not taken into account under another sub-paragraph of this paragraph (e)); or

(iii) certified by the Registrar or the Stock Exchange.

If the Form(s) of Acceptance is executed by a person other than the registered Independent Shareholders, appropriate documentary evidence of authority to the satisfaction of the Registrar must be produced.

(f) No acknowledgement of receipt of any Form(s) of Acceptance, share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) will be given.

(g) The address of the Registrar is at 26/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong

2. ACCEPTANCE PERIOD AND REVISIONS

Unless the Offer has previously been revised or extended with the consent of the Executive, all Forms of Acceptance must be received by the Registrar by 4:00 p.m. on the Closing Date in accordance with the instructions printed thereon.

If the Offer is extended or revised, the announcement of such extension or revision will state the next Closing Date and the Offer will remain open for acceptance for a period of not less than 14 days from the posting of the written notification and/or announcement of the extension or revision to the Independent Shareholders and, unless previously extended or revised, shall close on the subsequent Closing Date. If the Offeror revises the terms of the Offer, all Independent Shareholders whether or not they have already accepted the Offer, will be entitled to accept the revised Offer under the revised terms.

If the Closing Date is extended, any reference in the Composite Document and in the Form(s) of Acceptance to the Closing Date shall, except where the context otherwise requires, be deemed to refer to the Closing Date of the Offer as so extended.

3. ANNOUNCEMENTS

(a) As required under Rule 19 of the Takeovers Code, by 6:00 p.m. (or such later time and/or date as the Executive may in exceptional circumstance permit) on the Closing Date, the Offeror must inform the Executive and the Stock Exchange of its intention in relation to the revision, extension or expiry of the Offer. The Offeror must publish an announcement on the Stock Exchange's website no later than 7:00 p.m. on the Closing Date stating whether the Offer has been revised, extended or has expired.

The announcement must state the following:

(i) the total number of Shares and rights over Shares for which acceptances of the Offer have been received;

(ii) the total number of Shares and rights over Shares held, controlled or directed by the Concert Group before the offer period (as defined under the Takeovers Code); and

(iii) the total number of Shares and rights over Shares acquired or agreed to be acquired during the offer period by the Concert Group.

The announcement must include details of any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in the Company which the Offeror or any person acting in concert with it has borrowed or lent, save for any borrowed Shares which have been either on-lent or sold.

The announcement must also specify the percentages of the relevant classes of share capital of the Company and the percentages of voting rights of the Company represented by these numbers of Shares.

(b) In computing the total number of Shares represented by acceptances, for announcement purposes, acceptances which are not in all respects in complete and good order or that are subject to verification may only be included where they could be counted towards fulfilling the acceptance conditions under paragraph 1(e) of this Appendix.

(c) As required under the Takeovers Code and the Listing Rules, any announcement in relation to the Offer, in respect of which the Executive and the Stock Exchange have confirmed that they have no further comments thereon, will be published on the website of the Stock Exchange (http://www.hkex.com.hk) and the website of the Company (http://www.tonic.com.hk).

4. RIGHT OF WITHDRAWAL

(a) Acceptance of the Offer tendered by the Independent Shareholders or by their agent(s) on their behalves shall be irrevocable and cannot be withdrawn, except in the circumstances set out in sub-paragraph (b) below.

(b) If the Offeror is unable to comply with any of the requirements of Rule 19 of the Takeovers Code, the Executive may require that the Independent Shareholders who have tendered acceptances of the Offer be granted a right of withdrawal on terms that are acceptable to the Executive until the requirements set out in that paragraph are met.

5. SETTLEMENT

(a) Provided that the Form(s) of Acceptance and/or the relevant share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) are in complete and good order in all respects and have been received by the Registrar by no later than 4:00 p.m. on the Closing Date for the acceptance of the Offer, a cheque for the amount representing the cash consideration due to each accepting Independent Shareholder in respect of the Shares tendered by him/her or his/her agent(s) under the Offer, less seller's ad valorem stamp duty payable by him/her in the case for tendered Shares, will be despatched to each accepting Independent Shareholder by ordinary post at his/her own risk as soon as possible but in any event within 10 days from the date of receipt of duly completed acceptances by the Registrar and in accordance with the Takeovers Code.

(b) Settlement of the consideration to which any Independent Shareholder is entitled under the Offer will be implemented in full in accordance with the terms of the Offer, without regard to any lien, right of set-off, counterclaim or other analogous right to which the Offeror may otherwise be, or claim to be, entitled against such Shareholder.

If the Offer is withdrawn with the consent of the Executive in accordance with the Takeovers Code, the Offeror shall, as soon as possible but in any event within 10 days thereof, return by ordinary post the share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of the Shares lodged with the Form(s) of Acceptance to the relevant Independent Shareholders who have tendered acceptances to the Offer.

No fraction of a cent will be payable and the amount of the consideration payable to an Independent Shareholder who accepts the Offer will be rounded up to the nearest cent

6. OVERSEAS SHAREHOLDERS

The making of the Offer or the acceptance thereof by persons not being a resident of Hong Kong or with a registered address in jurisdictions outside Hong Kong may be affected by the laws of the relevant jurisdictions. Independent Shareholders who are citizens or residents or nationals of jurisdictions outside Hong Kong should inform themselves about and observe any applicable legal requirements in their own jurisdictions.

It is the responsibility of each overseas shareholder who wish to accept the Offer to satisfy themselves as to the full observance of all applicable legal and regulatory requirements of the relevant jurisdiction in connection therewith, including the obtaining of any governmental exchange control or other consent which may be required or the compliance with other necessary formalities and the payment of any transfer or other taxes due in respect of such jurisdiction. Any acceptance by an overseas shareholder will be deemed to constitute a representation and warranty from such person to the Offeror that permitted under all applicable laws and regulations to receive and accept the Offer, and any revision thereof, and that, all local laws and requirements have been fully complied with. Independent Shareholders should consult their professional adviser if in doubt.

7. GENERAL

(a) All communications, notices, Form(s) of Acceptance, share certificate(s), transfer receipts, other documents of title (and/or any satisfactory indemnity or indemnities required in respect thereof) and remittances to settle the consideration payable under the Offer to be delivered by or sent to or from the Independent Shareholders will be delivered by or sent to or from them, or their designated agents through ordinary post at their own risk, and none of the Company, the Offeror, Quam Capital, Quam Securities, Somerley, Access Capital, the Registrar nor any of their respective directors or agents or other parties involved in the Offer accepts any liability for any loss in postage or any other liabilities that may arise as a result thereof.

(b) The provisions set out in the Form of Acceptance form part of the terms of the Offer.

(c) The accidental omission to despatch the Composite Document and/or the Form(s) of Acceptance or any of them to any person to whom the Offer is made will not invalidate the Offer in any way.

(d) The Offer and all acceptances will be governed by and construed in accordance with the laws of Hong Kong. Execution of a Form of Acceptance by or on behalf of an Independent Shareholder will constitute such shareholder's agreement that the courts of Hong Kong shall have exclusive jurisdiction to settle any dispute which may arise in connection with the offer.

(e) Due execution of the Form of Acceptance will constitute an authority to any director of the Offeror, Quam Securities or such person or persons as any of them may direct to complete and execute any document on behalf of the person accepting the Offer and to do any other act that may be necessary or expedient for the purposes of vesting in the Offeror, Quam Securities or such person or persons as it may direct the Shares, in respect of which such person has accepted the Offer.

(f) Acceptance of the Offer by any person or persons will be deemed to constitute a warranty by such person or persons to the Offeror that the Shares acquired under the Offer are sold by any such person or persons free from all liens, claims and encumbrances and together with all rights attaching thereto including the right to receive all future dividends or other distributions, if any, declared, paid or made on the Shares on or after the date of the Completion.

(g) The Offeror does not intend to exercise any right which may be available to it to acquire compulsorily any Shares not acquired under the Offer after the close of the Offer.

(h) References to the Offer in the Composite Document and in the Form(s) of Acceptance shall include any extension and/or revision thereof.

(i) Acceptance to the Offer by any nominee will be deemed to constitute a warranty by such nominee to Offeror that the number of Shares in respect of which it is indicated in the Form(s) of Acceptance is the aggregate number of Shares held by such nominee for such beneficial owners who are accepting the Offer.

(j) The English text of the Composite Document and the Form of Acceptance shall prevail over their Chinese text for the purpose of interpretation.

1. FINANCIAL SUMMARY

The following is a summary of the audited consolidated results of the Former Group for the three years ended 31 March 2010 extracted from the relevant annual reports of the Company and the Circular:

	2010 *HK$'000*	2009 *HK$'000*	2008 *HK$'000*
CONTINUING OPERATION			
Turnover	486,237	2,055,805	2,120,846
Cost of sales	(522,321)	(2,064,790)	(1,949,779)
Gross profit/(loss)	(36,084)	(8,985)	171,067
Other income	5,675	37,692	5,619
Selling expenses and distribution costs	(1,430)	(3,313)	(9,750)
Administrative expenses	(100,420)	(78,970)	(73,237)
Gains/(losses) on equity investments at fair value through profit or loss	1,094	(1,488)	(6,432)
Provision for impairment of assets	(224,832)	(60,697)	(13,256)
Provision against inventories and loss on auctions of sequestrated inventories	(426,945)	(10,981)	(4,201)
Professional expenses on aborted projects	–	–	(21,326)
Profit/(loss) from operations	(782,942)	(126,742)	48,484
Finance costs	(22,454)	(25,716)	(36,470)
Profit/(loss) before tax	(805,396)	(152,458)	12,014
Income tax	14,982	(140)	(13,515)
Loss for the year from continuing operation	(790,414)	(152,598)	(1,501)
DISCONTINUED OPERATION			
Profit/(loss) for the year from discontinued operation	–	(22,289)	7,186
Loss for the year attributable to equity holders of the Company	(790,414)	(174,887)	5,685
Earnings/(loss) per share			
Basic (HK cents per share)			
– Continuing operation	(74.7)	(14.4)	(0.2)
– Discontinued operation	–	(2.1)	0.8
From continuing and discontinued operations	(74.7)	(16.5)	0.6
Diluted (HK cents per share)	N/A	N/A	N/A

Notes:

1. The Group did not have any profits/loss to minority interest and has not declared any dividends for the three years ended 31 March 2010 and for the six months ended 30 September 2010.

2. ANDA CPA Limited ("ANDA") was engaged as the reporting accountant on 22 February 2010 to report on the financial information of the Group for the purpose of the Circular, and has issued qualified opinions in the accountant's report for each of the three financial years ended 31 March 2009 and for the nine months ended 31 December 2009 in the Circular. ANDA was appointed as the auditor of the Company on 4 June 2010 and it has issued a qualified audit opinion on the annual audited consolidated financial statements for the financial year ended 31 March 2010.

2. ACCOUNTANTS' REPORT ON THE FINANCIAL STATEMENTS OF THE FORMER GROUP FOR EACH OF THE THREE FINANCIAL YEARS ENDED 31 MARCH 2009 AND FOR THE NINE MONTHS ENDED 31 DECEMBER 2009

The accountants report (the "Accountants' Report") on the financial information of the Former Group for each of the three financial years ended 31 March 2009 and for the nine months ended 31 December 2009 contained in the Circular is reproduced below. The Accountants' Report contained qualifications and disclaimers as set out in the Accountants' Report. Capitalised terms and references used in this section shall have the same meanings as those defined in the Circular.

The Board of Directors
Tonic Industries Holdings Limited

Dear Sirs,

We set out below our report on the financial information (the "Financial Information") of Tonic Industries Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") for each of the three years ended 31 March 2009 and the nine months ended 31 December 2009 (the "Relevant Periods") for inclusion in the circular dated 28 June 2010 (the "Circular") issued by the Company in connection with the proposed capital reorganisation; proposed group reorganisation and creditor scheme; proposed subscription of new shares and application for the granting of the whitewash waiver (the "Restructuring Proposal"). Upon completion of the Restructuring Proposal, the group reorganisation and creditor scheme will split the Group into a group comprising the Company and certain subsidiaries retained under the control of the Company (the "Retained Subsidiaries") (altogether with the Company referred to as the "Retained Group") and a group comprising other subsidiaries to be held outside the Retained Group (the "Scheme Subsidiaries") by a special purpose vehicle wholly-owned by the scheme administrators (the "Schemeco") for the purpose of the creditor scheme. If the creditor scheme becomes effective upon completion of the Restructuring Proposal, the Scheme Subsidiaries will be deconsolidated from the Group subsequently.

The Financial Information comprises the consolidated statements of financial position as at 31 March 2007, 2008, 2009 and 31 December 2009, and the consolidated income statements and consolidated statements of comprehensive income, the consolidated statements of change in equity and the consolidated statements of cash flows of the Group for the Relevant Periods, and a summary of significant accounting policies and other explanatory notes.

The Company was incorporated on 24 April 1997 in the Cayman Islands as an exempted company with limited liability under Companies Law of the Cayman Islands and its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Its principal activity is investment holding. As at the date of this report, the Company has direct and indirect interests in the principal subsidiaries as set out in note 22 of Section B below.

The consolidated financial statements of the Group for the three years ended 31 March 2007, 2008 and 2009 were audited by Ernst & Young. The audited consolidated financial statements of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which also include Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

The directors of the Company (the "Directors") are responsible for the preparation of the consolidated financial statements of the Group for the Relevant Periods (the "Underlying Financial Statements") in accordance with HKFRSs and the contents of the Circular in which this report is included. The Financial Information of the Group for the Relevant Periods set out in this report has been prepared in accordance with HKFRSs based on the Underlying Financial Statements. No adjustments to the Underlying Financial Statements have been made in preparing our report for inclusion in the Circular.

We have examined the Underlying Financial Statements in accordance with Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA. It is our responsibility to compile the Financial Information set out in this report from the Underlying Financial Statements, to form an independent opinion on the Financial Information and to report our opinion solely to you.

BASIS OF OPINION

1. *Scope limitation – inventories*

As we were engaged as reporting accountants to report on the Financial Information only subsequent the end of the Relevant Periods, we were unable to carry out auditing procedures necessary for us to provide assurance regarding the quantities and conditions of inventories appearing in the consolidated statements which amounted to HK$315,509,000, HK$526,835,000, HK$353,832,000 and HK$8,554,000 as at 31 March 2007, 2008, 2009 and 31 December 2009 respectively. Further, we were not able to perform satisfactory audit procedures to verify the quantities and conditions of these inventories. Any adjustment to the figures may have consequential effects to the results of the Group for the Relevant Periods and the consolidated financial position of Group as at 31 March 2007, 2008, 2009 and 31 December 2009.

2. *Material uncertainties relating to possible outcome of outstanding litigations and the going concern basis*

In forming our opinion, we have considered the adequacy of the disclosures made in note 46 to the Financial Information concerning the outcome of the lawsuits and claims against certain subsidiaries of the Group which remained outstanding at 31 December 2009. The Group has been in discussion and negotiation with certain plaintiffs to reach an accommodation with the claimants and to explore the possibility of seeking a forbearance of the Group's payables. Apart from that, the Directors, based on their best estimates and legal advices, are of the view that several defendants have valid grounds for defending the claims made by the plaintiffs. However, with the litigations still ongoing up to the date of this report, it is not possible to ascertain with any degree of reasonable certainty the outcome of those litigations and the existence or otherwise of any compensation payable should the related defense become unsuccessful, and the completeness of any other lawsuits and claims arose against the concerned subsidiaries of the Group. We consider that appropriate disclosures have been made, but, there is a material uncertainty as to whether the above actions can be successfully defended and accordingly, there may be a potential significant impact on the financial performance and position of the Group for the nine months ended 31 December 2009.

We have also considered the adequacy of the disclosures made in note 2 to the Financial Information concerning the adoption of the going concern basis on which the Financial Information has been prepared. The Company has entered into a conditional arrangement with, among others, certain investors for the purpose of restructuring of the Company's indebtedness and revitalising the Group's business. The Financial Information has been prepared on a going concern basis, the validity of which depends upon the successful outcome of the measures to be implemented and in process by the Group to improve the financial position and business of the Group. The Financial Information does not include any adjustments that would result from the failure of these measures. We consider that appropriate disclosures have been made, but, because the significant uncertainties relating to the outcome of the Restructuring Proposal are so extreme, we are unable to determine whether the going concern basis used in preparing the Financial Information is appropriate.

In view of the extent and potential impacts of the material uncertainties as described above, we disclaim our opinion on the Financial Information for the nine months ended 31 December 2009.

QUALIFIED OPINION ARISING FROM LIMITATION OF AUDIT SCOPE IN RESPECT OF THE FINANCIAL INFORMATION FOR THE YEARS ENDED 31 MARCH 2007, 2008 AND 2009

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to satisfy ourselves as to the matter as set out in scope limitation of the basis of opinion paragraphs above, the Financial Information together with the notes thereon, for the purpose of this report, gives a true and fair view of the state of affairs of the Company and of the Group as at 31 March 2007, 2008 and 2009 and of the Group's results and cash flows for each of the years then ended in accordance with the HKFRSs.

DISCLAIMER OF OPINION IN RESPECT OF THE FINANCIAL INFORMATION FOR THE PERIOD ENDED 31 DECEMBER 2009

Because of the significance of the scope limitation and the material uncertainties relating to the possible outcome of litigations and going concern basis as described in the basis of opinion paragraphs, we do not express an opinion on the Financial Information as to whether they give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2009 and of the Group's results and cash flows for the period then ended in accordance with HKFRSs.

REVIEW CONCLUSION IN RESPECT OF THE 2008 COMPARATIVE FINANCIAL INFORMATION

For the purpose of this report, the Directors have prepared the comparative financial information of the Group for the nine months ended 31 December 2008 (the "Comparative Financial Information") in accordance with HKFRSs. We have reviewed the Comparative Financial Information in accordance with Hong Kong Standard on Review Engagements 2400 "Engagements to Review Financial Statements" issued by the HKICPA. A review consists principally of making enquiries of the Group management and applying analytical procedures to the Comparative Financial Information and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as test of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the Comparative Financial Information.

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the Comparative Financial Information.

ANDA CPA Limited
Certified Public Accountants
Sze Lin Tang
Practising Certificate Number P03614

Hong Kong, 28 June 2010

3. AUDITORS' REPORT ON THE FINANCIAL INFORMATION OF THE FORMER GROUP FOR THE FINANCIAL YEAR ENDED 31 MARCH 2010

The auditors' report (the "Auditors' Report") on the financial information of the Former Group for the financial year ended 31 March 2010 contained in the annual report 2010 of the Company is reproduced below. The Auditors' Report contained qualifications and disclaimers as set out in the Auditors' Report. Capitalised terms and references used in this section shall have the same meanings as those defined in the annual report 2010 of the Company.

A. AUDITORS' REPORT

TO THE SHAREHOLDERS OF TONIC INDUSTRIES HOLDINGS LIMITED
(Incorporated in the cayman islands with limited liability)

We were engaged to audit the consolidated financial statements of Tonic Industries Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 34 to 143, which comprise the consolidated and Company statements of financial position as at 31 March 2010, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company (the "Directors") are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Except for the limitation in the scope of our work and the material uncertainties relating to the possible outcome of litigations and going concern basis as described in the basis for disclaimer of opinion paragraphs, we conducted our audit in accordance with Hong Kong Standards on Auditing issued by the HKICPA. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

However, because of the matters described in the basis for disclaimer of opinion paragraphs, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

BASIS FOR DISCLAIMER OF OPINION

1. Scope limitation – opening inventories

Because we were appointed as auditors of the Group subsequent to the end of its last reporting period at 31 March 2009, we were unable to attend the Group's physical count of inventories as at that date. There were no other satisfactory audit procedures that we could adopt to satisfy ourselves as to the opening inventories of approximately HK$353,832,000. Since opening inventories enter into the determination of the Group's results, any adjustments to the figures might have significant consequential effects on the Group's results for the year ended 31 March 2010, the related opening balances and corresponding figures shown in the current year's consolidated financial statements.

2. Material uncertainties relating to possible outcome of outstanding litigations and the going concern basis

In forming our opinion, we have considered the adequacy of the disclosures made in note 45 to the financial statements concerning the outcome of the lawsuits and claims against certain subsidiaries of the Company which remained outstanding at 31 March 2010. The Group has been in discussion and negotiation with certain plaintiffs to reach an accommodation with the claimants and to explore the possibility of seeking a forbearance of the Group's payables. Apart from that, the Directors, based on their best estimates and legal advices, are of the view that several defendants have valid grounds for defending the claims made by the plaintiffs. However, with the litigations still ongoing up to the approval date of these financial statements, it is not possible to ascertain with any degree of reasonable certainty the outcome of those litigations and the existence or otherwise of any compensation payable should the related defense become unsuccessful, and the completeness of any other lawsuits and claims arose against the concerned subsidiaries of the Company. We consider that appropriate disclosures have been made, but, there is a material uncertainty as to whether the above actions can be successfully defended and accordingly, there may be a potential significant impact on the financial performance and position of the Group for the year ended 31 March 2010.

We have also considered the adequacy of the disclosures made in note 2 to the financial statements concerning the adoption of the going concern basis on which the financial statements have been prepared. The Company has entered into a conditional arrangement with, among others, certain investors for the purpose of restructuring of the Group's indebtedness and revitalising the Group's business. The financial statements have been prepared on a going concern basis, the validity of which depends upon the successful outcome of the measures to be implemented and in process by the Group to improve the financial position and business of the

Group. The financial statements do not include any adjustments that would result from the failure of these measures. We consider that appropriate disclosures have been made, but, because of the significant uncertainties relating to the outcome of the restructuring proposal are so extreme, we are unable to determine whether the going concern basis used in preparing the financial statements are appropriate.

In view of the extent and potential impacts of the material uncertainties as described above, we disclaim our opinion on the financial statements for the year ended 31 March 2010.

