THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular 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 circular and the accompanying form of proxy 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 circular is for information purpose only and does not constitute an invitation or offer to acquire, purchase or subscribe for the Shares or other securities in the Company.

TONIC

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
(Incorporated in the BVI with limited liability)

PROPOSED CAPITAL REORGANISATION; PROPOSED GROUP REORGANISATION AND CREDITOR SCHEME; PROPOSED SUBSCRIPTION OF NEW SHARES; APPLICATION FOR THE GRANTING OF THE WHITEWASH WAIVER; AND PROPOSED ISSUE OF REMUNERATION SHARES

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 and the Independent Shareholders

Access Capital

A letter from the Board is set out on pages 11 to 41 of this circular.

A letter from the Independent Board Committee containing its recommendation to the Independent Shareholders is set out on pages 42 to 43 of this circular.

A letter from the independent financial adviser, Access Capital Limited, containing its advice to the Independent Board Committee is set out on pages 44 to 63 of this circular.

A notice convening the EGM to be held at Room 607, The Boys' & Girls' Clubs Association of Hong Kong, 3 Lockhart Road, Wanchai, Hong Kong on 26 July 2010, at 10:30 a.m. is set out on pages V-1 to V-7 of this circular. Whether or not you intend to attend the EGM, please complete and return the enclosed form of proxy in accordance with the instructions printed thereon and return it to the Company's branch share registrar in Hong Kong, Tricor Tengis Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event, not less than 48 hours before the time fixed for holding the EGM or any adjournment thereof (as the case may be). Completion and return of the form(s) of proxy will not preclude you from attending and voting in person at the EGM or at any adjourned meeting should you so wish.

* *For identification purpose only*

28 June 2010

CONTENTS

Page

	2010
Latest time for lodging forms of proxy for the EGM	10:30 a.m. on 24 July
Record Date	26 July
EGM	10:30 a.m. on 26 July
Announcement of the results of the EGM	26 July
Scheme Meeting *(Note 2)*	To be determined
Court hearings of petition to sanction the Creditor Scheme *(Notes 1 and 2)*	To be determined
Effective date of the Creditor Scheme *(Notes 1 and 2)*	To be determined
Completion *(Note 2)*	To be determined

Notes:

(1) The date of hearings by the Courts for sanction of the Creditor Scheme and the effective date of the Creditor Scheme will depend on the availability of the Courts, which will depend on, among other things, the length or scope of the hearing for sanction.

(2) Further announcement(s) on the results of relevant incidents will be made.

The Restructuring Proposal involves, among other things, the Capital Reorganisation and the Creditor Scheme, both of which are conditional on, among other things, the results of the EGM, the confirmation of the Capital Reduction by the Court and the sanctioning of the Creditor Scheme by the Courts. Further announcement(s) will be made to update the Shareholders and potential investors as and when appropriate.

Further announcement will be made by the Company to inform the Shareholders of the arrangements of the free exchange of the New Share certificates for the Existing Share certificates as and when appropriate.

All time references contained in this circular are references to Hong Kong time.

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

"acting in concert"	the same meaning ascribed to it under the Takeovers Code
"Administrators"	the administrators to be appointed pursuant to the Creditor Scheme
"associate"	the same meaning ascribed to it under the Listing Rules
"Board"	the board of Directors
"Business Day"	a day (other than Saturday and days on which a tropical cyclone warning number 8 or above or a "black rainstorm warning signal" is hoisted in Hong Kong at any time between 9:00 a.m. and 5:00 p.m.) on which banks are open for general banking business
"BVI"	the British Virgin Islands
"Capital Reduction"	the reduction of the par value of each issued Existing Share from HK\$0.10 to HK\$0.001 by the cancellation of HK\$0.099 of the paid-up capital on each Existing Share pursuant to the Capital Reorganisation
"Capital Reorganisation"	the meaning as described under section headed "1. Proposed Capital Reorganisation" in the letter from the Board of this circular
"Capital Reorganisation Resolution"	the resolution to be proposed at the EGM for the consideration of the Shareholders to approve the Capital Reorganisation
"Cayman Companies Law"	the Companies Law (2009 Revision) of the Cayman Islands (as amended)

"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
"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"	the date on which all the conditions precedent set out in the Subscription Agreement are satisfied or waived whereupon the obligations set out in the Subscription Agreement shall be performed by the respective parties provided that such date shall not be later than 31 December 2010 or such later time and/or date as the Company and the Subscriber may agree in writing
"Concert Group"	the Subscriber 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"	the High Court of Hong Kong and the Court
"CPPCC"	The Chinese People's Political Consultative Conference
"Creditor Scheme"	the meaning as described under sub-section headed "2.2 Proposed Creditor Scheme" in the letter from the Board of this circular