DISCLAIMER OF OPINION: DISCLAIMER ON VIEW GIVEN BY THE FINANCIAL STATEMENTS

Because of the significance of the scope limitation and the material uncertainties relating to the possible outcome of litigations and going concern basis as described in the basis for disclaimer of opinion paragraphs, we do not express an opinion on the consolidated financial statements as to whether they give a true and fair view of the state of affairs of the company and of the Group as at 31 March 2010 and of the Group's results and cash flows for the year then ended in accordance with the Hong Kong Financial Reporting Standards. In all other respects, in our opinion, the consolidated financial statements have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

ANDA CPA Limited
Certified Public Accountants
Sze Lin Tang
Practising Certificate Number P03614
Hong Kong, 27 July 2010

B. FINANCIAL INFORMATION

CONSOLIDATED INCOME STATEMENT

For the year ended 31 March 2010

	NOTES	**2010** *HK$'000*	**2009** *HK$'000*
CONTINUING OPERATION			
Turnover	*8*	486,237	2,055,805
Cost of sales		(522,321)	(2,064,790)
Gross loss		(36,084)	(8,985)
Other income	*9*	5,675	37,692
Selling expenses and distribution costs		(1,430)	(3,313)
Administrative expenses		(100,420)	(78,970)
Gains/(losses) on equity investments at fair value through profit or loss		1,094	(1,488)
Provision for impairment of assets	*10*	(224,832)	(60,697)
Provision against inventories and loss on auctions of sequestrated inventories	*10*	(426,945)	(10,981)
Loss from operations		(782,942)	(126,742)
Finance costs	*11*	(22,454)	(25,716)
Loss before tax		(805,396)	(152,458)
Income tax	*12*	14,982	(140)
Loss for the year from continuing operation		(790,414)	(152,598)
DISCONTINUED OPERATION			
Loss for the year from discontinued operation	*13*	–	(22,289)
Loss for the year attributable to equity holders of the Company	*10, 18*	(790,414)	(174,887)
Loss per share	*16*		
Basic (HK cents per share) – Continuing operation		(74.7)	(14.4)
– Discontinued operation		–	(2.1)
From continuing and discontinued operations		(74.7)	(16.5)
Diluted (HK cents per share)		N/A	N/A

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 March 2010

	Notes	2010 HK$'000	2009 HK$'000
Loss for the year attributable to equity holders of the Company	*10, 18*	(790,414)	(174,887)
Translation differences of foreign operations		283	(1,283)
(Deficit)/surplus on property revaluation		(27,384)	1,177
Deferred tax on property revaluation reserve:			
Deficit/(surplus) on revaluation		6,901	(274)
Change in tax rate		–	7
Release on disposal		624	190
Other comprehensive income for the year, net of tax		(19,576)	(183)
Total comprehensive income for the year, net of tax		(809,990)	(175,070)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 March 2010

	Notes	2010 HK$'000	2009 HK$'000
Non-current assets			
Property, plant and equipment	19	365,775	661,300
Prepaid lease payments	20	34,270	41,091
Intangible assets	21	–	10,345
Available-for-sale investments	23	–	–
Deposits for acquisition of items of property, plant and equipment		–	53
		400,045	712,789
Current assets			
Inventories	24	1,466	353,832
Accounts and bills receivables	25	831	68,495
Factored accounts receivables	26	–	53,394
Prepayments, deposits and other receivables	27	935	16,418
Prepaid lease payments	20	762	909
Equity investments at fair value through profit or loss	28	–	2,592
Derivative financial instruments	29	–	382
Current tax assets		1,919	–
Cash and bank balances	30	30,176	36,758
		36,089	532,780
Current liabilities			
Accounts payables	31	319,210	342,022
Accruals and other payables	32	82,249	43,548
Borrowings	33	412,094	337,427
Due to directors	35	629	–
Current tax liabilities		13,785	21,265
		827,967	744,262
Net current liabilities		(791,878)	(211,482)
Total assets less current liabilities		(391,833)	501,307

	Notes	2010 HK$'000	2009 HK$'000
Non-current liabilities			
Borrowings	33	–	61,144
Deferred tax	37	31,477	53,483
		31,477	114,627
NET (LIABILITIES)/ASSETS		(423,310)	386,680
Capital and reserves			
Share capital	38	105,789	105,789
Reserves	40(a)	(529,099)	280,891
TOTAL EQUITY		(423,310)	386,680

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 March 2010

	Attributable to equity holders of the Company						
	Share capital	Share premium account	Contributed reserve	Property revaluation reserve	Foreign currency translation reserve	Retained profits/ (accumulated losses)	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 April 2008	105,789	71,388	280	98,165	8,463	277,665	561,750
Total comprehensive income for the year	–	–	–	1,100	(1,283)	(174,887)	(175,070)
Transfer on disposal	–	–	–	(1,554)	–	1,554	–
At 31 March 2009 and 1 April 2009	105,789	71,388	280	97,711	7,180	104,332	386,680
Total comprehensive income for the year	–	–	–	(19,859)	283	(790,414)	(809,990)
Transfer on disposal	–	–	–	(3,784)	–	3,784	–
At 31 March 2010	105,789	71,388	280	74,068	7,463	(682,298)	(423,310)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 March 2010

	2010	2009
	HK$'000	*HK$'000*
Cash flows from operating activities		
Loss before tax:		
From continuing operation	(805,396)	(152,458)
From discontinued operation	–	(21,980)
Adjustments for:		
Finance costs	22,454	25,955
Bank interest income	(71)	(174)
Dividend income from listed investments	(167)	(143)
Loss/(gain) on disposal of items of property, plant and equipment	43,083	(29,886)
(Gains)/losses on, net:		
Equity investment at fair value through profit or loss	(1,094)	1,488
Derivative financial instruments – forward currency contract, net	(464)	(382)
Depreciation	40,452	66,813
Provision against inventories and loss on auctions of sequestrated inventories	426,945	10,981
Amortisation of prepaid land lease payments	764	981
Amortisation of software development costs and trademarks	55	357
Amortisation of deferred development costs	5,577	8,330
Provision for impairment of assets	224,832	65,795
Operating loss before working capital changes	(43,030)	(24,323)
Change in inventories	(74,579)	162,022
Change in accounts and bills receivables	34,954	131,132
Change in factored accounts receivable	33,703	(53,394)
Change in prepayments, deposits and other receivables	4,684	2,124
Change in accounts payables	(21,966)	(175,055)
Change in accruals and other payables	38,699	(25,986)
Cash (used in)/generated from operations	(27,535)	16,520
Interest received	71	174
Interest paid	(22,337)	(25,361)
Interest element on finance lease rental payment	(117)	(594)
Hong Kong profits tax paid	(8,611)	(55)
Oversea taxes paid	(298)	–
Net cash used in operating activities	(58,827)	(9,316)

	2010	2009
	HK$'000	*HK$'000*
Cash flows from investing activities		
Dividends received from listed investment	167	143
Purchase of items of property, plant and equipment	(23,687)	(13,921)
Proceeds from disposal of items of property, plant and equipment	57,791	35,619
Additions to intangible assets	–	(3,867)
Proceeds from disposal of an equity investment at fair value through profit or loss	3,686	–
Decrease in loans receivable	–	93
Net cash generated from investing activities	37,957	18,067
Cash flows from financing activities		
Decrease in trust receipt loans	(3,708)	(76,059)
New bank and other loans	81,091	226,850
Repayment of bank and other loans	(63,175)	(151,883)
Capital element of finance lease rental payment	(3,294)	(8,445)
Advances from directors	629	–
Net cash generated from/(used in) financing activities	11,543	(9,537)
Net decrease in cash and cash equivalents	(9,327)	(786)
Cash and cash equivalents at beginning of year	26,143	26,732
Effect of changes in foreign exchange rate	182	197
Cash and cash equivalents at end of year	16,998	26,143
Analysis of cash and cash equivalents		
Cash and bank balances	30,176	36,758
Bank overdrafts – secured	(13,178)	(10,615)
	16,998	26,143

STATEMENT OF FINANCIAL POSITION
As at 31 March 2010

	Notes	2010 HK$'000	2009 HK$'000
Non-current assets			
Investments in subsidiaries	22	–	58,812
Available-for-sale investments	23	–	–
		–	58,812
Current assets			
Due from subsidiaries	22	–	210,676
Cash and bank balances		–	138
		–	210,814
Current liabilities			
Accruals and other payables		579	9
Financial guarantee liabilities	36	157,795	–
Due to subsidiaries	22	411	–
		158,785	9
Net current (liabilities)/assets		(158,785)	210,805
NET (LIABILITIES)/ASSETS		(158,785)	269,617
Capital and reserves			
Issued capital	38	105,789	105,789
Reserves	40(b)	(264,574)	163,828
TOTAL EQUITY		(158,785)	269,617

NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL INFORMATION

The Company is a limited liability company incorporated in the Cayman Islands. The registered office of the Company is located at P.O. Box 309 GT, Ugland House, South Church Street, George Town, Grand Cayman, Cayman Islands, British West Indies. The address of its principal place of business is Flat K2, Block 2, 2/F., Kaiser Estate, 51 Man Yue Street, Hung Hom, Kowloon, Hong Kong. The Company's shares are listed on the Main Board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Company is an investment holding company and the principal activities of its subsidiaries during the year are design, manufacture and sale of consumer electronic products and components.

In the opinion of the Directors, the holding company and the ultimate holding company of the Group is Success Forever Limited, which is incorporated in the British Virgin Islands.

2. BASIS OF PREPARATION

(a) Going Concern

At 31 March 2010, the Group had consolidated net current liabilities of approximately HK$791,878,000 (2009: HK$211,482,000) and consolidated net liabilities of approximately HK$423,310,000 (2009: net assets of approximately HK$386,680,000). The group incurred a net loss attributable to equity holders of the Company for the year ended 31 March 2010 of approximately HK$790,414,000 (2009: HK$174,887,000). During the year ended 31 March 2010 and as at that date, the Group has breached certain terms and defaulted on the repayment of certain banking facilities. At 31 March 2010, bank borrowings of approximately HK$169,166,000 became repayable on demand as a result of the breaches.

To address the issues above, the Group has been in discussion and negotiation with creditors to explore the possibility of seeking a forbearance of the Group's borrowings and with potential investors to explore the possibility of injecting new funds into the Group through a restructuring proposal. The restructuring proposal (the "Restructuring Proposal") is conditional upon passing of special resolutions (the "Resolutions") by the shareholders of the Company with an extraordinary general meeting to approve the proposed capital reorganisation, the proposed group reorganisation, the proposed creditor scheme and the proposed subscription of new shares (as further disclosed in the circular of Company dated 28 June 2010 and hereinafter referred to as the "Circular") and other conditions precedent further detailed in the Circular. Pursuant to the Resolutions passed on 26 July 2010, the Restructuring Proposal was approved by the shareholders. The remaining conditions precedent will be processed subsequently in accordance with the scheduled working timetable of the Restructuring Proposal. The Restructuring Proposal, if successfully implemented, consists of, among other things, the principal elements as summarised below. Unless otherwise specified, capitalised terms used herein shall have the same meanings as in the Circular.

(i) Capital Reorganisation

The Company will undergo the Capital Reorganisation comprising the Capital Reduction, Share Sub-division and Share Consolidation. Before the Capital Reorganisation, the authorised share capital of the Company is HK$300,000,000 divided into 3,000,000,000 Existing Shares of HK$0.10 each, and the issued share capital of the Company is HK$105,788,996.20 divided into 1,057,889,962 Shares. Immediately after completion of the Capital Reorganisation, the authorised share capital of the Company will be HK$300,000,000, divided into 30,000,000,000 New Shares of HK$0.010 each and the issued share capital of the Company will be reduced to approximately HK$1,057,889.96 divided into 105,788,996 New Shares of HK$0.010 each. The Shares will rank pari passu in all respects with each other.

(ii) *Group Reorganisation*

The proposed Group Reorganisation and Creditor Scheme will split the Group into a group comprising the Company and certain subsidiaries retained under the control of the Company (the "Retained Subsidiaries") (altogether with the Company referred to as the "Retained Group") and a group comprising the other subsidiaries to be held outside the Retained Group (the "Scheme Subsidiaries") by a special purpose vehicle wholly-owned by the scheme administrators (the "Schemeco") for the purpose of the Creditor Scheme.

(iii) *Creditor Scheme*

Pursuant to the proposed Creditor Scheme, upon it has become effective, all Claims against the Company will be released and discharged and (i) a cash payment of HK$80 million (which will be funded by the Company out of the proceeds of the Subscription); (ii) the funds received through the realisation or winding up of the Scheme Subsidiaries after payment of the liabilities of the respective Scheme Subsidiaries; (iii) any funds received through the realisation or holding of 63,473,398 Options Shares, representing approximately 5.94% of the share capital of the Company as enlarged by the allotment and issue of the Subscription Shares and Remuneration Shares, and (iv) the balances between the members of Retained Group and Scheme Subsidiaries as at the Effective Date will be subject to certain debt settlement and/or assignment arrangement for the purpose of the Creditor Scheme.

(iv) *Subscription of New Shares*

Pursuant to the Subscription Agreement dated 15 January 2010 as amended by the supplemental subscription agreement dated 24 June 2010, the Company has conditionally agreed to allot and issue to the Subscriber, and the Subscriber has conditionally agreed to subscribe for 909,785,366 Subscription Shares, representing approximately 85.15% of the share capital of the Company as enlarged by the allotment and issue of the Subscription Shares and Remuneration Shares, at par value of HK$0.010 each at a Subscription Price of approximately HK$0.0879 per Subscription Share, resulting in the cash consideration of HK$80 million.

The financial statements have been prepared on the basis that the Restructuring Proposal of the Company 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 proposed restructuring. As at the approval date of these financial statements, subject to the fulfillment of conditions precedent as further detailed in the Circular, 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 with the financial statements on a going concern basis. The financial statements do not incorporate any adjustments for possible failure of the above-mentioned Restructuring Proposal and the continuance of the Group as a going concern.

Should the Group be unable to achieve a successful restructuring and to continue its business as a going concern, adjustments would have to be made to restate the value of assets to their recoverable amounts, and to provide for any further liabilities which may arise and to reclassify non-current assets and liabilities as current assets and liabilities respectively. The effects of these adjustments have not been reflected in the financial statements for the year ended 31 March 2010 and as at that date.

(b) Possible outcome of outstanding litigations

Certain subsidiaries of the Company are or have been involved in litigations in respect of goods sold and services delivered, trade and other payables to third parties. The Directors determine the provision for litigations based on their best estimates and legal advices. However, with the litigations still ongoing up to the approval date of these financial statements, it is not possible to ascertain with any degree of reasonable certainty the outcome of those litigations and the existence or otherwise of any compensation payable should the related defense become unsuccessful, and the completeness of any other lawsuits and claims arose. There is a material uncertainty as to whether the above actions can be successfully defended and accordingly, there may be a potential significant impact on the financial performance and position of the Group.

Any adjustment arising from the matters described above might have a significant consequential effect on the Group's results and financial position for the year ended 31 March 2010 and related disclosures thereof in the financial statements.

3. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

During the year, the Group has adopted all the new and revised Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") that are relevant to its operations and effective for its accounting year beginning on 1 April 2009. HKFRSs comprise Hong Kong Financial Reporting Standards ("HKFRS"); Hong Kong Accounting Standards ("HKAS"); and Interpretations. The adoption of these new and revised HKFRSs did not result in significant changes to the Group's accounting polices, presentation of the Group's financial statements and amounts reported for the current year and prior years except as stated below.

(a) Presentation of Financial Statements

HKAS 1 (Revised) "Presentation of Financial Statements" affects certain disclosures and presentation of the financial statements. The balance sheet is renamed as the statement of financial position and the cash flow statement is renamed as the statement of cash flows. All income and expenses arising from transactions with non-owners are presented in the income statement, the statement of comprehensive income, and the total carried to the statement of changes in equity. The owner changes in equity are presented in the statement of changes in equity. HKAS 1 (Revised) also requires disclosures of the reclassification adjustments and tax effects relating to each component of other comprehensive income for the year. HKAS 1 (Revised) has been applied retrospectively.

(b) Operating Segments

HKFRS 8 "Operating Segments" requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance. Previously, HKAS 14 "Segment Reporting" required an entity to identify two sets of segments (business and geographical), using a risks and rewards approach, with the entity's system of internal financial reporting to key management personnel serving as the starting point for the identification of such segments. The primary segments reported under HKAS 14 are the same as the segments reported under HKFRS 8. HKFRS 8 has been applied retrospectively.

The Group has not applied the 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.

4. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

These financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the financial statements include applicable disclosures required by the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange.

These financial statements have been prepared under the historical cost convention, except for buildings, derivative financial instruments and certain investments, which have been measured at fair value. The financial statements are presented in Hong Kong dollars ("HK$") and all values are rounded to the nearest thousand except when otherwise indicated.

The preparation of the financial statements in conformity with HKFRSs requires the use of key assumptions and estimates. It also requires management to exercise its judgments in the process of applying the accounting policies. The areas involving critical judgments and areas where assumptions and estimates are significant to the financial statements are further disclosed in note 5 to the financial statements.

The significant accounting policies applied in the preparation of these financial statements are set out below.

Consolidation

These consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31 March. Subsidiaries are entities over which the Group has control. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group has control.

Subsidiaries are consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date the control ceases.

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its carrying amount together with any remaining goodwill relating to the subsidiary and also any related accumulated foreign currency translation reserve.

Intragroup transactions, balances and unrealised profits are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Foreign currency translation

(a) *Functional and presentation currency*

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency.

(b) *Transactions and balances in each entity's financial statements*

Transactions in foreign currencies are translated into the functional currency on initial recognition using the exchange rates prevailing on the transaction dates. Monetary assets and liabilities in foreign currencies are translated at the exchange rates at the end of each reporting period. Gains and losses resulting from this translation policy are recognised in profit or loss.

Non-monetary items that are measured at fair values in foreign currencies are translated using the exchange rates at the dates when the fair values are determined.

When a gain or loss on a non-monetary item is recognised in other comprehensive income, any exchange component of that gain or loss is recognised in other comprehensive income. When a gain or loss on a non-monetary item is recognised in profit or loss, any exchange component of that gain or loss is recognised in profit or loss.

(c) Translation on consolidation

The results and financial position of all the Group entities that have a functional currency different from the Company's presentation currency are translated into the Company's presentation currency as follows:

(i) Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;

(ii) Income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the exchange rates on the transaction dates); and

(iii) All resulting exchange differences are recognised in the foreign currency translation reserve.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities and of borrowings are recognised in the foreign currency translation reserve. When a foreign operation is sold, such exchange differences are recognised in consolidated profit or loss as part of the gain or loss on disposal.

Property, plant and equipment

Buildings comprise mainly factories and offices and are carried at fair values, based on periodic valuations by external independent values, less subsequent depreciation and impairment losses. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. All other property, plant and equipment are stated at cost less accumulated depreciation and impairment losses.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are expensed in profit or loss during the period in which they are incurred.

Revaluation increases of buildings are recognised in profit or loss to the extent that the increases reverse revaluation decreases of the same asset previously recognised in profit or loss. All other revaluation increases are credited to the property revaluation reserve as other comprehensive income. Revaluation decreases that offset previous revaluation increases of the same asset remaining in the property revaluation reserve are charged against the property revaluation reserve as other comprehensive income. All other decreases are recognised in profit or loss. On the subsequent sale or retirement of a revalued building, the attributable revaluation increases remaining in the property revaluation reserve is transferred directly to retained profits.

Depreciation of property, plant and equipment is calculated at rates sufficient to write off their cost or revalued amounts less their residual values over the estimated useful lives on a straight-line and a reducing balance basis. The principal annual rates are as follows:

Buildings	4% on the straight-line basis
Leasehold improvements	10% to 25% on the reducing balance basis
Furniture and fixtures	10% to 25% on the reducing balance basis
Equipment and tools	10% to 25% on the reducing balance basis
Motor vehicles	30% on the reducing balance basis
Moulds	25% on the straight-line basis

The residual values, useful lives and depreciation method are reviewed and adjusted, if appropriate, at the end of each reporting period.

Construction in progress includes property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognised impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these property, plant and equipment, on the same basis as other property, plant and equipment, commences when the property, plant and equipment are ready for their intended use.

The gain or loss on disposal of property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit or loss.

Prepaid land lease payment

Prepaid land lease payment represents interest in land held under operating lease arrangements and is amortised on a straight-line basis over the lease terms.

The land and building elements of a lease of land and building are considered separately for the purpose of lease classification, unless the lease payments cannot be allocated reliably between the land and building elements, in which case, the entire lease is generally treated as a finance lease and accounted for as property, plant and equipments. To the extent the allocation of the lease payments can be made reliably, leasehold interests in land are accounted for as operating leases.

Intangible assets

(a) *Research and development expenditure*

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development expenditure is recognised only if it is anticipated that the development costs incurred on a clearly-defined project will be recovered through future commercial activity. The resultant asset is carried at cost less subsequent accumulated amortisation and any accumulated impairment losses. Amortisation is provided to write off the cost of development expenditure on a straight-line basis over its estimated useful life of three years.

Where no internally-generated intangible asset can be recognised, development expenditure is charged to the profit or loss in the period in which it is incurred.

(b) *Trademarks*

Trademarks are stated at cost less accumulated amortisation and any accumulated impairment losses. The amortisation is calculated on a straight-line basis over their estimated useful lives of ten years.

Leases

(a) Operating leases

Leases that do not substantially transfer to the Group all the risks and rewards of ownership of assets are accounted for as operating leases. Lease payments (net of any incentives received from the lessor) are recognised as an expense on a straight-line basis over the lease term.

(b) Finance leases

Leases that substantially transfer to the Group all the risks and rewards of ownership of assets are accounted for as finance leases. At the commencement of the lease term, a finance lease is capitalised at the lower of the fair value of the leased asset and the present value of the minimum lease payments, each determined at the inception of the lease.

The corresponding liability to the lessor is included in the statement of financial position as finance lease payable. Lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Assets under finance leases are depreciated the same as owned assets over the shorter of the lease term and their estimated useful lives.

Discontinued operation

Discontinued operation is a component of the Group, the operation and cash flows of which can be clearly distinguished from the rest of the Group and which represents a separate major line of business or geographical area of operation, or is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operation, or is a subsidiary acquired exclusively with a view to resale.

Classification as discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. It also occurs when the operation is abandoned.

When an operation is classified as discontinued, a single amount is presented on the face of the income statement, which comprises:

(a) The post-tax profit or loss of the discontinued operation; and

(b) The post-tax gain or loss recognised on the measurement to fair value less costs to sell, or on the disposal, of the assets or disposal group constituting the discontinued operation.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average basis. The cost of finished goods and work in progress comprises raw materials, direct labour and an appropriate proportion of all production overhead expenditure, and where appropriate, subcontracting charges. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

Recognition and derecognition of financial instruments

Financial assets and financial liabilities are recognised in the statement of financial position when the Group becomes a party to the contractual provisions of the instruments.

Financial assets are derecognised when the contractual rights to receive cash flows from the assets expire; the Group transfers substantially all the risks and rewards of ownership of the assets; or the Group neither transfers nor retains substantially all the risks and rewards of ownership of the assets but has not retained control on the assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid is recognised in profit or loss.

Investments

Investments are recognised and derecognised on a trade date basis where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, plus directly attributable transaction costs except in the case of financial assets at fair value through profit or loss.

(a) *Available-for-sale financial assets*

Available-for-sale financial assets are non-derivative financial assets not classified as trade and other receivables, held-to-maturity investments or financial assets at fair value through profit or loss. Available-for-sale financial assets are subsequently measured at fair value. Gains or losses arising from changes in fair value of these investments are recognised in other comprehensive income, until the investments are disposed of or there is objective evidence that the investments are impaired, at which time the cumulative gains or losses previously recognised in other comprehensive income are recognised in profit or loss. Interest calculated using the effective interest method is recognised in profit or loss.

Impairment losses recognised in profit or loss for equity investments classified as available-for-sale financial assets are not subsequently reversed through profit or loss. Impairment losses recognised in profit or loss for debt instruments classified as available-for-sale financial assets are subsequently reversed and recognised in profit or loss if an increase in the fair value of the instruments can be objectively related to an event occurring after the recognition of the impairment loss.

(b) *Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss are either investments classified as held for trading or designated as at fair value through profit or loss upon initial recognition. These investments are subsequently measured at fair value. Gains or losses arising from changes in fair value of these investments are recognised in profit or loss.

Trade and other receivables

Trade and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment. An allowance for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the allowance is the difference between the receivables' carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate computed at initial recognition. The amount of the allowance is recognised in profit or loss.

Impairment losses are reversed in subsequent periods and recognised in the profit or loss when an increase in the receivables' recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the receivables at the date the impairment is reversed shall not exceed what the amortised cost would have been had the impairment not been recognised.

Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents represent cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term highly liquid investments which are readily convertible into known amounts of cash and subject to an insignificant risk of change in value. Bank overdrafts which are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents.

Borrowing

Borrowings are recognised initially at fair value, net of transaction costs incurred, and subsequently measured at amortised cost using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

Financial guarantee contract liabilities

Financial guarantee contract liabilities are measured initially at their fair values and are subsequently measured at the higher of:

(a) the amount of the obligations under the contracts, as determined in accordance with HKAS 37 "Provisions, Contingent Liabilities and Contingent Assets"; and

(b) the amount initially recognised less cumulative amortisation recognised in profit or loss on a straight-line basis over the terms of the guarantee contracts.

Trade and other payables

Trade and other payables are stated initially at their fair value and subsequently measured at amortised cost using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably.

(a) Revenues from the sales of goods are recognised when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold.

(b) Handling services fee is recognised when the services have been rendered.

(c) Interest income is recognised on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial assets.

(d) Dividend income is recognised when the shareholders' right to receive payment has been established.

Employee benefits

(a) *Employee leave entitlements*

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the end of the reporting period.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(b) *Pension obligations*

The Group contributes to defined contribution retirement schemes which are available to all employees. Contributions to the schemes by the Group and employees are calculated as a percentage of employees' basis salaries. The retirement benefit scheme cost charged to profit or loss represents contributions payable by the Group to the funds.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying asset is deducted from the borrowing costs eligible for capitalisation. To the extent that funds are borrowed generally and used for the purpose of obtaining a qualifying assets, the amount of borrowing costs eligible for capitalisation is determined by applying a capitalisation rate to the expenditure on that assets. The capitalisation rate is the weighted average of the borrowing costs applicable to the borrowings of the Group that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying assets.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Taxation

Income tax represents the sum of the current tax and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit recognised in profit or loss because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences, unused tax losses or unused tax credits can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on tax rates that have been enacted or substantively enacted by the end of the reporting period. Deferred tax is recognised in profit or loss, except when it relates to items recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Related parties

A party is related to the Group if:

(a) directly or indirectly through one or more intermediaries, the party controls, is controlled by, or is under common control with, the Group; has an interest in the Group that gives it significant influence over the Group; or has joint control over the Group;

(b) the party is an associate;

(c) the party is a joint venture;

(d) the party is a member of the key management personnel of the Company or its parent;

(e) the party is a close member of the family of any individual referred to in (a) or (d);

(f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or

(g) the party is a post-employment benefit plan for the benefit of employees of the Group, or of any entity that is a related party of the Group.

Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purpose of allocating resources to, and assessing the performance of the Group's various lines of business geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of productions processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

Impairment of assets

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets, except for deferred tax assets, investments, inventories and receivables to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of any impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a present legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow is remote.

Events after the reporting period

Events after the reporting period that provide additional information about the Group's position at the end of the reporting period or those that indicate the going concern assumption is not appropriate are adjusting events and are reflected in these financial statements. Events after the reporting period that are not adjusting events are disclosed in the notes to the financial statements when material.

5. KEY ESTIMATES

Critical judgements in applying accounting policies

In the process of applying the accounting policies, management has made the following judgement that has the most significant effect on the amounts recognised in the financial statements (apart from those involving estimations, which are dealt with below).

Going concern basis

These financial statements have been prepared on a going concern basis, the validity of which depends upon the Group being able to achieve a successful restructuring and continue its business. Details are explained in note 2 to the financial statements.

Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

(a) Impairment of assets

The Group has to exercise judgement in determining whether an asset is impaired or the event previously causing the asset impairment no longer exists, particularly in assessing: (1) whether an event has occurred that may affect the asset value or such event affecting the asset value has not been in existence; (2) whether the carrying value of an asset can be supported by the net present value of future cash flows which are estimated based upon the continued use of the asset or derecognition; and (3) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. Changing the assumptions selected by management to determine the level of impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could materially affect the net present value used in the impairment test.

(b) Depreciation of property, plant and equipment

Property, plant and equipment are depreciated on a straight-line and a reducing balance basis over their estimated useful lives, after taking into account of their estimated residual values. The determination of the useful lives and residual values involves management's estimation. The Group assesses annually the residual values and the useful lives of the property, plant and equipment and if the expectation differs from the original estimate, such a difference may impact the depreciation in the year and the estimate will be changed in the future period.

(c) Allowance for bad and doubtful debts

The Group performs ongoing credit evaluations of its customers and adjusts credit limits based on payment history and the customer's current credit-worthiness, as determined by the review of their current credit information. The Group continuously monitors collections and payments from its customers and maintains a provision for estimated credit losses based upon its historical experience and any specific customers collection issues that have been identified. Credit losses have historically been within the Group's expectations and the Group will continue to monitor the collections from customers and maintain an appropriate level of estimated credit losses.

(d) Allowance for inventories

The management of the Group reviews an aging analysis at the end of the reporting period, and makes allowances for obsolete and slow-moving inventory items identified that are no longer suitable for use in production. The management estimates the net realisable value for such finished goods based primarily on the latest invoice prices and current market conditions. The Group carries out an inventory review on a product-by-product basis at the end of the reporting period and makes allowances for obsolete items.

(e) Estimation of fair value of buildings

The best evidence of fair value is current prices in an active market for similar buildings. In the absence of such information, the Group considers information from a variety of sources, including: (a) by reference to independent valuations; (b) current prices in an active market for buildings of a different nature, condition or location (or subject to different leases or other contracts), adjusted to reflect those differences; (c) recent prices of similar buildings on less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices; and (d) discounted cash flow projections based on reliable estimates of future cash flows, supported by the terms of any existing lease and other contracts and (when possible) by external evidence such as current market prices for similar buildings in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows.

The principal assumptions for the Group's estimation of the fair value include those related to current market prices for similar buildings in the same location and condition, appropriate discount rates, expected future market prices and future maintenance costs. The carrying amount of the Group's buildings are disclosed in note 19 to the financial statements.

(f) *Deferred tax*

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. Details are contained in note 37 to the financial statements.

(g) *Income taxes*

The Hong Kong Inland Revenue Department (the "IRD") initiated tax queries on certain subsidiaries of the Company for the years of assessment from 2005/2006 to 2008/2009. Since the tax queries are still at a fact-finding stage with different views being exchanged with the IRD, the outcome of the tax queries cannot be readily ascertained with any degree of accuracy. In cases where the tax charged by the IRD are different from the estimated amounts, a material tax charge may arise.

(h) *Provision for litigation*

Certain subsidiaries of the Company are or have been involved in certain litigations in respect of goods sold and services delivered, trade and other payables to third parties by the Group. The Directors determine the provision for litigation based on their best estimates and legal advices. If the final outcome of litigations is different from the estimation made by the Directors, additional provision for litigation may be required.

6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group has certain principal financial instruments, other than derivatives, comprise interest-bearing bank borrowings, finance leases, and cash and bank balances. The main purpose of these financial instruments is to raise finance for the Group's operation. The Group also has various other financial assets and liabilities such as accounts and bills receivables and accounts payables, which arise directly from its operation.

The Group also enters into derivative transactions, including principally forward currency contracts. The purpose is to manage its sources of finance and the currency risk arising from the Group's operation.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk, price risk and liquidity risk. The Directors reviewed and agreed on the policies for managing each of these risks and they are summarised below. The Group's accounting policies in relation to derivatives are set out in note 4 to the financial statements.

(a) Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's debt obligation with a floating interest rate.

The following table demonstrates the sensitivity analysis to a reasonably possible change in interest rates, with all other variables held constant, of the Group's loss before tax (through the impact on floating-rate borrowings).

	2010 (Increase)/ decrease in loss before tax *HK$'000*	2009 (Increase)/ decrease in loss before tax *HK$'000*
Interest rate on floating-rate borrowings		
– Increase in 100 basis point	(2,893)	(3,289)
– Decrease in 100 basis point	2,893	3,289

(b) Foreign currency risk

The Group has transactional currency exposures. Such exposures arise from a substantial portion of sales or purchases by operating units in RMB.

The following table demonstrates the sensitivity analysis at end of the reporting period to a reasonably possible change in the RMB exchange rate, with all other variables held constant, of the Group's loss before tax (due to changes in the fair value of monetary assets and liabilities).

	2010 *HK$'000*	2009 *HK$'000*
(Increase)/decrease in loss before tax		
– if Hong Kong dollar weakens against RMB with 5%	(4,301)	(9,525)
– if Hong Kong dollar strengthens against RMB with 5%	4,301	9,525

The Group constantly reviews the economic situation and its foreign currency risk profile, and considers implementing appropriate hedging measures in future as the need arises.

(c) Credit risk

The Group intends to trade with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis.

The credit risk of the Group's other financial assets, which comprise cash and bank balances, derivative financial instruments, equity investments at fair value through profit or loss and other receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Since the Group has policies in place to ensure that sales are made to customers with appropriate credit history, there is generally no requirement for collateral.

Further quantitative data in respect of the Group's exposure to credit risk arising from accounts and bills receivables are disclosed in note 25 to the financial statements.

(d) Price risk

The Group's financial assets at fair value through profit or loss and available-for-sale financial assets are measured at fair value at the end of the reporting period. Therefore, the Group is exposed to equity security price risk. The Directors manage this exposure by maintaining a portfolio of investments with different risk profiles. At the end of the reporting period, the Group is not exposed to significant price risk.

(e) Liquidity risk

The Group is exposed to liquidity risk at 31 March 2010 as its financial assets due within one year was less than its financial liabilities due within one year. The Group reported the consolidated net current liabilities of HK$791,878,000 and the consolidated net liabilities of HK$423,310,000 at 31 March 2010.

The Directors have given careful consideration on the measures currently undertaken in respect of the Group's liquidity position. The Directors believe that the Group will be able to meet in full its financial obligations as they fall due upon the completion of the Restructuring Proposal as further explained in note 2 to the financial statements.

The maturity profile of the Group's financial liabilities at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

Group	On demand	Less than 3 months	3 to less than 12 months	1 to 5 years	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 31 March 2010					
Accounts payables	134	225	318,851	–	319,210
Financial liabilities included in accruals and other payables	21,203	–	–	–	21,203
Borrowings	161,798	1,998	248,318	–	412,114
Due to directors	629	–	–	–	629
	183,764	2,223	567,169	–	753,156
At 31 March 2009					
Accounts payables	59,452	240,389	42,181	–	342,022
Financial liabilities included in accruals and other payables	–	10,418	–	–	10,418
Borrowings	123,726	81,006	132,962	61,144	398,838
	183,178	331,813	175,143	61,144	751,278

(f) Financial instrument by category

The carrying amount for each category of the Group's financial instruments at the end of the reporting period is as follows:

	2010	2009
	HK$'000	*HK$'000*
Financial assets:		
– Financial assets at fair value through profit or loss	–	2,974
– Loans and receivables	1,766	130,022
– Cash and bank balances	30,176	36,758
Financial liabilities:		
– Financial liabilities at amortised cost	753,136	751,011

7. SEGMENT INFORMATION

The Group has had two reportable segments which are the electronic products and components segment and the home appliance products segment. The business of the home appliance products was discontinued during the prior year. In the current year, the Group retains a reportable segment which is design, manufacture and sale of consumer electronic products and components.

The Group's reportable segments are strategic business units that offer different products. They are managed separately because each business requires different technology and marketing strategies.

The accounting policies of the operating segments are the same as those described in note 4 to the financial statements. Segment profits or losses do not include dividend income, interest income, gains or losses from investments and derivative financial instruments, finance costs, income tax and unallocated corporate income and expenses. Segment assets do not include available-for-sale investments, loans receivables, equity investments at fair value through profit and loss, derivative financial instruments, tax assets, cash and bank balances, and other unallocated corporate assets. Segment liabilities do not include borrowings, amounts due to directors, derivative financial instruments, tax liabilities and unallocated corporate liabilities. Segment non-current assets do not include financial instruments and tax 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.

	Electronic products and components *HK$'000*
Year ended 31 March 2010	
Revenue from external customers	486,237
Segment losses	783,180
Interest revenue	71
Interest expense	22,454
Other material item of income and expense:	
Gains on equity at fair value through profit or loss	1,094
Depreciation and amortisation	6,396
Income tax	14,982
Other material non-cash item:	
Provision against inventories and loss on auctions of sequestrated inventories	426,945
Additions to segment non-current assets	23,687
At 31 March 2010	
Segment assets	404,039
Segment liabilities	401,450

	Home appliance products (Discontinued operation) *HK$'000*	Electronic products and components *HK$'000*	Total *HK$'000*
Year ended 31 March 2009			
Revenue from external customers	340,198	2,055,805	2,396,003
Segment losses	21,741	126,425	148,166
Interest revenue	–	174	174
Interest expense	239	25,716	25,955
Other material items of income and expense:			
Losses on equity at fair value through profit or loss	–	1,488	1,488
Surplus on revaluation recognised directly in equity	–	1,177	1,177
Depreciation and amortisation	1,743	73,757	75,500
Income tax	309	140	449
Other material non-cash items:			
Provision against inventories	6,745	4,236	10,981
Provision for impairment of assets	5,098	60,697	65,795
Additions to segment non-current assets	626	19,508	20,134
At 31 March 2009			
Segment assets	11,971	1,193,866	1,205,837
Segment liabilities	9,043	376,518	385,561

Reconciliations of reportable segment revenue, profit and loss, assets and liabilities:

	2010 *HK$'000*	2009 *HK$'000*
Revenue		
Total turnover of reportable segments disclosed as consolidated turnover from continuing and discontinued operations	486,237	2,396,003
Profit or loss		
Total loss of reportable segments	(783,180)	(148,166)
Other profit and loss	(7,234)	(26,721)
Consolidated loss	(790,414)	(174,887)

	2010 *HK$'000*	2009 *HK$'000*
Assets		
Total assets of reportable segments	404,039	1,205,837
Other assets	32,095	39,732
Consolidated total assets	436,134	1,245,569
Liabilities		
Total liabilities of reportable segments	401,450	385,561
Other liabilities	457,994	473,328
Consolidated total liabilities	859,444	858,889

Geographical information:

	Revenue	
	2010 *HK$'000*	2009 *HK$'000*
Revenue		
Americas	128,545	1,447,920
Europe	67,663	326,538
Asia Pacific countries	287,693	548,722
Others	2,336	72,823
Discontinued operation	–	(340,198)
Consolidated total	486,237	2,055,805

In presenting the geographical information, revenue is based on the locations of the customers. At the end of the reporting period, all non-current assets of the Group were located in Asia Pacific countries.

8. TURNOVER

The Group's turnover is analysed as follows:

	2010	2009
	HK$'000	*HK$'000*
Design, manufacture and sale of electronic products and components attributable to continuing operation	486,237	2,055,805
Design, manufacture and sale of home appliance products attributable to discontinued operation *(note 13)*	–	340,198
	486,237	2,396,003

9. OTHER INCOME

The Group's other income from continuing operation (discontinued operation: HK$nil) is analysed as follows:

	2010	2009
	HK$'000	*HK$'000*
Bank interest income	71	174
Dividend income from listed investments	167	143
Foreign exchange differences, net	–	9
Gain on disposal of items of property, plant and equipment	–	29,886
Sales of scrap materials and raw materials	–	7,287
Sundry income	5,437	193
	5,675	37,692

10. LOSS FOR THE YEAR

The Group's loss for the year is stated after charging/(crediting) the following[#]:

	2010 HK$'000	2009 HK$'000
Cost of inventories sold	522,321	2,404,936
Provision against inventories:		
Continuing operation	270,945	4,236
Discontinued operation	–	6,745
Loss on auctions of sequestrated inventories:		
Continuing operation[##]	156,000	–
	426,945	10,981
Gains on derivative financial instruments – forward currency contracts, net	(464)	(382)
Depreciation	40,452	66,813
Amortisation of software development costs*	55	75
Amortisation of trademark*	–	282
Amortisation of prepaid land lease payments	764	981
Research and development costs:		
Deferred development costs amortised*	5,577	8,330
Current year expenditure	123	2,115
	5,700	10,445
Minimum lease payments under operating leases on land and buildings	524	3,771
Auditors' remuneration	570	1,180
Employee benefits expense (including directors' remuneration – *note 14):*		
Wages and salaries	79,828	160,378
Pension scheme contributions	819	2,386
Less: Forfeited contributions**	–	–
	80,647	162,764
Provision for impairment of assets:		
Continuing operation:		
Impairment of items of property, plant and equipment	156,268	37,409
Impairment of deposits for acquisition of items of property, plant and equipment	53	–
Impairment of intangible assets	4,713	7,551
Impairment of accounts receivables	32,710	10,179
Impairment of factored accounts receivables	19,691	–
Impairment of deposits and other receivables	10,799	5,558
Impairment of prepaid land lease payments	598	–
	224,832	60,697
Discontinued operation:		
Impairment of items of property, plant and equipment	–	5,098
	224,832	65,795
Loss/(gain) on disposal of items of property, plant and equipment	43,083	(29,886)

* The amortisation of software development costs, trademarks, and the deferred development costs for the year are included in "Selling and distribution costs" and "Cost of sales", respectively, on the face of the consolidated income statement.

** The Group had no forfeited contributions available to offset its future employers' contributions during the year.

The disclosures presented in this note include those amounts in relation to the discontinued operation.

Further details of the auctions are stated in note 19 to the financial statements.

11. FINANCE COSTS

	2010	**2009**
	HK$'000	*HK$'000*
Interest on:		
Bank and other borrowings wholly repayable within five years	22,337	25,361
Finance leases	117	594
	22,454	25,955
Attributable to:		
Continuing operation	22,454	25,716
Discontinued operation *(note 13)*	–	239
	22,454	25,955

12. INCOME TAX

	2010	**2009**
	HK$'000	*HK$'000*
Current – Hong Kong		
Charge for the year	–	3,113
Overprovision in prior year	(904)	(1,393)
Current – Mainland China		
Charge for the year	410	1,142
Deferred tax *(note 37)*	(14,488)	(2,722)
	(14,982)	140

Hong Kong profits tax is provided at a rate of 16.5% (2009: 16.5%) based on assessable profit for the year less allowable losses brought forward. Certain allowable losses of the Company's subsidiaries incorporated in Hong Kong are yet to be agreed by the IRD. Tax charge on profits assessable in the PRC have been calculated at the rates of tax prevailing in the PRC, based on existing legislation, interpretation and practices in respect thereof.

During the year, the IRD initiated tax queries on four subsidiaries of the Company for the years of assessment from 2005/2006 to 2008/2009. The management is of the opinion that, in all the relevant years, adequate Hong Kong tax provisions were made on the Hong Kong sourced income. Since the tax queries are still at a fact-finding stage, the outcome of the tax queries cannot be readily ascertained. After consulting with professional advisors, the management is of the opinion that the existing provisions are adequate.