"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 Securities"	the Custodian Shares together with certificates and other documents of title or evidence of ownership in respect of the Custodian Shares
"Custodian Shares"	(a) 618,492,476 Existing Shares Success Forever 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 Subscriber and Success Forever 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 Subscriber on 15 January 2010
"Directors"	the directors of the Company
"Dr. So"	Dr. So Shu Fai, one of the ultimate beneficial owners of the Subscriber
"DTCFL"	Deloitte & Touche Corporate Finance Limited
"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, to be issued to DTCFL as settlement of the professional fees charged by DTCFL

"Effective Date"	the date on which the Creditor Scheme becomes binding and effective being the later of: (i) the date of the delivery of a copy of the order of the Court sanctioning the Creditor Scheme to the Registrar of Companies in the Cayman Islands for registration; and (ii) the date of the delivery of a copy of the order of the High Court of Hong Kong sanctioning the Creditor Scheme to the Registrar of Companies in Hong Kong for registration
"EGM"	the extraordinary general meeting of the Company to be convened for the purposes of considering and, if thought fit, approving, the Resolutions
"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 Subscriber in relation to the escrow of the earnest money paid by the Subscriber 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
"Existing Shares"	existing 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
"Facility"	the loan facility in the principal amount of HK$40,000,000 made available to GGP under the Loan Agreement
"General Mandate"	the existing general mandate sought at the annual general meeting held on 18 September 2009 to issue up to 21,157,799 New Shares (assuming the Capital Reorganisation becoming effective)

"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"	the Company and all its subsidiaries before completion of the Group Reorganisation
"Group Reorganisation"	the meaning as described under sub-section headed "2.1 Proposed Group Reorganisation" in the letter from the board of this circular
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	The Hong Kong Special Administrative Region of the PRC
"Independent Board Committee"	the independent board committee of the Company comprising Messrs. PANG Hon Chung, CHENG Tsang Wai and CHUNG Hing Wah, Paul, all being independent non-executive Directors
"Independent Shareholder(s)"	Shareholder(s), other than (i) Mr. Ling and parties acting in concert with him; (ii) the Concert Group; and (iii) those who are involved in or interested in the Subscription and the Whitewash Waiver
"Joint Announcement"	the announcement of the Company dated 27 January 2010 regarding, among other things, the Capital Reorganisation, the Group Reorganisation, the Creditor Scheme, the Subscription and the Whitewash Waiver
"Latest Practicable Date"	25 June 2010, being the latest practicable date for ascertaining certain information of this circular
"Last Trading Day"	14 January 2010, being the last trading date prior to the signing of the Subscription Agreement
"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 Subscriber 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 Subscriber (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 the controlling Shareholder
"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 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
"Option Shares"	63,473,398 New Shares, representing approximately 5.94% of the enlarged share capital of the Company upon Completion to be held by the Subscriber, which will be transferred to Schemeco for the purposes of the Creditor Scheme
"PRC"	the People's Republic of China
"Preferential Creditor(s)"	person(s) with a Claim (or part of Claim) which, if the Company was wound up on the Effective Date, would be treated as a preferential claim pursuant to section 265 of the Companies Ordinance and would be paid in priority to the claims of the general unsecured creditors of the Company
"Record Date"	the record date to determine entitlements to, if any, the distribution of any residual value of the Creditor Scheme, being 26 July 2010, subject to any change to be announced by the Company