The reconciliation between the income tax and the loss before tax multiplied by the Hong Kong profits tax rate is as follows:

	2010	**2009**
	HK$'000	*HK$'000*
Loss before tax:		
From continuing operation	(805,396)	(152,458)
From discontinued operation	–	(21,980)
	(805,396)	(174,438)
Tax at the domestic income tax rate of 16.5% (2009: 16.5%)	(132,891)	(28,782)
Effect of different tax rates of subsidiaries	(26,406)	(5,909)
Effect of change in tax rate	–	(159)
Loss not subject to tax, due to concession	–	326
Adjustments in respect of current tax of previous year	(904)	(1,393)
Income not subject to tax	(226)	(67)
Expenses not deductible for tax	103,977	12,606
Tax losses utilised from previous periods	(300)	–
Tax losses not recognised	41,492	22,832
Others	276	995
Tax at the Group's effective rate	(14,982)	449
Tax attributable to:		
Continuing operation	(14,982)	140
Discontinued operation *(note 13)*	–	309
	(14,982)	449

13. DISCONTINUED OPERATION

On 28 December 2008, the Group discontinued its home appliances products division, which is a major line of business and is part of the Mainland China and Hong Kong operation. The Group had decided to cease its home appliances products business because it plans to focus its resources on electronic products and components business.

The results of home appliances products business during the prior period were presented below:

	Year ended 31 March 2010 *HK$'000*	Period ended 28 December 2008 *HK$'000*
Turnover	–	340,198
Cost of sales	–	(340,146)
Expenses	–	(9,950)
Impairment of items of property, plant and equipment	–	(5,098)
Provision against inventories	–	(6,745)
Finance costs	–	(239)
Loss before tax from discontinued operation	–	(21,980)
Income tax	–	(309)
Loss for the period from discontinued operation	–	(22,289)

The net cash outflow incurred by home appliances products business during the prior period was as follows:

	Year ended 31 March 2010 *HK$'000*	Period ended 28 December 2008 *HK$'000*
Operating activities	–	1,547
Investing activities	–	417
Financing activities	–	3,097
Net cash outflow	–	5,061

14. DIRECTORS' AND FIVE HIGHEST PAID INDIVIDUAL EMOLUMENTS

Name of Directors	Fees *HK$'000*	Salaries, allowances and benefits in kind *HK$'000*	Pension scheme contribution *HK$'000*	Total emoluments *HK$'000*
Executive directors:				
Ling Siu Man, Simon	–	2,997	120	3,117
Wong Ki Cheung	–	1,588	79	1,667
Li Fung Ching, Catherine	–	1,588	79	1,667
Lam Kwai Wah (a)	–	1,110	6	1,116
Independent non-executive directors:				
Pang Hon Chung	86	–	–	86
Cheng Tsang Wai	85	–	–	85
Chung Hing Wah, Paul	70	–	–	70
Total for the year ended 31 March 2010	241	7,283	284	7,808

(a): Resigned as a director on 12 January 2010.

Name of Directors	Fees	Salaries, allowances and benefits in kind	Pension scheme contribution	Total emoluments
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Executive directors:				
Ling Siu Man, Simon	300	4,505	194	4,999
Wong Ki Cheung	300	1,794	97	2,191
Li Fung Ching, Catherine	300	1,794	97	2,191
Lam Kwai Wah	300	1,650	12	1,962
Au Wai Man (b)	300	1,183	55	1,538
Independent non-executive directors:				
Pang Hon Chung	107	–	–	107
Cheng Tsang Wai	106	–	–	106
Chung Hing Wah, Paul	88	–	–	88
Total for the year ended 31 March 2009	1,801	10,926	455	13,182

(b): Resigned as a director on 1 January 2009.

During the prior year, all five highest paid employees were directors, and details of whose emoluments are reflected in the analysis presented above. The five highest paid individuals in the Group during the year included 4 directors. The emolument of the remaining individual for the current year, falling within the band ranging from HK$nil to HK$1,000,000, is detailed below:

	2010
	HK$'000
Salaries and allowances	706
Pension scheme contributions	8
	714

There was no arrangement under which a director waived or agreed to waive any remuneration during the two years ended 31 March 2010 and 2009.

15. DIVIDEND

No dividend has been proposed or declared by the Company during the two years ended 31 March 2010 and 2009.

16. LOSS PER SHARE

(a) From continuing and discontinued operations

The calculation of basic loss per share attributable to equity holders of the Company is based on the loss for the year attributable to equity holders of the Company of approximately HK$790,414,000 (2009: HK$174,887,000) and the weighted average number of 1,057,889,962 (2009: 1,057,889,962) ordinary shares in issue during the year.

(b) From continuing operation

The calculation of basic loss per share from continuing operation attributable to equity holders of the Company is based on the loss for the year from continuing operation attributable to equity holders of the Company of approximately HK$790,414,000 (2009: HK$152,598,000) and the denominator for number of shares in issue is the same as that detailed above for basic loss per share from continuing and discontinued operations.

(c) From discontinued operation

Basic loss per share from the discontinued operation for the prior year was HK2.1 cents per share based on the loss for the prior year from discontinued operation attributable to the equity holders of the Company of approximately HK$22,289,000 and the denominator for number of shares in issue is the same as those detailed above for basic loss per share from continuing and discontinued operations.

No diluted loss per share is presented as the Company has not had any dilutive potential ordinary shares during the two years ended 31 March 2010 and 2009.

17. RETIREMENT BENEFIT SCHEMES

The Group operates a mandatory provident fund scheme (the "MPF Scheme") under the Hong Kong Mandatory Provident Fund Scheme Ordinance for all qualifying employees in Hong Kong. The Group's contribution to the MPF Scheme are calculated at 5% of the salaries and wages subject to a monthly maximum amount of contribution of HK$1,000 per employee and vest fully with employees when contributed into the MPF Scheme.

The employees of the Group's subsidiaries established in the PRC are members of a central pension scheme operated by the local municipal government. The subsidiaries are required to contribute certain percentage of the employees' basic salaries and wages to the central pension scheme to fund the retirement benefits. The local municipal government undertakes to assume the retirement benefits obligation of all existing and future retired employees of the subsidiaries. The only obligation of the subsidiaries with respect to the central pension scheme are to meet the required contributions under the scheme.

18. LOSS FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The consolidated loss attributable to equity holders of the Company includes a loss of approximately HK$428,402,000 (2009: HK$597,000) for the year, which has been dealt with in the financial statements of the Company. (note 40(b))

19. PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings HK$'000	Construction in progress HK$'000	Leasehold improvements HK$'000	Furniture and fixtures HK$'000	Equipment and tools HK$'000	Motor vehicles HK$'000	Moulds HK$'000	Total HK$'000
31 March 2010								
At 1 April 2009, net of accumulated depreciation and impairments	332,832	92,027	59,363	9,987	149,413	862	16,816	661,300
Additions	–	–	11,703	125	400	–	11,459	23,687
Disposals	(3,840)	–	(10,837)	(932)	(78,477)	(15)	(1,150)	(95,251)
Impairments	–	(89,397)	(33,830)	(5,948)	(7,120)	(228)	(19,745)	(156,268)
Deficit on revaluation	(27,384)	–	–	–	–	–	–	(27,384)
Depreciation provided during the year	(12,520)	–	(5,874)	(1,385)	(13,170)	(123)	(7,380)	(40,452)
Transfers	2,654	(2,654)	–	–	–	–	–	–
Exchange differences	88	24	27	1	3	–	–	143
At 31 March 2010, net of accumulated depreciation and impairments	291,830	–	20,552	1,848	51,049	496	–	365,775
At 31 March 2010								
Cost or valuation	291,830	–	35,759	16,528	92,584	6,152	–	442,853
Accumulated depreciation and impairments	–	–	(15,207)	(14,680)	(41,535)	(5,656)	–	(77,078)
Net carrying amount	291,830	–	20,552	1,848	51,049	496	–	365,775
Analysis of cost or valuation at 31 March 2010								
At cost	–	–	35,759	16,528	92,584	6,152	–	151,023
At valuation	291,830	–	–	–	–	–	–	291,830
	291,830	–	35,759	16,528	92,584	6,152	–	442,853
31 March 2009								
At 1 April 2008, net of accumulated depreciation and impairments	335,172	87,773	61,886	11,513	201,381	1,379	36,980	736,084
Additions	–	1,964	5,404	1,443	4,543	–	2,913	16,267
Disposals	(2,300)	–	–	–	(825)	(160)	–	(3,285)
Impairments	–	–	(451)	(905)	(32,286)	(13)	(8,852)	(42,507)
Surplus on revaluation	1,177	–	–	–	–	–	–	1,177
Depreciation provided during the year	(14,272)	–	(9,290)	(2,281)	(25,163)	(360)	(15,447)	(66,813)
Transfers	–	(1,222)	–	–	–	–	1,222	–
Exchange differences	13,055	3,512	1,814	217	1,763	16	–	20,377
At 31 March 2009, net of accumulated depreciation and impairments	332,832	92,027	59,363	9,987	149,413	862	16,816	661,300
At 31 March 2009								
Cost or valuation	332,832	92,027	137,878	40,065	407,438	9,963	113,954	1,134,157
Accumulated depreciation and impairments	–	–	(78,515)	(30,078)	(258,025)	(9,101)	(97,138)	(472,857)
Net carrying amount	332,832	92,027	59,363	9,987	149,413	862	16,816	661,300
Analysis of cost or valuation at 31 March 2009								
At cost	–	92,027	137,878	40,065	407,438	9,963	113,954	801,325
At valuation	332,832	–	–	–	–	–	–	332,832
	332,832	92,027	137,878	40,065	407,438	9,963	113,954	1,134,157

The recoverable amount of impaired asset is estimated in order to determine the extent of any impairment loss on property, plant and equipments ("PPE"). The recoverable amount of the PPE is the higher of its estimated fair value and value in use. As there are uncertainties relating to the implementation of the future business and production plan of the Group pursuant to the Restructuring Proposal, the Directors considered that it is more appropriate to determine the recoverable amounts on the basis of their estimated fair values. The fair values of the Group's PPE have been estimated by reference to market evidence of recent transactions for similar assets. The impairment loss is recognised and charged to income statement in the period in which it arises to the extent that the carrying amount exceeds its recoverable amount.

During the prior year, the Group closed down the operation of a factory located in Qishi Town, Dongguan, PRC (the "Qishi Factory"), which was principally engaged in the manufacture of components for its electronic products and components division, and home appliance products division. The Directors considered that certain items of the PPE of the Qishi Factory, with the carrying amounts of HK$42,507,000, were impaired, and the resultant impairment losses with the equivalent amounts were charged to the consolidated income statement during the year ended 31 March 2009.

During the current year, the Group has experienced rapid and continuing deterioration in its business due to the drastic decline in turnover, customers' purchase orders, production scale and customer confidence as a consequence of the financial turmoil. With a view to further reduce costs and to mitigate the loss-making position of the Group, the Group has suspended and closed down the remaining operations of the manufacturing plants in Qi Shi Town and Tangxia Town, Dongguan, PRC. In light of the changes in economic conditions, the Directors considered that certain items of the PPE of the Group, with the carrying amounts of HK$156,268,000, were impaired, and the resultant impairment losses with the equivalent amounts were recognised and charged to the consolidated income statement during the year.

Due to adverse impact of the down-sizing of the operations and the resultant immense pressure on the cash flow of the Group, the Group had delayed salary payments to certain of its workers and staff during the year. In November 2009, actions have been taken by 東莞市塘廈鎮石潭埔社區居民委員會 "Dongguan Tangxia Town Shitanpu Community Residents' Committee*") and 東莞市塘廈鎮石潭埔勞動服務站 ("Dongguan Tangxia Town Shitanpu Labour Service Station*") to sequestrate certain of the Group's assets (collectively "Sequestrated Assets") located in the Tangxia Factory with the carrying amounts of approximately HK$21,048,000 for equipment and machines (which was included in the aggregate amounts of PPE disposals as disclosed above for the year) and approximately HK$160,196,000 for inventories respectively.

The auctions of these Sequestrated Assets had subsequently been held from 2 December 2009 to 13 December 2009. The proceeds of approximately HK$15,876,000 for equipment and machines, and approximately HK$4,196,000 for inventories from the auctions were fully used to settle part of the salary and compensation payables to the respective workers and staff working in the Tangxia Factory. The resultant losses of approximately HK$161,172,000, in aggregate, on auctions of Sequestrated Assets, approximately HK$5,172,000 for equipment and machines, and approximately HK$156,000,000 for inventories respectively, representing the difference between the net proceeds and the net carrying amounts of the Sequestrated Assets, were recognised and charged to the consolidated income statement for the year ended 31 March 2010.

The Group's buildings were held under the following lease terms:

	2010	**2009**
	HK$'000	*HK$'000*
At valuation:		
Held under medium term leases		
– Hong Kong	4,790	8,206
– Mainland China	287,040	324,626
	291,830	332,832

In determining the fair value, the valuers have utilised a method of valuation which involves certain estimates. The Directors have exercised their judgements and are satisfied that the method of valuation is reflective of the current market conditions. The Group's buildings were revalued at 31 March 2009 and at 31 March 2010 by the independent professional valuers, Sallmanns (Far East) Limited and Jones Lang Lassalle Sallmanns Limited respectively, on an open market basis at approximately HK$332,832,000 and HK$291,830,000 respectively. A revaluation surplus of approximately HK$1,177,000 at 31 March 2009 and a revaluation deficit of approximately HK$27,384,000 at 31 March 2010, resulting from the above valuations, have been dealt with as movement in the property revaluation reserve.

At 31 March 2010, had the whole class of the Group's buildings been carried at cost less accumulated depreciation, their carrying amounts would have been included in the financial statements at the carrying amount of approximately HK$206,097,000. (2009: HK$220,765,000).

Included in the carrying amounts of equipment and tools at 31 March 2010 were assets held under finance leases with a carrying amount of approximately HK$19,359,000 (2009: HK$21,475,000).

At 31 March 2010, the Group was in the process of obtaining the building ownership certificates in respect of the Group's certain factories located in Mainland China with the carrying amounts of HK183,999,000 (2009: HK$261,944,000).

At 31 March 2010, certain of the Group's buildings with the carrying amounts of approximately HK$226,631,000 (2009: HK$208,059,000) were pledged to secure for certain bank and other borrowings of the Group as further detailed in note 33 to the financial statements. Included in the carrying amounts of the Group's pledged leasehold buildings at 31 March 2010, approximately HK$5,180,000 (2009: HK$nil) of which is owned by a scheme subsidiary, Tonic Technology (Shenzhen) Ltd., is subject to various charging orders issued by the Shenzhen City Futian District People's Court.

Subsequent to the end of the reporting period, on 8 April 2010, equipment and tools with the carrying amounts of approximately HK$19,084,000 were pledged to secure for an additional other borrowing of approximately HK$9,072,000.

* *The English name is for identification purpose only*

20. PREPAID LEASE PAYMENTS

	Group	
	2010	**2009**
	HK$'000	*HK$'000*
Carrying amount at beginning of year	42,000	44,250
Disposals	(5,622)	(2,445)
Amortisation of prepaid land lease payments during the year	(764)	(981)
Impairments	(598)	–
Exchange differences	16	1,176
Carrying amount at end of year	35,032	42,000
Current portion	(762)	(909)
Non-current portion	34,270	41,091

The Group's leasehold lands were held under the following lease terms:

	2010	2009
	HK$'000	*HK$'000*
Held under medium term leases		
– Hong Kong	6,580	12,437
– Mainland China	28,452	29,563
	35,032	42,000

Having regard to the market conditions and the existing use of the Group's leasehold lands, the Directors carried out a review on the recoverable amount of the Group's prepaid land lease payments at 31 March 2010. The recoverable amount of the prepaid land lease payments has been determined on the basis of its estimated fair value. The review led to the recognition of an impairment loss of approximately HK$598,000 that was recognised and charged to consolidated income statement.

The Group has been applying for land use right certificates in respect of certain of the Group's leasehold lands in Mainland China. At 31 March 2010, these leasehold lands had an aggregate carrying amount of approximately HK$16,700,000 (2009: HK$17,619,000).

At 31 March 2010, the leasehold lands of approximately HK$35,032,000 (2009: HK$42,000,000) were pledged to secure for certain bank and other borrowings as further detailed in note 33 to the financial statements. Included in the carrying amounts of the Group's pledged leasehold lands at 31 March 2010, approximately HK$1,335,000 of which is owned by a scheme subsidiary, Tonic Technology (Shenzhen) Ltd., is subject to various charging orders issued by the Shenzhen City Futian District People's Court.

21. INTANGIBLE ASSETS

Group

	Software development costs	Trademarks	Deferred development costs	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
31 March 2010				
At 1 April 2009, net of accumulated amortisation and impairments	481	–	9,864	10,345
Impairments	(426)	–	(4,287)	(4,713)
Amortisation provided during the year	(55)	–	(5,577)	(5,632)
At 31 March 2010	–	–	–	–
At 31 March 2010				
Cost	742	2,821	60,104	63,667
Accumulated amortisation and impairments	(742)	(2,821)	(60,104)	(63,667)
Net carrying amount	–	–	–	–
31 March 2009				
At 1 April 2008, net of accumulated amortisation and impairments	556	763	21,397	22,716
Additions	–	–	3,867	3,867
Impairments	–	(481)	(7,070)	(7,551)
Amortisation provided during the year	(75)	(282)	(8,330)	(8,687)
At 31 March 2009	481	–	9,864	10,345
At 31 March 2009				
Cost	742	2,821	60,104	63,667
Accumulated amortisation and impairments	(261)	(2,821)	(50,240)	(53,322)
Net carrying amount	481	–	9,864	10,345

During the year, the Directors considered that certain of the Group's intangible assets, with the carrying amounts of approximately HK$4,713,000 (2009: HK$7,551,000) were impaired as the Group ceased to develop the related products. The impairment loss is recognised in the period in which it arises to the extent that the carrying amount exceeds its recoverable amount on the basis of the respective estimated fair value. The resultant impairment losses of approximately HK$4,713,000 (2009: HK$7,551,000) were recognised and charged to the consolidated income statement during the year.

22. INVESTMENTS IN SUBSIDIARIES

	COMPANY 2010 HK$'000	2009 HK$'000
Unlisted investments, at cost	58,812	58,812
Less: Impairments	(58,812)	–
	–	58,812
Due from subsidiaries	210,811	210,972
Less: Impairments	(210,811)	(296)
	–	210,676
Due to subsidiaries	(411)	–
Due (to)/from subsidiaries	(411)	210,676

The balances with subsidiaries were unsecured, interest-free and had no fixed term of repayment. The carrying amounts of the balances with subsidiaries approximated to their amortised costs.

Particulars of the Company's subsidiaries are as follows:

Name	Place of incorporation/ registration and operation	Nominal value of issued/ registered paid-up capital	Percentage of equity attributable to the Group Direct %	Indirect %	Principal activities
Directly held:					
Agility Investments Limited	British Virgin Islands ("BVI")	US$1	100	–	Investment holding
Champion Apex Limited#	Hong Kong	HK$10,000	100	–	Business not commenced
Grand Golden Profit Limited#	Hong Kong	HK$10,000	100	–	Inactive
Gold Beam Developments Limited	Hong Kong	HK$2	100	–	Inactive
Tonic Centerus Wind Energy (Holdings) Limited	BVI	US$200	100	–	Inactive
Tonic Electronics (B.V.I.) Limited	BVI	HK$1	100	–	Investment holding
Tonic Technology Limited	Hong Kong	HK$10,000	100	–	Inactive

Name	Place of incorporation/ registration and operation	Nominal value of issued/ registered paid-up capital	Percentage of equity attributable to the Group Direct %	Indirect %	Principal activities
Indirectly held:					
東莞金萊電子有限公司## (Dongguan Gold Beam Electronics Co., Ltd.*)	PRC	HK$24,527,340	–	100	Inactive
東莞東力電子有限公司## (Dongguan Tonic Electronic Co., Ltd.*)	PRC	HK$90,299,051	–	100	Inactive
東莞鑫聯數碼科技有限公司## (Dongguan Xin Lian Digital Technology Co., Ltd.*)	PRC	RMB56,730,488	–	100	Manufacture and sale of electronic products
Panatone Licensing Limited	BVI	US$1	–	100	Inactive
Tonic Digital Products Limited	Hong Kong	HK$100	–	100	Inactive
Tonic DVB Marketing Limited	BVI/PRC	US$0.01	–	100	Trading of electronic products
Tonic Electronics Limited	Hong Kong	Ordinary HK$200 Non-voting deferred HK$300,000###	–	100	In Liquidation **
Tonic Enterprises Limited	BVI	US$1	–	100	Inactive
Tonic International Limited	BVI/PRC	HK$0.01	–	100	Inactive
Tonic International Investment Limited	BVI	US$1	–	100	Investment holding
Tonic Investment (B.V.I.) Limited	BVI	HK$0.01	–	100	Investment holding
Tonic Marketing Limited	BVI	US$0.01	–	100	Investment holding
東力科技(深圳)有限公司## (Tonic Technology (Shenzhen) Ltd.*)	PRC	RMB15,400,000	–	100	Inactive
Tonic Trading Development Limited	Hong Kong	HK$100	–	100	Inactive

Name	Place of incorporation/ registration and operation	Nominal value of issued/ registered paid-up capital	Percentage of equity attributable to the Group Direct %	Indirect %	Principal activities
Tonic Venture Capital Limited	Hong Kong	HK$1,000,000	–	100	Investment holding
TA Limited	Hong Kong	HK$10,000	–	100	Inactive
東莞市錦聯科技製品有限公司## (Dongguan Jin Lian Technology Products Ltd.*)	PRC	RMB500,000	–	100	Inactive
Technotrend Trading Limited	Hong Kong	HK$10,000	–	100	Inactive

Companies incorporated during the year

Wholly-foreign-owned enterprises

The non voting deferred shares carrying the right to one-half of the profits after the holders of the ordinary shares have received a dividend of HK$1,000,000,000,000, have no right to vote at general meetings, and carry the right to receive one-half of the balance of any surplus in a return of capital in a winding-up after the holders of the ordinary shares have received a total return of HK$500,000,000,000,000. None of the non-voting deferred shares was held by members of the Group at the end of the reporting period.