"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
"Remuneration Shares"	the Somerley's Remuneration Shares and the DTCFL's Remuneration Shares
"Resolutions"	the resolutions to be considered by the Shareholders (or, where applicable, the Independent Shareholders) which are necessary to give effect to the transactions contemplated under the Subscription Agreement and the issue of the Tranche 2 Remuneration Shares and DTCFL's Remuneration Shares, and comply with the Listing Rules and the Takeovers Code and, including: (1) the Capital Reorganisation Resolution; (2) the approval of the Group Reorganisation; (3) the Subscription Resolution; (4) the Whitewash Waiver Resolution; (5) the resolution for approving the issue and allotment of the Tranche 2 Remuneration Shares; and (6) the resolution for approving the issue and allotment of the DTCFL's Remuneration Shares
"Restructuring Proposal"	the proposed restructuring of the Company involving the Capital Reorganisation, the Group Reorganisation, the Creditor Scheme, the Subscription and the Whitewash Waiver
"Retained Group"	the Company and the Retained Subsidiaries
"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.*), GGP, 東莞悅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 Creditors"	any Creditor with a Claim (and where the Creditor has a Claim that consists of both a preferential and non-preferential parts, only to the extent of the non-preferential part) which has been admitted by the Administrators in accordance with the Creditor Scheme
"Scheme Document"	the scheme document to be issued by the Company in respect of the Creditor Scheme
"Scheme Meeting"	the meeting of Creditors to be convened by each of the Courts for the purpose of considering and, if thought fit, approving the Creditor Scheme
"Scheme Subsidiaries"	the subsidiaries of the Company other than the Retained Subsidiaries
"Schemeco"	a special purpose company, to be incorporated under laws of Hong Kong by the Administrators for the purpose of the Creditor Scheme
"Security Interest"	any mortgage, charge, assignment, hire-purchase, title retention, leasing, sale-and-repurchase or sale-and-leaseback arrangement, pledge, lien, hypothecation, encumbrance or security interest of whatsoever kind or any other agreement having the effect of conferring security
"SFC"	the Securities and Futures Commission of Hong Kong
"SFO"	means the Securities and Futures Ordinance (Cap.571) of the Laws of Hong Kong
"Share Charge"	a share charge executed on 15 January 2010 by the Company as chargor in favour of the Subscriber as chargee over 100% of the shareholdings in GGP
"Share Consolidation"	the proposed 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 proposed 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 Existing 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
"Somerley"	Somerley Limited, the financial adviser 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
"Subscriber"	Skill China Limited, a company incorporated in the BVI with limited liability which is ultimately beneficially owned as to 59.5% by Dr. So, 39.5% by Mr. Ge Zhang and 1.0% by the family trust of Mr. Chan Wai Dune
"Subscription"	the subscription of the Subscription Shares by the Subscriber 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 Subscriber (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) payable by the Subscriber pursuant to the Subscription Agreement
"Subscription Resolution"	the resolution to be proposed at the EGM for the consideration of the Shareholders to approve the Subscription and the transaction contemplated thereunder

"Subscription Shares"	the 909,785,366 New Shares with a par value of HK$0.01 each to be subscribed for by the Subscriber, 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
"Success Forever"	Success Forever Limited, a company incorporated in the BVI with limited liability and the beneficial owner of 618,492,476 Existing Shares, representing approximately 58.46% of the issued Existing Shares as at the Latest Practicable Date
"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, to be 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, to be issued to Somerley as settlement of part of professional fees charged by Somerley
"Whitewash Waiver"	the whitewash waiver pursuant to Note 1 on Dispensations from Rule 26 of the Takeovers Code in respect of any obligation of the Concert Group to make a general offer for all the issued Shares not already owned or agreed to be acquired by the Concert Group which might otherwise arise as a result of the Subscriber subscribing for the Subscription Shares under the Subscription Agreement
"Whitewash Waiver Resolution"	the resolution to be proposed at the EGM for the consideration of the Independent Shareholders to approve the Whitewash Waiver
"%"	per cent.

* *For identification purpose only*

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:
Unit B, 10th Floor
Summit Building
30 Man Yue Street
Hung Hom
Kowloon
Hong Kong

28 June 2010

To the Shareholders

Dear Sir or Madam,

**PROPOSED CAPITAL REORGANISATION;
PROPOSED GROUP REORGANISATION AND CREDITOR SCHEME;
PROPOSED SUBSCRIPTION OF NEW SHARES;
APPLICATION FOR THE GRANTING OF THE WHITEWASH WAIVER;
AND
PROPOSED ISSUE OF REMUNERATION SHARES**

INTRODUCTION

On 27 January 2010, the Board announced the Restructuring Proposal in relation to the financial restructuring of the Group which involves, among other things, the Capital Reorganisation, the Group Reorganisation, the Creditor Scheme, the Subscription and the Whitewash Waiver.

* *For identification purpose only*

The Restructuring Proposal is subject to a number of conditions as set out in this circular including, but not limited to, the passing of the relevant resolutions at the EGM. The purpose of this circular is (i) to provide you with further information in relation to the Restructuring Proposal; (ii) to set out the advice of Access Capital Limited to the Independent Board Committee in respect of the Restructuring Proposal and the transactions contemplated thereunder. A notice of the EGM can be found in Appendix V of this circular.

THE RESTRUCTURING PROPOSAL

The terms of the Restructuring Proposal are governed by the Subscription Agreement and the Scheme Document. The completion of the Subscription Agreement and the Creditor Scheme being effective are inter-conditional upon each other. Set out below are the principal terms of the Restructuring Proposal.

1. PROPOSED CAPITAL REORGANISATION

The Capital Reorganisation comprises the Capital Reduction, Share Sub-division and the Share Consolidation.

Pursuant to the proposed Capital Reduction, the par value of each issued Existing Share will be reduced from HK$0.10 to HK$0.001 by the cancellation of HK$0.099 of the paid-up capital on each issued Existing Share.

Pursuant to the proposed Share Sub-division, each authorised but unissued Existing Share with a par value of HK$0.10 each will be sub-divided into 100 Shares with a par value of HK$0.001 each.

Pursuant to the proposed Share Consolidation, every 10 issued and unissued Shares with a par value of HK$0.001 each will be consolidated into one New Share of HK$0.010 each.

As at the Latest Practicable Date, 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 Existing 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.

1.1 Reasons for the Capital Reorganisation

The Capital Reorganisation will facilitate future fund raising exercises by the Company through the issuance of New Shares. Presently, the Existing Shares have a par value of HK$0.10, which means that, unless *inter alia* it is sanctioned by the Court, the minimum price at which a new Share can be issued is HK$0.10. In light of the Company's current financial condition, the Directors consider that it is not realistic for such a minimum issue price for the Existing Shares to be achieved, and that the Company will not be able to raise any equity funds through issuing new Shares unless the price is set at a level substantially below HK$0.10 per Share.

Shareholders should note that a reduction of the par value of the Shares to HK$0.01 does not require the Company to issue New Shares at that price. The Directors will continue to endeavour to obtain the best possible issue price for the New Shares in the interests of the Shareholders. The Capital Reorganisation will provide the Company with maximum flexibility in future fund raising exercises through New Share issues.

The Capital Reduction is necessary to enable the Subscription Agreement to proceed. Details of the Subscription Agreement are set out in the section headed "3. Subscription Agreement dated 15 January 2010 (as amended by the supplemental subscription agreement dated 24 June 2010) and Whitewash Waiver" below in this letter from the Board. One of the conditions precedent of the Subscription Agreement is that the Capital Reorganisation be approved at the EGM.

Among other Resolutions, the Capital Reorganisation is subject to the approval of the Shareholders at the EGM.

1.2 Effects of the Capital Reorganisation

Full and complete implementation of the Capital Reorganisation would not, by itself, alter in any way the underlying assets, liabilities, businesses, management or financial position of the Company and the Group or the rights of Shareholders except for incurring the liability for payment of the related costs and expenses.

The following table sets out the effects of the Capital Reorganisation on the share capital of the Company before and after completion of the Capital Reorganisation:

	Before the Capital Reorganisation	**Immediately after the Capital Reorganisation**
Nominal value	HK$0.10	HK$0.010
Authorised share capital	HK$300,000,000 divided into 3,000,000,000 Existing Shares	HK$300,000,000 divided into 30,000,000,000 New Shares
Issued and paid-up share capital	HK$105,788,996.20 divided into 1,057,889,962 Existing Shares	HK$1,057,889.96 divided into 105,788,996 New Shares

1.3 Status of the New Shares after Capital Reorganisation

The New Shares after Capital Reorganisation will be identical and rank *pari passu* in all respects with each other and the Capital Reorganisation will not result in any change in the relative rights of the Shareholders.

1.4 Conditions of the Capital Reorganisation

The implementation of the Capital Reorganisation and the listing of the New Shares are conditional upon, including:

(1) the passing of a special resolution by the Shareholders by way of poll at the EGM to approve the Capital Reorganisation;

(2) the Court granting an order confirming the Capital Reorganisation;

(3) the registration by the Registrar of Companies in the Cayman Islands of a copy of the Court order and the minutes containing the particulars required under the Cayman Companies Law;

(4) compliance with any conditions imposed by the Court; and

(5) the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the New Shares in issue upon the Capital Reorganisation becoming effective.

An application will be made by the Company to the Listing Committee of the Stock Exchange for the listing of, and the permission to deal in, the New Shares.

No part of the equity or debt securities of the Company is listed or dealt in on any other stock exchanges other than the Stock Exchange and no such listing or permission to deal in is being or is currently proposed to be sought from any other stock exchange.

Subject to the granting of the listing of, and permission to deal in, the New Shares on the Stock Exchange, the New Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the commencement date of dealings in the New Shares on the Stock Exchange or such other date as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS on the second trading day thereafter. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Fractional New Shares will be disregarded and not issued to the Shareholders but all such fractional New Shares will be aggregated and, if possible, sold for the benefit of the Company. Fractional New Shares will only arise in respect of the entire shareholding of a holder of the Shares regardless of the number of share certificates held by such holder.

Further announcement(s) will be made by the Company to inform the Shareholders of the trading arrangement and the arrangements of the free exchange of the New Share certificates for the Existing Share certificates as and when appropriate.

2. PROPOSED GROUP REORGANISATION AND CREDITOR SCHEME

2.1 Proposed Group Reorganisation

The Board proposes to place before the Shareholders a proposal for the Group Reorganisation, which will involve the following principal elements:

(i) the transfer of the Scheme Subsidiaries to Schemeco (to the extent such transfer is allowed under applicable laws) for the purpose of the Creditor Scheme;

(ii) the Scheme Subsidiaries assigning to the Company unconditionally and irrevocably all and any indebtedness, actual or contingent, owing to them by any of the Retained Subsidiaries (to the extent such assignment is allowed under applicable laws);

(iii) the Company and the Retained Subsidiaries assigning to Schemeco unconditionally and irrevocably all and any indebtedness, actual or contingent, owing to them by any of the Scheme Subsidiaries (to the extent such assignment is allowed under applicable laws); and

(iv) the Company paying the Subscription Price to Schemeco for eventual distribution to the Scheme Creditors.