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** Subsequent to the end of reporting period, on 30 June 2010, Tonic Electronics Limited ("TEL") was wound up by the High Court of Hong Kong. On the same date, Messrs. Huen Ho Yin and Huen Yuen Fun have been appointed as the Joint and Several Provisional Liquidators of TEL by the official receiver. Further details are stated in note 45 to the financial statements.

23. AVAILABLE-FOR-SALE INVESTMENTS

	Group and Company 2010 HK$'000	2009 HK$'000
Unlisted equity securities, at cost	24,366	24,366
Less: Impairments	(24,366)	(24,366)
	–	–

The above investment was designated as available-for-sale financial asset and had no fixed maturity date or coupon rate.

Unlisted equity securities were carried at cost less impairments as they did not have a quoted market price in an active market and whose fair value cannot be reliably measured.

24. INVENTORIES

	Group	
	2010	**2009**
	HK$'000	*HK$'000*
Raw materials	1,466	223,563
Work in progress	–	85,662
Finished goods	–	44,607
	1,466	353,832

25. ACCOUNTS AND BILLS RECEIVABLES

	Group	
	2010	**2009**
	HK$'000	*HK$'000*
Accounts receivables	33,541	78,674
Less: Impairments *(note 10)*	(32,710)	(10,179)
	831	68,495

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. In view of the aforementioned and the fact that the Group's accounts and bills receivables relate to a large number of diversified customers, there is no significant concentration of credit risk.

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

	Group	
	2010	**2009**
	HK$'000	*HK$'000*
30 days or less	831	45,221
31 to 60 days	–	7,948
61 to 90 days	–	11,192
Over 90 days	–	4,134
	831	68,495

The Group's accounts and bills receivables are non interest-bearing and their carrying amounts approximate to their amortised costs.

Included in the provision for impairment of accounts and bills receivables are individually impaired accounts receivables of HK$32,710,000 (2009: HK$10,179,000) with an equivalent gross carrying amount at the end of the reporting period. The individually impaired accounts receivables relate to customers that were in default of payment. The Group does not hold any collateral or other credit enhancements over these balances.

An aged analysis of the Group's accounts and bills receivables at the end of the reporting period that are not considered to be impaired is as follows:

	Group	
	2010	**2009**
	HK$'000	*HK$'000*
Neither past due nor impaired	831	62,878
Less than 30 days	–	2,321
30 to 90 days past due	–	2,494
Over 90 days past due	–	802
	831	68,495

Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the Directors are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

26. FACTORED ACCOUNTS RECEIVABLES

	Group	
	2010	**2009**
	HK$'000	*HK$'000*
Factored accounts receivables	19,691	53,394
Less: Impairments *(note 10)*	(19,691)	–
	–	53,394

At 31 March 2010, the Group factored trade receivables of HK$19,691,000 (2009: HK$53,394,000), to banks on a non-recourse basis for cash. The Group continued to recognise the factored accounts receivables in the consolidated statement of financial position because, in the opinion of the Directors, the Group still retained the risks and rewards of ownership associated with the accounts receivables and the financial assets derecognition conditions as stipulated in HKAS 39 Financial Instruments: Recognition and Measurement have not been fulfilled. Accordingly, bank factored loans of the Group's accounts receivables have been accounted for as liabilities in the consolidated statement of financial position. These factoring facilities were secured by a corporate guarantee granted by the Company, cross-corporate guarantees granted by certain subsidiaries and the Company. The maturity date of the factored accounts receivables range from 60 to 90 days.

The aging analysis of factored accounts receivables at the end of the reporting period is as follows:

	Group	
	2010	**2009**
	HK$'000	*HK$'000*
30 days or less	–	23,493
31 to 60 days	–	7,276
61 to 90 days	–	12,993
Over 90 days	–	9,632
	–	53,394

There was a provision for individually impaired factored accounts receivables of HK$19,691,000 with an equivalent gross carrying amount at 31 March 2010. The individually impaired factored accounts receivables relate to customers that were in default of payment. The Group does not hold any collateral or other credit enhancements over these balances.

An aged analysis of the Group's factored accounts receivables at the end of the reporting period that are not considered to be impaired is as follows:

	Group	
	2010	**2009**
	HK$'000	*HK$'000*
Neither past due nor impaired	–	43,763
Less than 30 days	–	6,995
30 to 90 days past due	–	–
Over 90 days past due	–	2,636
	–	53,394

27. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group	
	2010	**2009**
	HK$'000	*HK$'000*
Prepayments	7,119	13,843
Deposits and other receivables	4,615	8,133
	11,734	21,976
Less: Impairments *(note 10)*	(10,799)	(5,558)
	935	16,418

The carrying amounts of the Group's prepayments, deposits and other receivables approximated to their amortised costs.

Included in the impairment recognised in respect of prepayments, deposits and other receivables are individually impaired deposits and other receivables of approximately HK$10,799,000 (2009: HK$5,558,000) with an equivalent gross carrying amount at the end of the reporting period. The individually impaired other receivables relate to counterparties that were in default of payment. The Group does not hold any collateral or other credit enhancements over these balances.

Save as disclosed, none of the above assets is either past due nor impaired and the financial assets included in the above balances related to receivables for which there was no recent history of default.

28. EQUITY INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group	
	2010	**2009**
	HK$'000	*HK$'000*
Listed equity investments in Hong Kong, at fair value	–	2,592

The above equity investments at the end of the reporting period were classified as held for trading. The fair values of the listed equity investments were based on quoted market prices.

29. DERIVATIVE FINANCIAL INSTRUMENTS

	Group	
	2010	**2009**
	HK$'000	*HK$'000*
Forward currency contracts	–	382

Forward currency contracts with standard terms and conditions and traded on active liquid markets were determined with reference to quoted market bid prices and ask prices. The carrying amounts of the forward currency contracts approximated to their fair values.

The Group has entered into various forward currency contracts to manage its exchange rate exposures which did not meet the criteria for hedge accounting. Net gains of non-hedging currency derivatives amounting to approximately HK$464,000 (2009: HK$382,000) were credited to the consolidated income statement during the year.

At 31 March 2010, the Group did not have any outstanding forward currency contracts (2009: HK$162 million) to hedge payables denominated in United States dollars ("US$"). The carrying amounts of the Group's forward currency contracts approximate their respective fair values.

30. CASH AND BANK BALANCES

At 31 March 2010, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted approximately to HK$3,072,000 (2009: HK$12,091,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default. The carrying amounts of the cash and bank balances approximate to their fair values.

31. ACCOUNTS PAYABLES

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

	Group	
	2010	**2009**
	HK$'000	*HK$'000*
30 days or less	134	123,488
31 to 60 days	–	24,509
61 to 90 days	225	7,346
Over 90 days	318,851	186,679
	319,210	342,022

32. ACCRUALS AND OTHER PAYABLES

	Group	
	2010	**2009**
	HK$'000	*HK$'000*
Deferred income	–	4,396
Other payables	21,203	10,418
Accruals	61,046	28,734
	82,249	43,548

Other payables are non interest-bearing and have an average term of three months.

33. BORROWINGS

	Effective interest rate	Maturity	Group	
			2010	2009
	(%)		*HK$'000*	*HK$'000*
Current				
Finance lease payables *(note 34)*#	1.5	On demand	3,387	6,681
Bank overdrafts – secured#	5.35-13	On demand	13,178	10,615
Bank factored loans#	3.29	On demand	14,626	53,394
Trust receipt loans#	1.3-3.29	On demand	100,904	104,612
Bank loans – unsecured	1.65	February 2011 ##	10,726	–
Bank loans – secured	1.40-5.84	April 2010 – April 2011 ##	146,491	162,125
Other loan – unsecured	36	January 2011	4,536	–
Other loans – secured	2-7.11	January – March 2011	118,246	–
			412,094	337,427
Non-current				
Bank loans – secured			–	12,395
Other loan – secured			–	48,749
			–	61,144
			412,094	398,571

\# At 31 March 2010, the Group was in breach of certain covenant requirements as set out in the bank facilities letters for certain of its bank borrowings. These bank borrowings included finance lease payables, bank overdrafts, bank factored loans, trust receipt loans and bank loans of approximately HK$3,387,000, HK$13,178,000, HK$14,626,000, HK$100,904,000 and HK$37,071,000, respectively, at 31 March 2010. Due to the Group's non-compliance of the covenant requirements, all these banks borrowings became due for repayment on demand at 31 March 2010. In addition, the non-current portion of bank loans of HK$1,500,000 at 31 March 2010, with original maturity term ending April 2011, was also classified as current portion at 31 March 2010. On 15 January 2010, the Group received a Standstill Letter from certain bank creditors stating that these banks have agreed, until further written notice by the majority of these banks, not to make demand or take any action to enforce the payment of monies under any of the existing facilities in order to facilitate the discussion of the debt restructuring of the Group.

\## Due to the breach of covenants, these bank borrowings, with maturity dates listed above, became due for repayment on demand at the end of the reporting period.

	Group 2010	2009
	HK$'000	*HK$'000*
Analysed into:		
Bank loans repayable:		
Within one year or on demand	285,925	330,746
In the second year	–	4,023
In the third to fifth years, inclusive	–	8,372
	285,925	343,141
Finance lease payable *(note 34)*		
Within one year	3,387	6,681
Other borrowings repayable:		
Within one year	122,782	–
Beyond one year	–	48,749
	122,782	48,749
	412,094	398,571

At 31 March 2010, the Group's pledged bank borrowings were secured by a corporate guarantee granted by the Company, cross-corporate guarantees granted by certain subsidiaries and the Company, all monies debenture executed by certain subsidiaries of the Company, and the mortgages over certain of the Group's buildings and prepaid land lease payments which had the aggregate carrying amounts of approximately HK$107,831,000 (2009: HK$70,890,000) and HK$18,251,000 (2009: HK$24,383,000) respectively.

At 31 March 2010, the Group's pledged other borrowings were secured by a share charge over the entire issued capital of a wholly-owned subsidiary of Company and the mortgages over certain of the Group's buildings and prepaid land lease payments which had the aggregate carrying amounts of approximately HK$118,800,000 (2009: HK$137,169,000) and HK$16,781,000 (2009: HK$17,617,000) respectively.

34. FINANCE LEASE PAYABLE

The Group leases certain of its plant and machinery for its operation. These leases are classified as finance leases and had a remaining lease term of one year. At the end of the reporting period, the total future minimum lease payments under finance leases and their present values were as follows:

Group	Minimum lease payments 2010	Minimum lease payments 2009	Present value of minimum lease payments 2010	Present value of minimum lease payments 2009
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Total minimum finance lease payments payable within one year	3,407	6,948	3,387	6,681
Future finance charges	(20)	(267)		
Total net finance lease payables	3,387	6,681		
Portion classified as current liabilities	(3,387)	(6,681)		
Non-current portion	–	–		

35. DUE TO DIRECTORS

The amounts due to directors were unsecured, interest free and had no fixed term of repayment. The carrying amounts of balances with the directors approximated to their amortised costs.

36. FINANCIAL GUARANTEE LIABILITIES

At 31 March 2010, the Company has given corporate guarantees to certain banks to secure for general banking facilities granted to its subsidiaries, and approximately HK$169,165,000 (2009: HK$349,822,000) of those were utilised by the subsidiaries as at that date. As disclosed in note 2 and 33 to the financial statements, the Group has breached certain terms and defaulted on the repayment of certain bank borrowings. At the end of the reporting period, it is probable that the Company will be liable to the claims under any of these guarantees. Accordingly, a provision for financial guarantee liabilities of approximately HK$157,795,000 (2009: HK$nil) has been made against the probable uncovered exposures to be borne by the Company under the guarantees at 31 March 2010.

37. DEFERRED TAX

Group

The movements in deferred tax during the year are as follows:

Deferred tax liabilities/(assets)	Accelerated tax depreciation HK$'000	Development costs HK$'000	Revaluation of properties HK$'000	Others HK$'000	Total HK$'000
At 1 April 2008	19,143	2,360	33,806	(863)	54,446
(Credited)/debited to income statement for the year	(2,411)	(865)	(309)	863	(2,722)
Deferred tax debited/(credited) to other comprehensive income:					
Release on disposal	–	–	(190)	–	(190)
Surplus on revaluation	–	–	274	–	274
Change in tax rate	–	–	(7)	–	(7)
Exchange differences	–	–	1,682	–	1,682
At 31 March 2009 and 1 April 2009	16,732	1,495	35,256	–	53,483
Credited to income statement for the year	(12,993)	(1,495)	–	–	(14,488)
Deferred tax credited to other comprehensive income:					
Release on disposal	–	–	(624)	–	(624)
Deficit on revaluation	–	–	(6,901)	–	(6,901)
Exchange differences	–	–	7	–	7
At 31 March 2010	3,739	–	27,738	–	31,477

At 31 March 2010, the Group had tax losses arising in Hong Kong of approximately HK$286,922,000 (2009: HK$91,518,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. At 31 March 2010, the Group also had tax losses arising in Mainland China of HK$98,551,000 (2009: HK$65,009,000) that will expire in one to five years for offsetting against future taxable profit. Deferred tax assets have not been recognised in respect of these losses as the Directors consider not probable that the subsidiaries will have sufficient future taxable profits against which those tax losses can be utilised.

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between China and jurisdiction of the foreign investors. For the Group, the applicable rate is 5% or 10%. The Group is therefore liable to withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008.

At 31 March 2010, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings of the Group's subsidiaries established in Mainland China, as these subsidiaries did not have any distributable earnings as at that date. At 31 March 2009, the temporary difference associated with unremitted earnings for which deferred tax liabilities had not been recognised was approximately HK$457,000.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

38. SHARE CAPITAL

	Company	
	2010	**2009**
	HK$'000	*HK$'000*
Authorised:		
3,000,000,000 (2009: 3,000,000,000) ordinary shares of HK$0.10 each*	300,000	300,000
Issued and fully paid:		
1,057,889,962 (2009: 1,057,889,962) ordinary shares of HK$0.10 each	105,789	105,789

* Pursuant to an ordinary resolution passed on 18 September 2008, the authorised share capital of the Company was increased from HK$120,000,000 to HK$300,000,000 by the creation of 1,800,000,000 additional shares of HK$0.10 each, ranking pari passu in all respects with the existing share capital of the Company.

Capital management

The primary objective of the Group's capital management is to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. Except for the compliance of certain bank covenants for maintaining the Group's bank facilities, the Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the two years ended 31 March 2010 and 2009.

The Group monitors capital using a gearing ratio, which is net debt divided by the capital. The Group's policy is to maintain the gearing ratio below 100%. Net debt includes interest-bearing bank and other borrowings less cash and bank balances, and excludes discontinued operation. Capital includes total equity. The gearing ratios at the end of reporting period were as follows:

	Group	
	2010	**2009**
	HK$'000	*HK$'000*
Interest-bearing bank and other borrowings	412,094	398,571
Less: Cash and bank balances	(30,176)	(36,758)
Net debt	381,918	361,813
Capital	(423,310)	386,680
Gearing ratio	N/A#	93.60%

\# As the Group had a net deficiency in capital at 31 March 2010, the Group's gearing ratio as at that date was not applicable.

39. SHARE OPTION SCHEME

The Company operates a share option scheme (the "Option Scheme") for the purpose of providing incentive and rewards to eligible participants who contribute to the success of the Group's operation. Eligible participants of the Option Scheme include the Company's executive directors or employees of the Group. The Option Scheme became effective upon the listing of the Company's shares on the Stock Exchange on 16 October 1997 and, unless otherwise cancelled or amended, will remain in force for ten years from that date.

The maximum number of unexercised share options currently permitted to be granted under the Option Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue at any time. No option may be granted to any employee which, if exercised in full, would result in the total number of shares already issued and issuable to him/her under the Option Scheme exceeding 25% of the maximum aggregate number of shares subject to the Option Scheme at the time it is proposed to grant the relevant option to such employee.

The exercise price of the share options is determined by the Directors and is equal to the higher of: (i) the nominal value of the shares; and (ii) a price which is not less than 85% of the average closing price of the Company's shares on the Stock Exchange for the five trading days immediately preceding the date of grant of such options.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

An option may be exercised in accordance with the terms of the Option Scheme at any time from the date of acceptance of the option by an employee or such later date as may be fixed by the Directors, to any date prior to the 10th anniversary of such date, provided that the employee can only exercise a maximum of 20% of the options granted to him/her in each 12-month period following the commencement of the relevant option period. The consideration to be paid by the employee upon acceptance of a grant of options is HK$1.00.

With effect from 1 September 2001, the Stock Exchange requires that the exercise price of options is at least the higher of the closing prices of the shares on the Stock Exchange on the date of grant and the average of the closing prices of the shares on the Stock Exchange for the five trading days immediately preceding the date of grant. Up to the approval date of these financial statements, the Company has not granted any options on or after 1 September 2001.

The following share options were outstanding under the Share Option Scheme during the year:

	2010 **Number of share options** *'000*	**2009** **Number of share options** *'000*
Outstanding at beginning of year*	47,130	56,820
Lapsed during the year	(21,675)	(9,690)
Outstanding at end of year*	25,455	47,130

* The exercise price and weighted average exercise price of all outstanding share options is HK$0.467 per share, which is subject to adjustment in case of rights or bonus issues, or other similar changes in the Company's share capital. The exercise period for the outstanding options range from 10 April 2000 to 9 April 2010.

At 31 March 2010, the Company had 25,455,000 (2009: 47,130,000) share options outstanding under the Option Scheme. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 25,455,000 (2009: 47,130,000) additional shares totalling HK$2,546,000 (2009: HK$4,713,000) and share premium of HK$9,342,000 (2009: HK$17,297,000), before issue expenses.

At 31 March 2010, the Company had 25,455,000 share options outstanding under the Option Scheme, which represented approximately 2.4% of the Company shares in issue at that date.

40. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the two years ended 31 March 2010 and 2009 are presented in the consolidated statement of changes in equity of the financial statements.

The contributed reserve of the Group represents the difference between the nominal value of the share capital of the former holding Group reorgansation to rationalise the Group structure in preparation for the listing of the Company's shares on the Stock Exchange, over the nominal value of the Company's shares issued in exchange therefor.

(b) Company

	Share premium account	Contributed reserve	Retained profits/ (accumulated losses)	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At 1 April 2008	71,388	58,794	34,243	164,425
Total comprehensive income for the year	–	–	(597)	(597)
At 31 March 2009 and 1 April 2009	71,388	58,794	33,646	163,828
Total comprehensive income for the year	–	–	(428,402)	(428,402)
At 31 March 2010	71,388	58,794	(394,756)	(264,574)

(c) Nature and purpose of reserves

(i) Share premium account

Under the Companies Law (2002 Revision) of the Cayman Islands, the share premium account of the Company is available for distribution to shareholders, subject to the provisions of the Company's memorandum or articles of association and provided that immediately following the distribution of dividends, the Company is able to pay its debts as and when they fall due in the ordinary course of business. In the opinion of the Directors, the Company's reserves available for distribution represent the share premium account, contributed reserve and retained profits.

(ii) Contributed reserve

The contributed reserve of the Group represents the difference between the nominal value of the share capital of the former holding company of the Group acquired pursuant to the Group reorganisation to rationalise the Group structure in preparation for the listing of the Company's shares on the Stock Exchange, over the nominal value of the Company's shares issued in exchange therefor.

(iii) Property revaluation reserve

The property revaluation reserve has been set up and are dealt with in accordance with the accounting policies adopted for buildings in note 4 to the financial statements.

(iv) Foreign currency translation reserve

The foreign currency translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operation. The reserve is dealt with in accordance with the accounting policies set out in note 4 to the financial statements.

41. MAJOR NON-CASH TRANSACTION

(a) During the year, the Group disposed of certain items of PPE and inventories for the consideration of approximately HK$15,876,000 and HK$4,196,000 respectively. These amounts were fully utilised to settle part of salary payables of the Group. Further details of which are included in note 19 to the financial statements.

(b) During the prior year, deposits for the acquisition of items of property, plant and equipment of approximately HK$2,346,000 were utilised as part of the considerations paid for the purchases of items of property, plant and equipment.

42. CONTINGENT LIABILITIES

At the end of the reporting period, contingent liabilities not provided for in the financial statements were as follows:

(a) Group

	2010	**2009**
	HK$'000	*HK$'000*
Shipping and other guarantees	1,190	2,523

(b) Company

	2010	**2009**
	HK$'000	*HK$'000*
Guarantees for general banking facilities of subsidiaries*	–	785,206

* At 31 March 2010, HK$169,165,000 (2009: HK$349,822,000) of the general banking facilities were utilised by the subsidiaries. At 31 March 2010, a provision for financial guarantee liabilities of approximately HK$157,795,000 (2009:HK$nil) has been made against the probable uncovered exposures to be borne by the Company under the guarantees. Further details of which are included in note 36 to the financial statements.

43. LEASE COMMITMENTS

The Group leases certain of its buildings under operating lease arrangements, with leases negotiated for a term ranging from one to three years. At the end of the reporting period, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2010	**2009**
	HK$'000	*HK$'000*
within one year	–	473
in the second to fifth year inclusive	–	128
	–	601

44. CAPITAL COMMITMENTS

The Group had the following capital commitments at the end of the reporting period:

	2010	**2009**
	HK$'000	*HK$'000*
Contracted, but not provided for equipment and tools	–	53

45. 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 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.