It is expected that upon completion of the Group Reorganisation, the Group will consist of the Company and the Retained Subsidiaries which are principally engaged in the manufacturing and domestic sales of set top boxes, while the Scheme Subsidiaries will be held by Schemeco.

The Administrators would be independent of, not connected with and not acting in concert with any of the Directors, the chief executives or the substantial Shareholders of the Company or its subsidiaries or any of their respective associates.

When the Creditor Scheme becomes effective, the shares of the Scheme Subsidiaries will be put under the control of the Administrators (via Schemeco) for realisation for the benefit of the Scheme Creditors. The Administrators shall be entitled to do all other things incidental to the exercise of powers set out in the Creditor Scheme or incidental to the full and proper implementation of the Creditor Scheme, including the exercise of any powers analogous to those which the Administrators would have had under section 199 of the Companies Ordinance if they had been appointed as joint and several liquidators of the Company. After all assets subject to the Creditor Scheme have been realised and all distributions have been paid to all Scheme Creditors in accordance with the Creditor Scheme, and the Administrators are satisfied that in their opinion the continuation of the Creditor Scheme is no longer beneficial to the Scheme Creditors, the Creditor Scheme will be terminated on the date of the approval of the committee of the Scheme Creditors or such later date as the Courts may allow on the application of the Administrators if such approval is not given by the committee of the Scheme Creditors in accordance with the terms of the Creditor Scheme. Any residual value of the Creditor Scheme after, inter alia, all scheme costs have been paid, shall be distributed to those persons who were Shareholders as at the Record Date on a pro-rata basis with reference to their respective shareholdings in the Company as at the Record Date as soon as reasonably practicable following termination of the Creditor Scheme.

2.2 Proposed Creditor Scheme

The Company has commenced discussion with its creditors (including the banks) to restructure all of its indebtedness and liabilities (actual and contingent) by way of a scheme of arrangement to be approved by each of the Courts pursuant to Section 86 of the Cayman Companies Law and Section 166 of the Companies Ordinance, such that:

(i) all Claims against the Company will be deemed to be fully and finally discharged and satisfied by virtue of the implementation of the Creditor Scheme, but without prejudice to the rights of any Creditor to enforce any guarantee or security they hold from the Scheme Subsidiaries (or any of them);

(ii) Schemeco shall accept and assume an equivalent liability in place of the Company in respect of the Claims, in each case on a limited recourse basis up to the extent of the Scheme Creditors' respective *pari passu* share of the net realisable assets of Schemeco (after payment of all costs and expenses) and in accordance with the terms and conditions of the Creditor Scheme.

The events described above shall be subject to, and shall take effect on, the latest to occur of the following:

(i) the receipt by the Company of the Subscription Price pursuant to the Subscription Agreement;

(ii) the Company paying the Subscription Price to Schemeco for the purpose of the Creditor Scheme;

(iii) the Company transferring (or procuring the transfer of) all the shares in the Scheme Subsidiaries to Schemeco for the purpose of the Creditor Scheme (to the extent that such transfer is allowed under applicable laws);

(iv) the Scheme Subsidiaries assigning to the Company unconditionally and irrevocably all and any indebtedness, actual or contingent, owing to them by any of the Retained Subsidiaries (to the extent that such assignment is allowed under applicable laws);

(v) the Company and the Retained Subsidiaries assigning to Schemeco unconditionally and irrevocably all and any indebtedness, actual or contingent, owing to them by any of the Scheme Subsidiaries (to the extent that such assignment is allowed under applicable laws in accordance with the terms of the Creditor Scheme);

(vi) each Retained Subsidiary, in accordance with the terms of the Creditor Scheme, receiving (from the relevant Creditor) executed releases on such terms satisfactory to the Subscribers in respect of any guarantee(s) granted by it;

(vii) the transfer of full legal and beneficial title in and to the Option Shares to Schemeco by the Subscriber for the purposes of the Creditor Scheme;

(viii) a put option agreement (as further described below) being signed and becoming unconditional between Schemeco and the Subscriber; and

(ix) Dr. So executing and delivering to the Administrators a personal guarantee of the Subscriber's obligations under a put option agreement (as further described below).

Paragraphs (i) – (ix) above are collectively referred to as the "Conditions Subsequent".

If the Conditions Subsequent do not occur within 14 days of the Effective Date (or some other date agreed in writing between the Company, the Administrators and the Subscriber), the Creditor Scheme will automatically lapse and shall have no further effect. If the Creditor Scheme lapses, the cost of the Creditor Scheme accrued up to that day shall be paid by the Company.

After the Company obtains the orders from the Courts for sanctioning the Creditor Scheme, it will not deliver the said court orders to the Registrar of Companies in Hong Kong or to the Registrar of Companies in the Cayman Islands until the relevant parties are ready to enter into agreements or process the documents to fulfill all of the Conditions Subsequent. The Company, the Administrators and the Subscriber intend to have those Conditions Subsequent fulfilled on the same date when the said court orders are delivered to the Registrars of Companies in Hong Kong and in the Cayman Islands for registration (i.e. the Effective Date) and the Subscription is completed.

Following the occurrence of all matters listed in paragraphs (i) – (ix) above, the Administrators will have the power, among other things, to conduct a realisation of the assets of Schemeco and *pari passu* distribution of any funds received by Schemeco including, without limitation, the Subscription Price, the funds received through the realisation of the Scheme Subsidiaries' assets or winding up of the Scheme Subsidiaries after payment of the liabilities of the respective Scheme Subsidiaries and through the realisation or holding of the Option Shares, amongst the Scheme Creditors in respect of their admitted Claims within such time period and manner as the Administrators may reasonably determine.

Put Option Agreement

The Subscriber shall enter into an agreement with Dr. So and the Schemeco (the "Put Option Agreement") within 14 days of the Effective Date or any other period as agreed between the Administrators, the Company and the Subscriber. The Put Option Agreement shall, amongst other things, provide that:

(a) the Subscriber shall grant Schemeco a put option requiring the Subscriber to purchase all (or any number) of the Option Shares at a total price of HK$40 million (or if in part, then at a price pro rata);

(b) Schemeco will grant the Subscriber a right of first refusal, in respect of any proposed sale of all or any part of the Option Shares, for a period of 12 months starting from the Effective Date; and

(c) the Subscriber will procure Dr. So to give a personal guarantee and indemnity to Schemeco for the obligations of the Subscriber under the Put Option Agreement.

Moratorium created by the Creditor Scheme

(i) The Creditor Scheme shall bind all Creditors, the Company and the Administrators.

(ii) As all Claims against the Company will only be discharged when the Conditions Subsequent are satisfied, from the Effective Date up to and including the date all the Conditions Subsequent have been satisfied, no Creditor:

(a) shall be entitled to demand against the Company in respect of, seek to recover from the Company by legal process or otherwise, or take any steps or proceedings against the Company or its assets (or continue any such steps or proceedings if already commenced) for the purpose of enforcing or recovering by way of execution or otherwise, any Claims; nor

(b) shall commence, continue, prosecute or join any proceedings to wind up the Company or Schemeco in accordance with the Creditor Scheme.

(iii) No Creditor with a Security Interest from a Scheme Subsidiary over any receivable or debt owing to a Scheme Subsidiary by any Retained Subsidiary shall:

(a) itself directly (or through a receiver) deal with any receivable or debt owing to the relevant Scheme Subsidiary by any Retained Subsidiary (the "Restricted Assets"); or

(b) in so far as it is able, permit any director, officer or agent of a Scheme Subsidiary to deal with the Restricted Assets save that the Creditor is not bound to incur any costs, expenses or liabilities in fulfilling this obligation until it is indemnified by the Company to meet any such costs, expenses or liabilities to its satisfaction; or

(c) release its Security Interest over the Restricted Assets;

for a period of six months from the Effective Date, except where the Creditor is compelled by law to do so or has obtained the prior consent of the Company to do so, provided always that nothing under the relevant clause of the Creditor Scheme prohibits any Creditors with a Security Interest from a Scheme Subsidiary over the Restricted Assets from taking action it considers as necessary to preserve the existence, validity or priority of its Security Interest.

(iv) The Creditor Scheme may be pleaded by the Company or the Administrators against any person having a Claim against the Company as an absolute bar and defence to any legal proceedings brought or made at any time in respect of that Claim or a Security Interest contrary to the provisions of the Creditor Scheme.

(v) If on the date that all Conditions Subsequent are satisfied and the Creditor Scheme has taken effect, the Company is subject to a winding up petition in Hong Kong or the Cayman Islands, the relevant petitioner shall apply to the relevant court for the dismissal of such a winding up petition with no order as to costs (save, if the proceedings are in Hong Kong, for those of the official receiver) provided that nothing in the relevant clause of the Creditor Scheme shall prejudice any costs order made by the relevant court prior to the Effective Date in connection with the winding up petition.