(iv) 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.

(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 sequestrated.

(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 RMB9,800,000 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, 上海頡生機電有限公司 (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.

(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 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.

(vi) 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.

Civil petitions

(vii) 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 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.

(viii) 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.

(ix) 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.

(x) 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.

(xi) 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.

(xii) On 21 December 2009, 無錫威達電子科技有限公司 (Wuxi Weida Electronics 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 a judgment on an outstanding sum of RMB662,815.80 together with interest thereon in relation to the electronic products supplied and the legal cost. 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.

(xiii) 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.

(xiv) 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.

(xv) 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.

(xvi) 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 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.

(xvii) 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.

(xviii) 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.

(xix) 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.

(xx) 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.

(xxi) 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)

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.

* The English name is for identification purpose only

At 31 March 2010, trade and other payables of approximately HK$96 million have been recorded for the above litigations. At the approval date of these financial statements, the concerned parties are to attend to resolve interlocutory matters before these cases are to be fixed. The Group has also been in discussion and negotiation with certain plaintiffs to reach an accommodation with those claimants and to explore the possibility of seeking a forbearance of the Group's payables. Accordingly, in the opinion of the Directors, no additional provision for litigation is considered necessary.

46. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances detailed elsewhere in the financial statements, the Group had the following related party and connected transactions during the current and prior year:

(a) Under the terms of the Group's general banking facility, the chairman of the Company, Mr. Ling Siu Man, Simon, being the single largest shareholder, is required to maintain at least 40% of the beneficial interests in shareholdings in the Company.

(b) On 16 June 2008, the Group entered into a conditional sale and purchase agreement with the spouse and daughter of Mr. Ling Siu Man, Simon, a director of the Company, ("Purchasers"), for the disposal of a director quarter, which is currently occupied by Mr. Ling for his residential purpose, at cash consideration of HK$34 million. Since the Purchasers are close family members of Mr. Ling and the consideration is greater than HK$10 million, the proposed disposal transaction constituted a non-exempted connected transaction for the Group. The above transaction was disclosed in the announcement of the Group dated 16 June 2008 and was approved by the independent shareholders at the extraordinary general meeting on 28 July 2008 pursuant to the requirement under Chapter 14A of the Listing Rules.

The above transaction was completed 29 July 2008 and a gain of approximately HK$29 million arising from the disposal of a director quarter was recorded by the Group for the year ended 31 March 2009.

(c) Compensation of key management personnel of the Group:

	2010	2009
	HK$'000	*HK$'000*
Short term employee benefits	7,524	12,727
Post-employment benefits	284	455
Total compensation paid to key management personnel	7,808	13,182

Further details of directors' emoluments are included in note 14 to the financial statements.

(d) Details of the Group's amounts due to the Directors are included in note 35 to the financial statements.

47. EVENTS AFTER THE REPORTING PERIOD

Subsequent to the end of the reporting period, there are recent development on the Group's financial restructuring and outstanding litigations, and the details of which are stated in note 2 and 45 to the financial statements, respectively.

48. COMPARATIVE FIGURES

As further explained in note 3 to the financial statements, due to the adoption of certain revised HKFRSs during the current year, the presentation of certain items, balances and the related explanatory notes to the financial statements have been revised to comply with the new requirements. Accordingly, certain comparative figures have been re-presented to conform with the current year's presentation.

In addition, the provision against inventories and loss on auctions of sequestrated inventories, which was included in cost of sales in prior year, has been separately disclosed on the face of the consolidated income statement. Accordingly, the related comparative figure has been reclassified to conform to the current year's presentation. As the Directors consider that the new classification of the accounting item is more appropriate to reflect the financial results of the Group.

49. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 27 July 2010.

4. UNAUDITED FINANCIAL INFORMATION OF THE FORMER GROUP FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2010

The following information has been extracted from the interim report of the Company for the six months ended 30 September 2010:

UNAUDITED CONDENSED CONSOLIDATED INCOME STATEMENT

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

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

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

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	**At 30 September 2010 Unaudited** *HK$'000*	**At 31 March 2010 Audited** *HK$'000*
Non–current assets			
Property, plant and equipment	*11*	367,861	400,807
Current assets			
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
Current liabilities			
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
Net current liabilities		(634,175)	(792,640)
Total assets less current liabilities		(266,314)	(391,833)
Non–current liabilities			
Deferred tax liabilities		27,363	31,477
NET LIABILITIES		(293,677)	(423,310)
Capital and reserves			
Share capital		105,789	105,789
Reserves		(399,466)	(529,099)
TOTAL EQUITY		(293,677)	(423,310)

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to equity holders of the Company						
	Share capital Unaudited *HK$'000*	Share premium account Unaudited *HK$'000*	Contributed surplus Unaudited *HK$'000*	Asset revaluation reserve Unaudited *HK$'000*	Exchange fluctuation reserve Unaudited *HK$'000*	Retained profits/ (accumulated losses) Unaudited *HK$'000*	Total Unaudited *HK$'000*
For the six months ended 30 September 2010							
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	105,789	71,388	280	71,661	6,971	(549,766)	(293,677)
For the six months ended 30 September 2009							
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	105,789	71,388	280	94,819	7,487	(155,411)	124,352

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

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

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

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:

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

	At 30 September 2010	**At 31 March 2010**
	Unaudited	**Audited**
	HK$'000	*HK$'000*
Segment assets	375,941	404,039

(b) Reconciliations of reportable segment profit or loss:

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

3. TURNOVER

The Group's turnover is analysed as follows:

	For the six months ended 30 September	
	2010	**2009**
	Unaudited	**Unaudited**
	HK$'000	*HK$'000*
Design, manufacture and sale of electronic products and components	18,212	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)
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)

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	**2009**
	Unaudited	**Unaudited**
	HK$'000	*HK$'000*
Interest on:		
Bank and other borrowings wholly repayable within five years	13,744	9,541
Finance leases	–	75
	13,744	9,616

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	**2009**
	Unaudited	**Unaudited**
	HK$'000	*HK$'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)

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:

	At 30 September 2010 Unaudited *HK$'000*	At 31 March 2010 Audited *HK$'000*
30 days or less	5,678	831
31 to 60 days	660	–
	6,338	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	163,783	318,851
	163,783	319,210

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 sequestrated.

(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 RMB9,800,000 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, 上海頡生機電有限公司 (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 RMB10,428 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 RMB9,191 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 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 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, 揚州市賽格電綫電纜廠 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 揚州市賽格電綫電纜廠 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) 東一法民二初字第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	–
	544	–

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.

5. UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE RETAINED GROUP UPON COMPLETION

The unaudited pro forma financial information of the Retained Group upon Completion and the accountants' report thereon which were prepared for the purpose of the Circular are reproduced below. Capitalised terms used in this section shall have the same meanings as those defined in the Circular.

A. INTRODUCTION TO THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE RETAINED GROUP

The accompanying unaudited pro forma consolidated statement of financial position, unaudited pro forma consolidated income statement and unaudited pro forma consolidated statement of cash flows of the Retained Group (hereinafter collectively referred to as the "Unaudited Pro Forma Financial Information") have been prepared to illustrate the effect of how the Restructuring Proposal involving the proposed capital reorganisation; proposed group reorganisation and creditor scheme; proposed subscription of new shares and application for the granting of the whitewash waiver (hereinafter collectively referred to as the "Proposed Transactions") might have affected the financial information of the Group.

The unaudited pro forma consolidated statement of financial position of the Retained Group has been prepared based on the audited consolidated statement of financial position of the Group as at 31 December 2009, which has been extracted from the accountants' report of the Group as set out in Appendix I of the Circular dated 28 June 2010 (the "Circular"), and adjusted in accordance with the pro forma adjustments described in the notes thereto as if the Proposed Transactions had taken place on 31 December 2009.

The unaudited pro forma consolidated income statement and unaudited pro forma consolidated statement of cash flows of the Retained Group have been prepared based on the audited consolidated income statement and the audited consolidated statement of cash flows of the Group for the year ended 31 March 2009, which have been extracted from the accountants' report of the Group as set out in Appendix I of the Circular, and adjusted in accordance with the pro forma adjustments described in the notes thereto as if the Proposed Transactions had been taken place on 1 April 2008.

The Unaudited Pro Forma Financial Information has been prepared by the Directors and based on a number of assumptions, estimates, uncertainties and currently available information to provide information of the Retained Group after completion of the Proposed Transactions. As it has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the financial position, results of operations or cash flows of the Retained Group had the Proposed Transactions been completed as at the respective dates to which it is made up to or at any future dates.

The Unaudited Pro Forma Financial Information of the Retained Group should be read in conjunction with the financial information of the Group as set out in Appendix I and other financial information included elsewhere in this Circular.

B. UNAUDITED PRO FORMA CONSOLIDATED INCOME STATEMENT OF THE RETAINED GROUP FOR THE YEAR ENDED 31 MARCH 2009

	The Group	Pro forma adjustments				The Retained Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	Audited	*Note 1*	*Note 2*	*Note 3*	*Note 4*	*Unaudited*
CONTINUING OPERATION						
Turnover	2,055,805	(2,082,750)		233,114		206,169
Cost of sales	(2,064,790)	2,040,584		(233,325)		(257,531)
Gross loss	(8,985)					(51,362)
Other income	37,692	(32,947)		10,485		15,230
Selling expenses and distribution costs	(3,313)	2,700				(613)
Administrative expenses	(78,970)	81,342		(10,274)	(4,848)	(12,750)
Fair value losses on equity investments at fair value through profit or loss	(1,488)	1,488				–
Provision for impairment of assets	(60,697)	55,599				(5,098)
Provision against inventories	(10,981)	10,981				–
Estimated loss on debt restructuring	–		(435,843)			(435,843)
Loss from operations	(126,742)					(490,436)
Finance costs	(25,716)	22,640				(3,076)
Loss before tax	(152,458)					(493,512)
Income tax	(140)	(118)				(258)
Loss for the year from continuing operation	(152,598)					(493,770)
DISCONTINUED OPERATION						
Loss for the year from discontinued operation	(22,289)	22,289				–
Loss for the year	(174,887)					(493,770)

C. UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF THE RETAINED GROUP AS AT 31 DECEMBER 2009

	The Group	Pro forma adjustments						The Retained Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	Audited	*(Note 4)*	*(Note 5)*	*(Note 6)*	*(Note 7)*	*(Note 8)*	*(Note 10)*	*Unaudited*
Non-current assets								
Property, plant and equipment	371,331				(204,482)			166,849
Prepaid lease payments	34,329				(17,835)			16,494
	405,660							183,343
Current assets								
Inventories	8,554				(8,554)			–
Accounts and bills receivables	144				(101)			43
Prepayments, deposits and other receivables	3,000				(2,716)			284
Prepaid lease payments	762				(474)			288
Equity investments at fair value through profit or loss	4,944				(4,944)			–
Amounts due from Scheme Subsidiaries	–				363,170	(363,170)		–
Current tax assets	1,931				(1,931)			–
Cash and bank balances	1,245	(200)		80,000	(1,057)	(80,000)	70,000	69,988
	20,580							70,603
Current liabilities								
Accounts payables	333,462				(333,292)			170
Accruals and other payables	75,126				(62,883)			12,243
Borrowings	300,932				(291,860)		70,000	79,072
Amounts due to directors	2,419				(2,419)			–
Amounts due to Scheme Subsidiaries	–				388,536	(388,536)		–
Current tax liabilities	13,862				(13,418)			444
	725,801							91,929

	The Group	Pro forma adjustments						The Retained Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	Audited	*(Note 4)*	*(Note 5)*	*(Note 6)*	*(Note 7)*	*(Note 8)*	*(Note 10)*	*Unaudited*
Net current liabilities	(705,221)							(21,326)
Total assets less current liabilities	(299,561)							162,017
Non-current liabilities								
Borrowings	69,174							69,174
Deferred tax	31,477				(24,825)			6,652
	100,651							75,826
NET ASSETS/ (LIABILITIES)	(400,212)							86,191
Capital and reserves								
Share capital	105,789	528	(104,731)	9,098				10,684
Reserves	(506,001)	4,120	104,731	70,902	461,237	(461,237)		75,507
		(4,648)				406,603		
		(200)						
TOTAL EQUITY	(400,212)							86,191

D. UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF CASH FLOWS OF THE RETAINED GROUP FOR THE YEAR ENDED 31 MARCH 2009

	The Group			**Pro forma adjustments**				**The Retained Group**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	Audited	*Note 2*	*Note 4*	*Note 6*	*Note 8*	*Note 9*	*Note 10*	*Unaudited*
Cash flows from operating activities								
Loss before tax								–
From continuing operation	(152,458)	(435,843)	(4,648) (200)			99,637		(493,512)
From discountinued operation	(21,980)					21,980		–
Adjustments for:								–
Finance costs	25,955					(22,879)		3,076
Bank interest income	(174)					150		(24)
Dividend income from listed investment	(143)					143		–
Gain on disposal of items of property, plant and equipment	(29,886)					29,886		–
Fair value (gains)/losses, net:								–
Equity investment at fair value through profit or loss	1,488					(1,488)		–
Derivative financial instruments – forward currency contract, net	(382)					382		–
Depreciation	66,813					(55,845)		10,968
Provision against inventories	10,981					(10,981)		–
Professional advisory fee on debt restructuring	–		4,648			–		4,648
Amortisation of prepaid land lease payments	981					(695)		286
Amortisation of intangible assets	8,687					(8,655)		32
Provision for impairment of assets	65,795					(65,795)		–
Estimated loss on debt restructuring	–	435,843						435,843

	The Group			Pro forma adjustments				The Retained Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	Audited	*Note 2*	*Note 4*	*Note 6*	*Note 8*	*Note 9*	*Note 10*	*Unaudited*
Operating loss before working capital changes	(24,323)							(38,683)
Decrease/(increase) in inventories	162,022					(168,755)		(6,733)
Decrease in accounts and bills receivables	131,132					(113,739)		17,393
Increase in factored accounts receivable	(53,394)					53,394		–
Decrease in prepayments, deposits and other receivables	2,124					(1,997)		127
Decrease in accounts payables	(175,055)					151,872		(23,183)
Decrease in accruals and other payables	(25,986)					562		(25,424)
Cash generated from/(used in) operations	16,520							(76,503)
Interest received	174					(150)		24
Interest paid	(25,361)					22,285		(3,076)
Interest element on finance lease rental payment	(594)					594		–
Hong Kong profits tax paid	(55)					55		–
Net cash used in operating activities	(9,316)							(79,555)
Cash flows from investing activities								
Dividends received from listed investment	143					(143)		–
Purchase of items of property, plant and equipment	(13,921)					12,974		(947)
Proceeds from disposal of items of property, plant and equipment	35,619					(35,619)		–
Net cash outflow in deconsolidation of Scheme Subsidiaries	–				(80,000)	(23,266)		(103,266)
Additions to intangible assets	(3,867)					3,867		–
Decrease in loans receivable	93					(93)		–

	The Group	Pro forma adjustments						The Retained Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	Audited	*Note 2*	*Note 4*	*Note 6*	*Note 8*	*Note 9*	*Note 10*	*Unaudited*
Net cash generated from/(used in) investing activities	18,067							(104,213)
Cash flows from financing activities								
Proceeds from issue of shares, net	–			80,000		–		80,000
Loans from Subscriber	–					–	70,000	70,000
Decrease in trust receipt loans	(76,059)					46,059		(30,000)
New bank and other loans	226,850					(178,101)		48,749
Repayment of bank and other loans	(151,883)					132,002		(19,881)
Capital element of finance lease rental payment	(8,445)					8,445		–
Net advances from Scheme Subsidiaries	–					88,081		88,081
Net cash generated from/(used in) financing activities	(9,537)							236,949
Net increase/(decrease) in cash and cash equivalents	(786)							53,181
Cash and cash equivalents at beginning of year	26,732							26,732
Effect of changes in foreign exchange rate	197					(100)		97
Cash and cash equivalents at end of year	26,143							80,010
Analysis of cash and cash equivalents								
Cash and bank balances	36,758		(200)	80,000	(80,000)	(26,548)	70,000	80,010
Bank overdraft, secured	(10,615)					10,615		–
	26,143							80,010

E. NOTES TO THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE RETAINED GROUP

(1) The adjustment represents the exclusion of the operating results of the Scheme Subsidiaries for the year ended 31 March 2009, which was extracted from the accountants' report of the Group in Appendix I of the Circular, as if the Proposed Transactions had been taken place on 1 April 2008. This adjustment will not have continuing income statement effect on the Retained Group.

(2) Based on the Creditor Scheme, the entire interests in the Scheme Subsidiaries will be transferred to the Schemeco. In addition, the balances between the Retained Group and the Scheme Subsidiaries as at the Effective Date (as defined in the Circular) will be assigned to the Schemeco (the aggregate carrying amount of approximately HK$44,414,000 as at 31 March 2008). The gross proceeds from issuance of shares as mentioned in note 6 below of HK$80,000,000 will be made available to the Schemeco. The table below shows the financial impact (as if the above transfer had been taken place on 1 April 2008).

	HK$'000
Net assets of Scheme Subsidiaries to be transferred to the Schemeco	311,429
Net amounts due from Scheme Subsidiaries to be transferred to the Schemeco	44,414
Gross proceeds from the issuance of Subscription Shares to be transferred to the Schemco	80,000
Estimated unaudited loss on debt restructuring	435,843

This adjustment will not have continuing income statement effect on the Retained Group.

(3) The adjustment reflects the reversal of inter-company transctions between the Retained Group and the Scheme Subsidiaries, assuming the transfer as mentioned in note 2 had been taken place on 1 April 2008.

(4) The adjustment represents certain professional fees in relation to the Proposed Transactions of approximately HK$4,848,000 charged by the financial advisors that may be settled by the cash consideration of HK$200,000 and the issue of 52,894,498 Remuneration Shares (approximately HK$0.0879 per Remuneration Share), representing approximately 4.96% of the issued share capital of the Company as enlarged by the allotment and issue of the Subscription Shares and Remuneration Shares.

(5) The adjustment represents the effect of the reduction of each issued share from HK$0.1 to HK$0.001, by the cancellation of HK$0.099 of the paid-up capital on each existing share.

(6) The adjustment reflects 909,785,366 Subscription Shares with par value of HK$0.010, representing approximately 85.15% of the issued share capital of the Company as enlarged by the allotment and issue of the Subscription Shares and Remuneration Shares, to be issued and allotted to the Subscriber, Skill China Limited, for a cash consideration of HK$80,000,000 (approximately HK$0.0879 per Subscription Share).

(7) The adjustment reflects the exclusion of the assets and liabilities of the Scheme Subsidiaries, assuming that the Proposed Transactions had been taken place on 31 December 2009. The amount of asset and liabilities of the Scheme Subsidiaries as at 31 December 2009 was extracted from the accountants' report as set out in Appendix I of the Circular.

(8) Based on the Creditor Scheme, the entire interests in the Scheme Subsidiaries will be transferred to the Schemeco. In addition, the balances between the Retained Group and Scheme Subsidiaries as at the Effective Date (as defined in the Circular) will be assigned to the Schemeco (the net carrying amount of approximately HK$25,366,000 as at 31 December 2009). The gross proceeds from issuance of shares as mentioned in note 6 above of HK$80,000,000 will be made available to the Schemeco. The table below shows the financial impact (as if the above transfer had been taken place on 31 December 2009).

	HK$'000
Net liabilities of Scheme Subsidiaries transferred to the Schemeco	461,237
Net amounts due to Scheme Subsidiaries transferred to the Schemeco	25,366
Gross proceeds from the issuance of Subscription Shares to be transferred to the Schemco	(80,000)
Estimated unaudited gain on debt restructuring	406,603

This adjustment will not have continuing income statement effect on the Retained Group.

(9) The adjustment reflects the exclusion of the cash flows of the Scheme Subsidiaries for the year ended 31 March 2009, which was extracted from the accountants' report of the Group as set out in Appendix I of the Circular, as if the Proposed Transactions had been taken place on 1 April 2008. This adjustment will not have continuing cash flow effect on the Retained Group.

(10) The adjustment reflects the unsecured interest-free loan in an aggregate principal amount of HK$30,000,000 and the secured interest-bearing short term loan in an aggregate principal amount of HK$40,000,000 to be made available by the Subscriber to Grand Golden Profit Limited, a wholly owned subsidiary of the Company, as working capital to the Retained Group after completion of the Proposed Transctions.

(11) On 7 January 2010, 15 January 2010 and 11 February 2010, Dongguan Xin Lian Digital Technology Co., Ltd. ("Xin Lian") entered into loan agreements with China CITIC Bank Corporation Limited Dongguan Branch, pursuant to which Xin Lian drew down RMB95,000,000 (equivalent to approximately HK$107,350,000) (the "CITIC Loan").

On 8 April 2010, Xin Lian entered into a loan agreement with 東莞市增灼商貿有限公司, pursuant to which Xin Lian drew down RMB8,000,000 (equivalent to approximately HK$9,040,000) (the "Other Loan") (collectively referred as the "Xin Lian Loan"); all of which have been applied for repayment of bank loan of Dongguan Tonic Electronics Ltd., a Scheme Subsidiary (the "Transaction"). The effects of the Transaction on the total equity of the Retained Group are as shown below:

	Notes	*HK$'000*
Total equity of Retained Group as per proforma consolidated statement of financial position		86,191
Less: Xin Lian Loan	*(a)*	(116,390)
Estimated proforma total equity of the Retained Group after taking into account of the Transaction	*(b)*	(30,199)

Note a: The proceeds of the Xin Lian Loan of approximately RMB103,000,000 (equivalent to approximately HK$116,390,000) have been applied for repayment of bank loan of Dongguan Tonic Electronics Ltd., a Scheme Subsidiary. The corresponding intercompany receivables due from Dongguan Tonic Electronics Ltd. will be assigned to the Schemeco as provided under the Creditor Scheme. The CITIC Loan is pledged by the land and buildings held by the Scheme Subsidiary, namely Dongguan Tonic Electronics Ltd., being the lands and manufacturing plants in Tangxia (the "Properties"). The Other Loan is pledged by the plant and machineries of Xin Lian. It is expected that the repayment of the Xin Lian Loan would be satisfied by the disposal of the Properties by the Company or by the Schemeco (as the case maybe) by end of 2010.

Note b: Given (1) the CITIC Loan is pledged by the Properties which are expected to be disposed of by the end of 2010, and such proceeds will be used for repayment of the Xin Lian Loan; and (2) the Subscriber has undertaken that, subject to the completion of the Restructuring Proposal and so long as it remains the ultimate controlling shareholder of GGP and Xin Lian (as the case may be), it will not demand repayment of the unsecured interest-free loan to GGP amounted to HK$30 million (details of the loan has been disclosed in note 10 of this proforma financial information) within the next 12 months from the Latest Practicable Date, the Board is of the view that the Retained Group will have sufficient working capital to meet its present requirement.

F. ACCOUNTANTS' REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE RETAINED GROUP

The Board of Directors
Tonic Industries Holdings Limited

Dear Sirs,

We report on the Unaudited Pro Forma Financial Information of Tonic Industries Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") excluding certain of its subsidiaries referred to as Scheme Subsidiaries as defined in the circular dated 28 June 2010 (the" Circular") in connection with the Restructuring Proposal, which has been prepared by the directors of the Company (the "Directors"), for illustrative purpose only, to provide information about how the Restructuring Proposal involving the proposed capital reorganisation; proposed group reorganisation and creditor scheme; proposed subscription of new shares and application for the granting of the whitewash waiver (hereinafter collectively referred to as the "Proposed Transactions") might have affected the financial information of the Group. The basis of preparation of the Unaudited Pro Forma Financial Information is set out in Appendix II of the Circular.

Respective Responsibilities of Directors of the Company and Reporting Accountants

It is the responsibilities solely of the Directors to prepare the Unaudited Pro Forma Financial Information in accordance with paragraph 29 of Chapter 4 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

It is our responsibility to form an opinion, as required by paragraph 29(7) of Chapter 4 of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion solely to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of opinion

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by the HKICPA. Our work consisted primarily of comparing the unadjusted financial information with source documents, considering the evidence supporting the adjustments and discussing the Unaudited Pro Forma Financial Information with the Directors. This engagement did not involve independent examination of any of the underlying financial information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Unaudited Pro Forma Financial Information has been properly compiled by the Directors on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

The Unaudited Pro Forma Financial Information is for illustrative purpose only, based on the adjustments and assumptions of the Directors, and because of its hypothetical nature, does not provide any assurance or indication that any event will take place in the future and may not be indicative of:

- the financial position of the Group as at 31 December 2009 or any future date; or
- the results and cash flows of the Group for the year ended 31 March 2009 or any future period.

Opinion

In our opinion:

(a) the Unaudited Pro Forma Financial Information has been properly compiled by the Directors on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

ANDA CPA Limited
Certified Public Accountants
Sze Lin Tang
Practising Certificate Number P03614

Hong Kong, 28 June 2010

6. INDEBTEDNESS

Statement of Indebtedness

As at the close of business on 30 September 2010, being the latest practicable date for the purpose of ascertaining information contained in the indebtedness statement prior to the printing of this Composite Document, the total outstanding borrowings and payables of the Retained Group approximately amounted to HK$561 million, comprising the secured bank borrowings of approximately HK$109 million, the secured amounts due to Skill China Limited of approximately HK$41 million, the secured other borrowings of approximately HK$88 million, amounts due to Scheme Subsidiaries of the Company of approximately HK$141 million, trade and other payables of approximately HK$19 million, and provision for financial guarantee liabilities relating to borrowings of Scheme Subsidiaries of approximately HK$163 million. The secured borrowings of the Retained Group, in aggregate, of approximately HK$238 million were secured by:

(i) the mortgages over certain leasehold lands and buildings of the Retained Group with the carrying amounts of approximately HK$17 million and HK$117 million respectively;

(ii) the mortgages over certain leasehold lands and buildings of Scheme Subsidiaries with the carrying amounts of approximately HK$12 million and HK$102 million respectively.

(iii) the pledges over certain equipment and tools of the Retained Group with the carrying amounts of approximately HK$13 million;

(iv) a share charge over the entire issued capital of a wholly-owned retained subsidiary of the Company; and

(v) the fixed and floating charges over the assets in a wholly-owned retained subsidiary of the Company;

As at the close of business on 30 September 2010, the Retained Group had contingent liabilities in relation to litigations as disclosed in Part 7 of the General Information in Appendix V of this Composite Document. Some lawsuits and claims arising from the normal course of business were lodged against certain members of the Retained Group, and remained outstanding as at 30 September 2010 and up to the date of this Composite Document. It is not possible to ascertain with any degree of reasonable certainty the outcome of those litigations or otherwise of any compensation payable should the related defence become unsuccessful. The Directors, based on their best estimates and legal advices, are of the view that several defendants have valid grounds for defending the claims made by the plaintiffs, and adequate provision has been made against the potential claims as at the close of business on 30 September 2010. Accordingly, in the opinion of the

Directors, the ultimate liability under these lawsuits and claims would not have a material adverse impact on the financial position of the Retained Group.

Save as aforesaid or as otherwise disclosed herein, and apart from intra-group liabilities, the Retained Group did not have outstanding at the close of business on 30 September 2010 any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptance or acceptable credits, debentures, mortgages, charges, finance lease commitments, guarantees or other material contingent liabilities.

For the purpose of this statement of indebtedness, foreign currency amounts have been translated into Hong Kong dollars at the appropriate exchange rates prevailing as at the close of business on 30 September 2010.

The Directors confirm there were no material adverse changes in the Retained Group's indebtedness position and contingent liabilities since 30 September 2010.

7. MATERIAL CHANGE

Save as (i) the effects of completion of the Restructuring Proposal including the Capital Reorganisation, the Group Reorganisation and the Subscription and the Creditor Scheme becoming effective on 3 December 2010; (ii) disclosed in the interim report of the Company for the six months period ended 30 September 2010, in particular, the significant drop in the Former Group's turnover since 1 April 2010 and the ongoing net-liabilities financial position of the Group; and (iii) the uncertainties relating to the possible outcome of the litigations as set out in the section headed "Litigations" in Appendix V to this Composite Document, the Board confirms that there is no material change in the financial or trading position or outlook of the Group since 31 March 2010 (the date to which the latest audited consolidated financial statements of the Group were made up) to and including the Latest Practicable Date.

Set out below is the texts of the reports from ANDA CPA Limited, the auditor of the Company, and Somerley, the financial adviser to the Company, in relation to the unaudited profit before and after taxation of the Former Group for the six months ended 30 September 2010 as published in the 2010 interim report of the Company, for the purpose of inclusion in this Composite Document.

(I) INDEPENDENT ASSURANCE REPORT FROM ANDA CPA LIMITED

TO THE BOARD OF DIRECTORS OF TONIC INDUSTRIES HOLDINGS LIMITED

We have performed our work on the principal accounting policies adopted and the calculations used in the preparation of the unaudited profit before and after taxation for the six months ended 30 September 2010 (the "Unaudited Profit Figures") of the Company and its subsidiaries (collectively referred to as "the Former Group") as set out in this Composite Document relating to the mandatory unconditional cash offer by Skill China Limited for all the issued shares of HK$0.01 each in Tonic Industries Holdings Limited (other than those shares already owned or agreed to be acquired by Skill China Limited). The Unaudited Profit Figures reported in the interim report of the Company for the six months ended 30 September 2010 are set out in Part 4 of Financial Information of the Former Group in Appendix II of this Composite Document.

DIRECTORS' RESPONSIBILITY

The Directors are solely responsible for the preparation of the Unaudited Profit Figures, among other things, on a basis consistent with the accounting policies adopted by the Company and its subsidiaries in preparing the annual consolidated financial statements of the Company for the year ended 31 March 2010. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation of the Unaudited Profit Figures that are free from material misstatement, whether due to fraud or error; selecting and applying an appropriate basis of preparation and applying the accounting policies adopted by the Group; and making estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

It is our responsibility, as required by Rule 10 of the Codes on Takeovers and Mergers and Share Repurchases published by the Securities and Futures Commission of Hong Kong, to express a conclusion on the Unaudited Profit Figures based on our work performed and to report our conclusion solely to the directors of the Company ("the Directors"), as a body, in accordance with our agreed terms of engagement and or no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conduct our work in accordance with the Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" ("HKSAE 3000") issued by Hong Kong Institute of Certified Public Accountants (the "HKICPA"). This standard requires that we comply with ethical requirements and plan and perform the assurance engagement to obtain reasonable assurance whether, so far as the principal accounting policies and calculations are concerned, the Unaudited Profit Figures have been properly complied, in all material respects, in accordance with accounting policies adopted by the Group in preparing the annual consolidated financial statements of the Company for the year ended 31 March 2010.

A reasonable assurance engagement involves performing procedures, the selection of which depend on the auditor's judgment, including the assessment of the risks of significant calculation errors and risks of application of accounting policies materially inconsistent with those adopted by the Group in preparing the annual consolidated financial statements of the Company for the year ended 31 March 2010. Within the scope of our work we performed, among other things, the following procedures:

a. obtained an understanding of the basis of preparation and the principal accounting policies adopted in preparing the Unaudited Profit Figures through inquiry of persons responsible for financial and accounting matters and compared the principal accounting policies used to those adopted in the preparation of the annual consolidated financial statements of the Company for the year ended 31 March 2010;

b. obtained an understanding of the internal controls relevant to the selection and application of the appropriate accounting policies and the preparation of the Unaudited Profit Figures that are free from material misstatement;

c. obtained an understanding of the estimates made by the Directors during the preparation of the Unaudited Profit Figures;

d. compared the financial data used in preparing the Unaudited Profit Figures to the underlying accounting records of the Group;

e. checked the arithmetical calculations and the compilation of the Unaudited Profit Figures; and

f. such other procedures that we considered necessary in the circumstances in accordance with HKSAE 3000.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our conclusion.

CONCLUSION

In our opinion, so far as the accounting policies and calculations are concerned, the Unaudited Profit Figures have been properly compiled on the basis of preparation set out in Part 4 of Financial Information of the Former Group in Appendix II of this Composite Document, and is presented on a basis consistent, in all material respects, with the accounting policies adopted by the Group in preparing the annual consolidated financial statements of the Company for the year ended 31 March 2010.

ANDA CPA Limited
Certified Public Accountants
Sze Lin Tang
Practising Certificate Number P03614
Hong Kong, 10 December 2010

(II) COMFORT LETTER FROM SOMERLEY

SOMERLEY LIMITED
10th Floor
The Hong Kong Club Building
3A Chater Road
Hong Kong

10 December 2010

The Board of Directors
Tonic Industries Holdings Limited
Flat K2, Block 2, 2/F.
Kaiser Estate
51 Man Yue Street
Hung Hom, Kowloon
Hong Kong

Dear Sirs,

TONIC INDUSTRIES HOLDINGS LIMITED

We refer to the unaudited profit before and after taxation of the Former Group (the "Unaudited Profit Figures") for the 6 months ended 30 September 2010. We note that the Unaudited Profit Figures are regarded as a profit forecast under Rule 10 of the Takeovers Code. Details of the Unaudited Profit Figures are set out in Part 4 of Financial Information of the Former Group in Appendix II of this Composite Document, of which this letter forms part. Terms used in this letter shall have the same meanings as defined in this Composite Document unless the context requires otherwise.

We have discussed with the Directors the bases upon which the Unaudited Profit Figures were prepared. We have also discussed with ANDA CPA Limited ("ANDA"), the auditors of the Company, the results of their review of the Unaudited Profit Figures. We have also considered the "Independent Assurance Report" of ANDA dated 10 December 2010 issued to you, the text, of which is set out in pages III-1 to III-3 of this Composite Document, which stated that, so far as the accounting policies and calculations are concerned, the Unaudited Profit Figures have been properly compiled on the basis of preparation set out in Part 4 of Financial Information of the Former Group in Appendix II of this Composite Document, and is presented on a basis consistent, in all material respects, with the accounting policies adopted by the Former Group in preparing the annual consolidated financial statements of the Company for the year ended 31 March 2010. The preparation of the Unaudited Profit Figures is the sole responsibility of, and has been approved by, the Directors.

Based on the above, we are satisfied that the Unaudited Profit Figures have been prepared by the Directors after due care and consideration.

Yours faithfully,
For and on behalf of
SOMERLEY LIMITED
Kenneth Chow
Managing Director – Corporate Finance

The following is the text of a letter, and valuation certificate, prepared for the purpose of incorporation in this circular received from Jones Lang LaSalle Sallmanns Limited, an independent valuer, in connection with its valuation as at 30 September 2010 of the property interest of the Group.

Jones Lang LaSalle Sallmanns Limited
17/F Dorset House Taikoo Place
979 King's Road Quarry Bay Hong Kong
tel +852 2169 6000 fax +852 2169 6001
Licence No: C-030171

10 December 2010

The Board of Directors
Tonic Industries Holdings Limited
Flat K2, 2nd Floor, Phase 2
Kaiser Estate
51 Man Yue Street
Hung Hom
Kowloon
Hong Kong

Dear Sirs,

In accordance with your instructions to value the property in which Tonic Industries Holdings Limited (the "Company") and its subsidiaries (hereinafter together referred to as the "Group") have interests in the People's Republic of China (the "PRC"), we confirm that we have carried out inspections, made relevant enquiries and searches and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the capital value of the property interest as at 30 September 2010 (the "date of valuation").

Our valuation of the property interest represents the market value which we would define as intended to mean "the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently, and without compulsion".

Where, due to the nature of the buildings and structures of the property in the PRC, there are no market sales comparables readily available, the property interest has been valued on the basis of its depreciated replacement cost.

Depreciated replacement cost is defined as "the current cost of replacing an asset with its modern equivalent asset less deductions for physical deterioration and all relevant forms of obsolescence and optimization." It is based on an estimate of the market value for the existing use of the land, plus the current cost of replacement (reproduction) of the improvements, less deductions for physical deterioration and all relevant forms of obsolescence and optimization. The depreciated replacement cost of the property interest is subject to adequate potential profitability of the concerned business.

Our valuation has been made on the assumption that the seller sells the property interest in the market without the benefit of a deferred term contract, leaseback, joint venture, management agreement or any similar arrangement, which could serve to affect the value of the property interest.

No allowance has been made in our report for any charge, mortgage or amount owing on any of the property interest valued nor for any expense or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the property is free from encumbrances, restrictions and outgoings of an onerous nature, which could affect its value.

In valuing the property interests, we have complied with all requirements contained in Chapter 5 and Practice Note 12 of the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited; the RICS Valuation Standards published by the Royal Institution of Chartered Surveyors; and the HKIS Valuation Standards on Properties published by the Hong Kong Institute of Surveyors and the International Valuation Standards published by the International Valuation Standard Council.

We have relied to a very considerable extent on the information given by the Group and have accepted advice given to us on such matters as tenure, planning approvals, statutory notices, easements, particulars of occupancy, lettings, and all other relevant matters.

We have been shown copies of various title documents including Land Use Right Transfer Contract, Land Exchange Agreement, Supplementary Land Exchange Agreement and floor plans relating to the property interest and have made relevant enquiries. Where possible, we have examined the original documents to verify the existing title to the property interest in the PRC and any material encumbrance that might be attached to the property interest or any tenancy amendment. We have relied considerably on the advice given by the Company's PRC legal advisers – Jianda Law Firm, concerning the validity of the property interest in the PRC.

We have not carried out detailed measurements to verify the correctness of the areas in respect of the property but have assumed that the areas shown on the title documents and official site plans handed to us are correct. All documents and contracts have been used as reference only and all dimensions, measurements and areas are approximations. No on-site measurement has been taken.

We have inspected the exterior and, where possible, the interior of the property. However, we have not carried out investigation to determine the suitability of the ground conditions and services for any development thereon. Our valuation has been prepared on the assumption that these aspects are satisfactory. Moreover, no structural survey has been made, but in the course of our inspection, we did not note any serious defect. We are not, however, able to report whether the property is free of rot, infestation or any other structural defect. No tests were carried out on any of the services.

We have had no reason to doubt the truth and accuracy of the information provided to us by the Group. We have also sought confirmation from the Group that no material factors have been omitted from the information supplied. We consider that we have been provided with sufficient information to arrive an informed view, and we have no reason to suspect that any material information has been withheld.

According to the Company, the potential tax liabilities which would arise on the disposal of the property interests held by the Group in the PRC, at the amount of market value minus the cost of purchase, comprise Chinese business tax (5% of net revenue), Chinese land appreciation tax (ranging from 30% to 60% of the appreciated amount), Chinese corporate income tax and Chinese stamp duty (0.05% of the consideration stated in sales contract). The exact amount of the tax payable upon realization of the relevant properties will be subject to the formal tax advice issued by the relevant tax authorities at the time of disposal by presenting the relevant transaction documents. Further, as advised by the Group, the likelihood of the potential tax liability of the property being crystallized is remote as the Company has no intention to dispose of its property interest.

Unless otherwise stated, all monetary figures stated in this report are in Hong Kong Dollars (HKD). The exchange rate adopted in our valuation is approximately HK$1=RMB0.86 which was approximately the prevailing exchange rate as at the date of valuation.

Our valuation is summarized below and the valuation certificates are attached.

Yours faithfully,
For and on behalf of
Jones Lang LaSalle Sallmanns Limited
Paul L. Brown
B.Sc. FRICS FHKIS
Director

Note: Paul L. Brown is a Chartered Surveyor who has 27 years' experience in the valuation of properties in the PRC and 30 years of property valuation experience in Hong Kong and the United Kingdom as well as relevant experience Asia-Pacific region.

VALUATION CERTIFICATE

Property interest owned and occupied by the Group in the PRC

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 September 2010 *HKD*
A factory complex located at The Industrial Area No. Two in Huangjiabo Village Dongguan City Guangdong Province the PRC	The property comprises a factory complex with 19 buildings and ancillary structures erected on 3 parcels of land with a total site area of approximately 37,996 sq.m (Please read notes 1 and 2 for further information). The buildings have a total gross floor area of approximately 16,217.09 sq.m. (1,250,961 sq.ft.). The major buildings of the complex were completed in 2004 and include 4 factory buildings, 5 dormitory blocks, a composite building, a transformer room, a warehouse and 7 guardhouses. Other structures and facilities include bridges, water pool and etc.	The property is currently occupied by the Group for electronic manufacturing, storage, and staff accommodation purposes.	No commercial value

Notes:

1. Pursuant to various documents–Land Use Right Transfer Contracts, Land Exchange Agreement, Supplementary Land Exchange Agreement dated 20 November 2003, 15 December 2003, 16 December 2003 and 17 February 2004 respectively. The collectively-owned land use rights of a total site area of 33,196 sq.m. are transferred to Tonic Technology Limited ("Tonic Technology"), Dongguan Xin Lian Digital Technology Company Limited ("Dongguan Xin Lian") and Tonic Marketing Limited ("Tonic Marketing"), wholly owned subsidiaries of the Company.

2. Pursuant to a Supplementary Tenancy Agreement dated 15 December 2003 made between Dongguan Xin Lian as Lessee and Dongguan Shi Pai Huangjiabo Villagers' Committee ("Villagers' Committee") (東莞石排黃家壆村民委員會) as Lessor, a parcel of land with a site area of approximately 4,800 sq.m. is leased by Group for a term of 50 years commencing from 1 January 2004 and expiring on 31 December 2054 at a total rental of RMB240,000.

3. We have not been provided any title certificates for the land parcels and the 19 buildings. Therefore, we have attributed no commercial value to the property. However, for reference purpose of our valuation, we are of the opinion that the capital value of the property excludes leased land of 4,800 sq.m. as at the date of valuation would be HKD136,500,000 assuming all relevant title certificates have been obtained and the property can be freely transferred.

4. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, inter alia, the following:

   a. Pursuant to a Land Use Right Transfer Contract dated 15 December 2003 entered into between Tonic Technology and Xu Ron Guang (徐榮光);

   b. Pursuant to a Land Exchange Agreement dated 15 December 2003 entered into between Dongguan Xin Lian and Dongguan Long Da Handbag Factory ("Long Da Handbag") (東莞龍達手袋廠);

   c. Pursuant to a Supplementary Land Exchange Agreement dated 16 December 2003 entered into between Dongguan Xin Lian and Long Dai Handbag;

   d. Pursuant to a Land Exchange Agreement dated 20 November 2003 entered into between Tonic Marketing and Villagers' Committee;

   e. Pursuant to a Land Exchange Agreement dated 14 February 2004 entered into between Tonic Technology and Villagers' Committee;

   f. Pursuant to a Supplementary Tenancy Agreement dated 15 March 2003 entered into between Tonic Technology and Villagers' Committee;

   g. The Dongguan Xin Lian has obtained the Construction Land use planning Permit from the government and has the right to construct buildings over the land; and

   h. Although the proper legal procedures have not been conducted for obtaining proper land title rights and construction of the buildings of the property, there is a relatively low risk to impose a fine or to vacate or to be confiscated by relevant government authority, however, Dongguan Xin Lian should apply for the land use rights and building ownership registration of the land and or buildings in actual use at the relevant government authority. Once Land-use Rights Certificates and Building Ownership Certificates have been by issued form relevant government authority, there is no legal impediment for the Dongguan Xin Lian to lease, transfer or mortgage the property.

1. RESPONSIBILITY STATEMENTS

The Directors jointly and severally accept full responsibility for the accuracy of the information contained in this Composite Document (other than information relating to the Concert Group) and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this Composite Document (other than opinions expressed by the Concert Group) have been arrived at after due and careful consideration and there are no other facts not contained in this Composite Document, the omission of which would make any statement in this Composite Document misleading.