The Creditor Scheme will become effective and binding on the Company and the Creditors under Hong Kong law and the Cayman Islands law if the following conditions are satisfied:

(a) over 50% in number, representing at least 75% in value of the Creditors present and voting in person or by proxy at the Scheme Meeting, vote in favour of the Creditor Scheme; and

(b) the High Court of Hong Kong sanctions the Creditor Scheme and a copy of the order of the High Court of Hong Kong sanctioning the Creditor Scheme is delivered to the Registrar of Companies in Hong Kong for registration; and

(c) the Court sanctions the Creditor Scheme and a copy of the order of the Court sanctioning the Creditor Scheme is delivered to the Registrar of Companies in the Cayman Islands for registration.

Inter-company debts

All and any indebtedness, actual or contingent, owed by the Company to its subsidiaries (including the Retained Subsidiaries and Scheme Subsidiaries) will be settled by the Company or assigned by the relevant subsidiary to persons other than the Company before the Effective Date, such that no subsidiary of the Company will be a Scheme Creditor.

All and any indebtedness, actual or contingent, owed by the Scheme Subsidiaries to members of the Retained Group (including the Company) as at the Effective Date will be assigned unconditionally and irrevocably, by way of deed(s), upon the Creditor Scheme becoming effective to Schemeco (to the extent such assignment is allowed under applicable laws) for the benefit of the Scheme Creditors.

All and any indebtedness, actual or contingent, owed by the Retained Subsidiaries to members of the Scheme Subsidiaries as at the Effective Date will be assigned unconditionally and irrevocably, by way of deed(s), upon the Creditor Scheme becoming effective to the Company (to the extent such assignment is allowed under applicable laws).

The Directors consider that the Restructuring Proposal will not alter the existing principal business of the Group in any material way. Immediately following Completion, the Retained Group will comprise the Company and the Retained Subsidiaries.

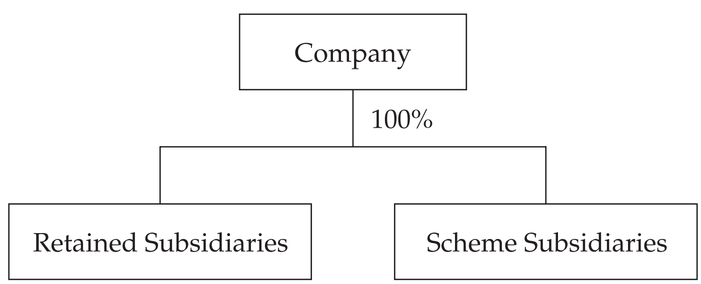
Detailed terms of the Creditor Scheme will be set out in the Scheme Document which is to be finalized.

Sanction of the Creditor Scheme is a condition precedent to the Subscription Agreement, details of which are set out in sub-section headed "3.6 Conditions Precedent" below in this letter from the Board.

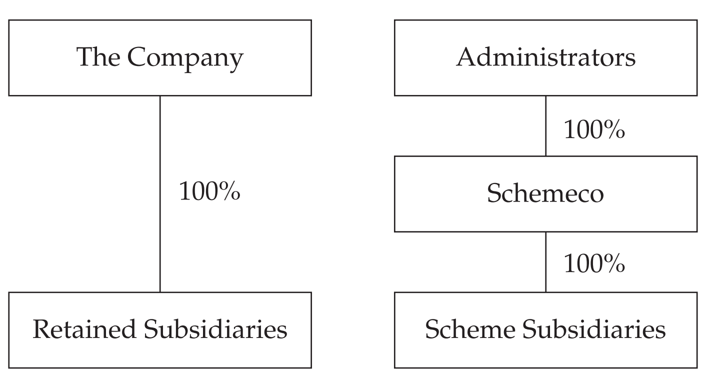
Shareholders should be aware that, as at the Latest Practicable Date, there is no formal or informal, binding or non-binding agreement between the Company and the Creditors regarding the Creditor Scheme.

2.3 Proposed corporate structure as at the Latest Practicable Date and immediately upon completion of the Group Reorganisation

As at the Latest Practicable Date:



Immediately upon completion of the Group Reorganisation:



The Scheme Subsidiaries represent the subsidiaries of the Company other than the Retained Subsidiaries. As at the Latest Practicable Date, the Scheme Subsidiaries and their principal businesses are:

Name of each of the Scheme Subsidiaries	**Principal activities**
Agility Investments Limited	Investment holding
東莞金萊電子有限公司 (Dongguan Gold Beam Electronics Co., Ltd.*)	Inactive
東莞東力電子有限公司 (Dongguan Tonic Electronic Co., Ltd.)	Inactive
Gold Beam Developments Limited	Inactive
Panatone Licensing Limited	Inactive
Tonic Centerus Wing Energy (Holdings) Limited	Inactive
Tonic Digital Products Limited	Inactive
Tonic Electronics Limited	Inactive
Tonic Enterprises Limited	Inactive
Tonic International Limited	Inactive
Tonic International Investment Limited	Investment holding
Tonic Investment (B.V.I.) Limited	Investment holding
東力科技(深圳)有限公司 (Tonic Technology (Shenzhen) Ltd.*)	Inactive
Tonic Technology Limited	Inactive
Tonic Trading Development Limited	Inactive
Tonic Venture Capital Limited	Investment holding
TA Limited	Inactive
東莞市錦聯科技製品有限公司 (Dongguan Jin Lian Technology Products Limited*)	Inactive
Technotrend Trading Limited	Inactive