The directors of the Offeror jointly and severally accept full responsibility for the accuracy of the information contained in this Composite Document (other than information relating to the Group and its associates) and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this Composite Document (other than opinions expressed by the Group and its associates) have been arrived at after due and careful consideration and there are no other facts not contained in this Composite Document, the omission of which would make any statement in this Composite Document misleading.

2. SHARE CAPITAL

The authorised and issued share capital of the Company as at 31 March 2010 (being the latest financial year end of the Company), and the Latest Practicable Date were as follows:

Authorised:		*HK$*
3,000,000,000	Old Shares of HK$0.10 each as at 31 March 2010	300,000,000
27,000,000,000	Capital Reorganisation	–
30,000,000,000	New Shares of HK$0.01 each as at the Latest Practicable Date	300,000,000
Issued and fully paid:		
1,057,889,962	Old Shares as at 31 March 2010	105,788,996.20
(952,100,966)	Capital Reorganisation	(104,731,106.24)
909,785,366	Issue of the Subscription Shares	9,097,853.66
52,894,498	Issue of the Remuneration Shares	528,944.98
1,068,468,860	New Shares of HK$0.01 each as at the Latest Practicable Date	10,684,688.60

The issued New Shares are fully paid up and rank *pari passu* with each other in all respects (including the rights of the Shareholders in respect of capital, dividends and voting).

Under a share option scheme adopted by the Company on 18 September 1997, the directors may, at any time during ten years, grant share options to employees and executive directors of the Group to subscribe for shares of the Company.

The following table discloses movements in the Company's share option since 31 March 2010 (being the latest financial year end of the Company) until the Latest Practicable Date:

	As at 31 March 2010	Number of outstanding share options lapsed	As at the Latest Practicable Date	Date of grant of options	Exercise period of share options	Exercise price of share options *HK$*
Directors:						
Ling Siu Man, Simon	15,000,000	15,000,000	–	07-04-00	10-04-00 to 09-04-10	0.467
Wong Ki Cheung	2,715,000	2,715,000	–	07-04-00	10-04-00 to 09-04-10	0.467
Li Fung Ching, Catherine	2,715,000	2,715,000	–	07-04-00	10-04-00 to 09-04-10	0.467
Lam Kwai Wah (resigned on 12 January 2010)	1,650,000	1,650,000	–	07-04-00	10-04-00 to 09-04-10	0.467
	22,080,000	22,080,000	–			
Other employees:						
In aggregate	25,050,000	25,050,000	–	07-04-00	10-04-00 to 09-04-10	0.467
	47,130,000	47,130,000	–			

Save as disclosed above, the Company did not have any outstanding options, warrants and other convertible securities or rights affecting the Shares as at the Latest Practicable Date.

3. DISCLOSURE OF INTERESTS

(a) Interests of Directors

As at the Latest Practicable Date, the chief executive of the Company and following Directors and their respective associates were interested, or were deemed to be interested in the following long and short positions in the Shares, underlying Shares and debentures of the Company or any associated corporation (within the meaning of the SFO) which (i) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO; or (ii) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules (the "Model Code") adopted by the Company, to be notified to the Company and the Stock Exchange; or (iv) to be disclosed in this Composite Document pursuant to the requirements of the Takeovers Code:

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 *(Note)*	61,849,247	5.79
Li Fung Ching, Catherine	Personal	214,200	0.02
Wong Ki Cheung	Personal	174,900	0.02
Cheng Tsang Wai	Personal	162,600	0.02

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.

In addition to the above, certain Directors have non-beneficial personal equity interests in certain subsidiaries held for the benefit of the Company for the sole purpose of compliance with the minimum company membership requirements.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or the chief executive of the Company and their respective associates had any interests in the long or short positions in the Shares, underlying Shares and debentures of the Company and its associated corporation (within the meaning of Part XV of the SFO) which (i) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO; or (ii) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) were required, pursuant to the Model Code adopted by the Company, to be notified to the Company and the Stock Exchange.

(b) Service contracts

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contract with any member of the Group or associated companies which does not expire or is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

As at the Latest Practicable Date, there were no service contracts with the Group and the Company's associated companies in force for Directors (i) which (including both continuous and fixed terms contracts) have been entered into or amended within the Relevant Period; (ii) which are continuous contracts with a notice period of 12 months or more; or (iii) which are fixed term contracts with more than 12 months to run irrespective of the notice period.

(c) Interest in assets of the Group

As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any assets which were, since 31 March 2010 (being the date to which the latest published audited consolidated financial statements of the Group were made up) acquired or disposed of by or leased to, were proposed to be acquired or disposed of by or leased to, any member of the Group, with the exception of the disposal and transfer of 3,000 non-voting deferred shares of par value HK$100 each in the capital of Tonic Electronic Limited (formerly a subsidiary of the Company prior to the completion of the Group Reorganisation) held by Mr. Ling to the Schemeco as part of the Group Reorganisation.

(d) Interest in contracts and arrangements

None of the Directors had material interest in any contract or arrangement subsisting at the Latest Practicable Date which is significant in relation to the business of the Group.

(e) Interest in competing business

As at the Latest Practicable Date, to the best of the knowledge of the Directors, none of the Directors or their respective associates has any interest in a business which competes or may compete with the business of the Group.

4. SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, so far as was known to the Directors or chief executive of the Company, the following persons (other than the interests disclosed above in respect of certain directors and chief executive of the Company) had interests or short positions in the Shares or underlying Shares of the Company which fall to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO as recorded in the register to be kept under Section 336 of the SFO, or who were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at a general meeting of the Company or any member of the Group:

Name of Shareholders	*Note*	Capacity/ nature of interest	Number of New Shares Long position	Number of New Shares Short position	Percentage of holding
Skill China Limited	*1*	Beneficial interest	846,311,968 New Shares	–	79.21%

Note:

1. The Offeror is wholly-owned by Fortune Alliance Group Limited which in turn is owned (i) as to 90% by Jointprofit Limited, a company wholly-owned by Dr. So; (ii) as to 5% by Greatkind Limited, a company wholly-owned by Mr. Ge Zhang; and (iii) as to 5% 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 the Latest Practicable Date, the Directors and chief executive of the Company are not aware of any other persons who had an interest and/or short position in the Shares or underlying Shares of the Company which is required to be disclosed to the Company and the Stock Exchange under the provisions of Division 2 and 3 of Part XV of the SFO, or as recorded in the register required to be kept under Section 336 of the SFO, or who was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company or any other member of the Group.

5. ADDITIONAL DISCLOSURE OF INTERESTS

(a) Save as disclosed in the section headed "Interests of Directors" in this appendix, none of the Directors hold any shares, convertible securities, warrants, options or other derivatives of the Company, and none of the Directors had dealt for value in any shares, convertible securities, warrants, options or other derivatives of the Company during the Relevant Period.

(b) None of the Directors hold any shares, convertible securities, warrants, options or other derivatives of the Offeror, and none of the Directors had dealt for value in any shares, convertible securities, warrants, options or other derivatives of the Offeror during the Relevant Period.

(c) As at the Latest Practicable Date, no Shares had been borrowed or lent by any of the Directors or by the Company.

(d) As at the Latest Practicable Date, there was no agreement or arrangement between any Director and any other person which is conditional on or dependent upon the outcome of the Offer or otherwise connected with the Offer.

(e) As at the Latest Practicable Date, no person had any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Company or with any person who is an associate of the Company by virtue of classes (1), (2), (3) and (4) of the definition of "associate" in the Takeovers Code.

(f) As at the Latest Practicable Date, no benefit (other than statutory compensation) will be or have been given to any Director as compensation for loss of office in any members of the Group or otherwise in connection with the Offer.

(g) Save as the issue of the Remuneration Shares by the Company to Somerley and DTCFL upon Completion, none of (i) the subsidiaries of the Company; (ii) the pension fund of the Company or of a subsidiary of the Company; or (iii) any other advisers to the Company (as specified in class (2) of the definition of "associate" under the Takeovers Code but excluding exempt principal traders) had any interest in the Shares, convertible securities, warrants, options or derivatives of the Company as at the Latest Practicable Date, and none of them had dealt in any shares, convertible securities, warrants, options or derivatives of the Company during the Relevant Period.

(h) No Shares, convertible securities, warrants, options or derivatives of the Company were managed on a discretionary basis by fund managers connected with the Company as at the Latest Practicable Date, and none of them had dealt in any shares, convertible securities, warrants, options or derivatives of the Company during the Relevant Period.

(i) As at the Latest Practicable Date, no agreement, arrangement or understanding (including any compensation arrangement) exists between the Offeror or any person acting in concert with it and any of the Directors, recent Directors, Shareholders or recent Shareholders having any connection with or dependence upon the outcome of the Offer.

(j) Save as disclosed in the section headed "Substantial Shareholder" in this appendix, none of the Offeror, any parties acting in concert with it and any of their respective directors owned or controlled any Shares, convertible securities, warrants, options or derivatives of the Company as at the Latest Practicable Date, and none of them had dealt for value in any such securities during the Relevant Period.

(k) As at the Latest Practicable Date, there was no material contract entered into by the Offeror in which any Director had a material personal interest.

(l) As at the Latest Practicable Date, no Shares had been borrowed or lent by the Offeror or parties acting in concert with it.

(m) As at the Latest Practicable Date, the Offeror or parties acting in concert with it or its associates had no arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with any person.

(n) As at the Latest Practicable Date, the Company does not hold any shares, convertible securities, warrants, options or derivatives of the Offeror. During the Relevant Period, the Company did not deal in any shares, convertible securities, warrants, options or derivatives of the Offeror.

(o) As at the Latest Practicable Date, no person has irrevocably committed themselves to accept or reject the Offer.

(p) There is no arrangement (whether by way of option, indemnity or otherwise) in relation to shares of the Offeror or the Company which might be material to the Offer. There are no agreements or arrangements to which the Offeror is a party which relate to the circumstances in which it may or may not invoke or seek to invoke a pre-condition or a condition to the Offer.

(q) As at the Latest Practicable Date, the Offeror has no agreement, arrangement or understanding or intention to transfer, charge or pledge the Shares acquired in pursuance with the Offer to any other persons.

6. MARKET PRICES

(a) The highest and lowest closing prices of the Shares as quoted on the Stock Exchange in the six-month period prior to 10 January 2010 (being the date of the Company's announcement in relation to, among other things, a possible change in control of the Company), and up to the Latest Practicable Date was HK$0.219 per Old Share on 4 September 2009 (the theoretical closing price of HK$2.19 per New Share) and HK$0.092 per Old Share (the theoretical closing price of HK$0.92 per New Share) on 30 June and 2 July 2010, respectively.

(b) The table below sets out the closing prices of the Old Shares as quoted on the Stock Exchange on the last business day of each of the calendar months during the Relevant Period on which trading of the Old Shares took place:

Date	**Closing Price of Old Shares** *HK$*
31 July 2009	0.201
31 August 2009	0.155
30 September 2009	0.178
30 October 2009	0.117
30 November 2009	0.137
28 December 2009	0.134
29 January 2010	0.131
26 February 2010	0.135
31 March 2010	0.117
30 April 2010	0.126
14 May 2010	0.118
30 June 2010	0.092
30 July 2010	0.103
31 August 2010	0.100
30 September 2010	0.104
29 October 2010	0.104
30 November 2010	0.163

(c) The closing price of the Old Shares on the Stock Exchange on 28 December 2009, being the last trading day pending the issue of the announcement in accordance with Rule 3.7 of the Takeovers Code, was HK$0.134.

(d) The closing price of the Old Shares on the Stock Exchange on 4 October 2010, being the last trading day immediately preceding the date of the Joint Announcement was HK$0.104.

(e) The closing price of the New Shares on the Stock Exchange on the Latest Practicable Date was HK$1.51.

7. LITIGATION

(a) the Company

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, Tonic Electronics Limited and Tonic Digital Products Limited (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. According to the Creditor Scheme, which came into effect on 3 December 2010, the scheme document may be pleaded by the Company or the Adiministrators against any person (including but not limited to the Plaintiff) having a claim against the Company as an absolute bar and defence to any enforcement process or proceedings brought or made at any time in respect of that claim or a security interest contrary to the provisions of the Creditor Scheme.

(b) Dongguan Xin Lian Digital Technology Co., Ltd.* (東莞鑫聯數碼科技有限公司) ("Dongguan Xin Lian")

Civil Petitions

(i) 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 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 good supplied. Proceedings commenced on 7 July 2010 but judgment is yet to be made by the court.

(ii) On 9 January 2010, 上海頡生機電有限公司 (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 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.

(iii) 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 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.

(iv) 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 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.

(v) On 14 May 2010, 高新錫業(惠州)有限公司 (Gaoxin Tin (Huizhou) Company Limited*) and Dongguan Xin Lian. reached a civil mediation agreement (document number: (2010) 東一法民二初字第153號) pursuant to which Dongguan Xin Lian 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. The sum of RMB400,000 and the court fees of RMB5,900 had been paid by Dongguan Xin Lian while the refund of RMB29,334 had been received by Dongguan Xin Lian.

(vi) On 16 September 2010, 揚州市賽格電綫電纜廠 issued a notice of hearing by the First People's Court of Dongguan City against Dongguan Xin Lian 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 on an outstanding sum of RMB657,653.50 together with interest thereon in relation to the goods supplied. Dongguan Xin Lian is in negotiations with 揚州市賽格電綫電纜廠 to reach a mediation agreement. Legal proceedings have commenced but no judgment has been made by the court.

(vii) On 1 November 2010, 南京聖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 in relation to the conflicts of a sales and purchase contract (document number: (2010) 東一法民二初字第4917號) involving an outstanding sum of RMB1,533,674.10 together with interest thereon. Dongguan Xin Lian is in negotiations with 南京聖旻科技網絡工程有限公

司 to reach a mediation agreement. Legal proceedings have commenced but no judgment has been made by the court.

(viii) 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) involving an outstanding sum of RMB58,671.09 together with interest thereon. 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.

* *The English name is for transliteration only.*

Having considered that (i) as mentioned in (a) above, the Defendants have a defense with merits to the claim made by the Plaintiff based on the case pleaded, the Creditor Scheme and the information available to the Defendants; (ii) save for one litigation against Dongguan Xin Lian for which a civil mediation agreement has been reached (as mentioned in (b)(v) above), the aggregate outstanding sum of the other litigations against it amounted to around RMB3.1 million; and (iii) the enhancement on the financial position of the Retained Group following the Completion, the Directors are of the view that the litigations would not have material adverse impact on the operation of the Retained Group.

Saved as disclosed above, neither the Company nor any of its Retained Subsidiaries is engaged in any litigation or arbitration of material importance and no litigation of material importance is known to the Directors to be pending or threatened against the Company or any of its Retained Subsidiaries.

8. MATERIAL CONTRACTS

The following contracts (not being contracts in the ordinary course of business) have been entered into by members of the Group after the date two years before 10 January 2010, (being the date of the Company's announcement in respect of, among other things, a possible change in control of the Company) and are or may be material:

(a) the Subscription Agreement (as amended by the supplemental subscription agreement dated 24 June 2010);

(b) the Custody Agreement;

(c) the Escrow Agreement (as amended by the supplemental deed dated 26 February 2010);

(d) the escrow agreement dated 3 December 2010 entered into between the Escrow Agent, the Schemeco, the Company and the Offeror in relation to the escrow of the Subscription Price paid by the Offeror, which shall be released to the Schemeco upon the written instruction of the Administrators;

(e) the facility agreement dated 3 December 2010 entered into between GGP (as borrower) and the Offeror (as lender) pursuant to which the Offeror made available to GGP an unsecured and interest-free loan facility in the aggregate principal amount of HK$30,000,000;

(f) the Loan Agreement (as amended by the supplemental loan agreement dated 24 June 2010);

(g) the Share Charge;

(h) the Debenture;

(i) the subscription agreement dated 22 July 2009 (and supplemented by the supplemental agreement dated 24 July 2009) between the Company, Success Forever Limited, and S.M. Centerus Renewable Energy Limited in relation to the subscription by S.M. Centerus Renewable Energy Limited an aggregate of 210,000,000 Old Shares at the price of HK$0.155 per Share, which was terminated on 28 October 2009; and

(j) the sale and purchase agreement dated 16 June 2008 entered into between Tonic Electronics Limited (a wholly-owned subsidiary of the Company before completion of the Restructuring disposal) and Ms. Tam Lai Ha and Ms. Ling Ka Ka, Jennifer, the spouse and daughter of Mr. Ling in relation to the disposal of the property which comprises a 4-storey town house, a carport and an open area of approximately 268.02 sq.m, 34.37 sq.m. and 100.61 sq.m, respectively, which is located at Town House, No. 113, Sunderland Estate, 1 Hereford Road, Kowloon Tong, Kowloon, Hong Kong by Tonic Electronics Limited to Ms. Tam Lai Ha and Ms. Ling Ka Ka, Jennifer, at a consideration of HK$34.0 million.

9. CONSENTS AND QUALIFICATIONS

The following are the qualifications of the experts who have given opinions or advice which are contained in this Composite Document:

Name	**Qualification**
ANDA CPA Limited	Certified Public Accountants
Access Capital	a corporation licensed under the SFO to carry out Type 1 (dealing in securities), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under the SFO
Jones Lang LaSalle Sallmanns	Independent professional valuer

Jianda Law Firm	PRC legal adviser
Quam Capital	a corporation licensed under SFO to carry out Type 6 (advising on corporate finance) regulated activity
Quam Securities	a corporation licensed under SFO to carry out Type 1 (dealing in securities), Type 2 (dealing in futures contracts), Type 4 (advising on securities) and Type 9 (asset management) regulated activities
Somerley	a corporation licensed under SFO to carry out Type 1 (dealing in securities), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities

As at the Latest Practicable Date, none of ANDA CPA Limited, Access Capital, Jones Lang LaSalle Sallmanns, Jianda Law Firm, Quam Capital and Quam Securities, had any shareholding in any member of the Group nor any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group, or had any interest, either directly or indirectly, in any assets which had been, since 31 March 2010 (the date to which the latest published audited financial statements of the Company were made up), acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any member of the Group. Save for Somerley's interests in the Somerley's Remuneration Shares, as at the Latest Practicable Date, Somerley did not have any other shareholding in any member of the Group nor any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group, or had any interest, either directly or indirectly, in any assets which had been, since 31 March 2010 (the date to which the latest published audited financial statements of the Company were made up), acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any member of the Group.

Each of ANDA CPA, Access Capital Limited, Jones Lang LaSalle Sallmanns, Jianda Law Firm, Quam Capital, Quam Securities and Somerley, has given and has not withdrawn their respective written consents to the issue of this Composite Document with the inclusion of their respective advice, letters and/or reports (as the case may be) and references to their names and logos in the form and context in which they respectively appear.

10. GENERAL

(a) The registered office of the Company is at P.O. Box 309 GT, Ugland House, South Church Street, George Town, Grand Cayman, Cayman Islands, British West Indies.

(b) The head office and principal place of business of the Company in Hong Kong is at Flat K2, Block 2, 2/F, Kaiser Estate, 51 Man Yue Street, Hung Hom, Kowloon, Hong Kong.

(c) The registered office of (i) the Offeror and (ii) Fortune Alliance Group Limited, Jointprofit Limited, Greatkind Limited and Cheergreat Limited (together the "Offeror's Holding Companies") is at P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands. The correspondance address of the Offeror and the Offeror's Holding Companies is at 1/F, Sunning Plaza, 10 Hysan Avenue, Causeway Bay, Hong Kong.

(d) The registered office of Somerley Limited is at 10/F., The Hong Kong Club Building, 3A Chater Road, Central, Hong Kong.

(e) The registered office of Quam Capital Limited and Quam Securities Company Limited is at Room 3208, Gloucester Tower, The Landmark, 11 Pedder Street, Central, Hong Kong.

(f) The registered office of Access Capital Limited is at Suite 606, 6/F., The Bank of America Tower, 12 Harcourt Road, Central, Hong Kong.

(g) The Company's branch share registrar in Hong Kong is Tricor Tengis Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.

(h) The Company does not have a company secretary since the resignation of the ex-company secretary on 7 December 2009.

(i) The English language text of this Composite Document and the Form of Acceptance shall prevail over their respective Chinese language text.

11. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection on the websites of the SFC (www.sfc.hk) and the Company (www.tonic.com.hk) and, during normal business hours, at the Company's Hong Kong office from the date of this Composite Document until the close of the Offer:

(a) the memorandum and articles of association of the Company;

(b) the memorandum and articles of association of the Offeror;

(c) Cayman Companies Law;

(d) the annual reports of the Company for the two years ended 31 March 2010;

(e) the interim report of the Company for the six months end 30 September 2010;

(f) the letter from the Board, the text of which is set out in this Composite Document;

(g) the letter from Quam Capital, the text of which is set out in this Composite Document;

(h) the accountants' report prepared by ANDA CPA Limited in respect of the unaudited pro forma financial information of the Group upon Completion, the text of which is set out in Appendix II to this Composite Document;

(i) the letter from the Independent Board Committee, the text of which is set out in this Composite Document;

(j) the letter from Access Capital, the text of which is set out in this Composite Document;

(k) the independent assurance report from ANDA CPA Limited on unaudited financial information of the Former Group as set out in part (I) of Appendix III to this Composite Document;

(l) the comfort letter from Somerley on unaudited financial information of the Former Group as set out in part (II) of Appendix III to this Composite Document;

(m) the valuation report from Jones Lang LaSalle Sallmanns, the text of which is set out in Appendix IV to this Composite Document;

(n) the material contracts referred to in the section headed "Material contracts" in this appendix;

(o) the written consents referred to in this appendix; and

(p) the Circular.