As disclosed in the announcement of the Company dated 10 January 2010, pursuant to the Group's business restructuring and the closure of the manufacturing plants in Qi Shi and Tangxia, the Group currently focuses on the manufacturing and domestic sales of set top boxes in the PRC with its production facilities based in Shi Pai, the PRC (the "Shi Pai Factory").

Subject to the finalisation of the Creditor Scheme by the Company, its creditors and the Subscriber, the Retained Subsidiaries will retain the ownership of the Shi Pai Factory and continue the business of manufacturing and domestic sales of set top boxes upon Completion. It is the intention of the Subscriber that following Completion, the Retained Group will continue with its existing principal activities of manufacturing and sales of consumer electronic products.

The Shi Pai Factory has been the principal entity of the Group engaging in the manufacturing and domestic sales of set top boxes of the Group since its establishment in February 2004. Domestic sales in the PRC has contributed approximately HK$270 million to the Group's total revenue, which represented over 56% of the total revenue of the Group of approximately HK$483 million during the nine months period ended 31 December 2009. The significant gross loss for the nine months ended 31 December 2009 was mainly attributable to, among other things, the significant stock written off during the period.

The Group had total asset value of approximately HK$426.2 million as at 31 December 2009, representing a decrease of approximately 65.8% as compared to the total asset value of approximately HK$1,245.6 million as at 31 March 2009 mainly due to the decrease in inventories and cash balances. The Group had net liabilities value of approximately HK$400.2 million as at 31 December 2009, representing a decrease as compared to the net asset value of approximately HK$386.7 million as at 31 March 2009, mainly due to the decrease in total assets of the Group.

Having considered that:

– the Group is currently running its business and operations in the Shi Pai Factory;

– it is the intention of the Subscriber 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 Subscriber);

– the Group recorded total revenue of approximately HK$483 million for the 9 months ended 31 December 2009 and over 56% of which was generated from domestic sales in the PRC;

– though the Group has been under severe pressure for the past few months as a result of the needs to satisfy its financial obligations, the operation level of the Group has been recovering since receipt of the Loan proceeds. The Group maintains business relationships with its key suppliers and customers. As disclosed in the announcement of the Company dated 2 June 2010, the Group has received confirmed orders for the manufacturing of set top boxes amounted to over HK$10 million in April and May 2010;

– the Company has commenced discussion with its major creditors to restructure all of its indebtedness and liabilities by way of the Creditor Scheme, such that all Claims against the Company will be discharged by virtue of the implementation of the Creditor Scheme; and

– further to the above and subject to the completion of the Restructuring Proposal, the Company believes that the recovery trend of the Group's operation would be sustainable taking into account, among other things, (i) the Retained Group would have sufficient working capital to run a larger scale of operation after the receipt of a further shareholder loan from the Subscriber of HK$30 million upon Completion; and (ii) suppliers and customers would regain confidence in the Retained Group shortly after the Completion where suppliers would give longer credit terms while customers would place more orders,

the Board is of the view that, immediately upon Completion, the Retained Group will have sufficient level of operations to warrant the continued listing of the Shares.

2.4 Reasons for the Group Reorganisation and Creditor Scheme

As stated in the interim report of the Company for the six months ended 30 September 2009, the Group continued to be affected by the looming global financial crisis. Sales of the Group for the six months ended 30 September 2009, especially export sales to markets in Europe and Americas plunged by approximately 82% and working capital pressure increased against the credit crunch. In addition, the United States government stopped subsidizing consumers in purchasing digital set top boxes which further dampened sales of set top boxes to the market. The Group has decided to consolidate and streamline its businesses while scaling down its operations in particular its exports sales, in order to alleviate the financial difficulties of the Group. As disclosed in the announcement of the Company dated 10 January 2010, with a view to further reducing costs and mitigating the loss-making position of the Group, the Group has suspended the operations of some of its factories in Qi Shi and Tangxia in the PRC since March 2009 and December 2009 respectively. Due to the immense pressure on the cash flow of the Group, the Group has delayed salary payment to certain workers and staff of the Group.

While the Company has been engaging in discussions with its banks to explore the possibility of seeking a forbearance of the Group's banking facilities with a view to strengthening the Group's overall cash flow position, the Company has also considered the necessity of fund raising exercises that may be able to relieve the immediate liquidity problem of the Group. After arm's length negotiations between the Company and the Subscriber, the Subscriber has conditionally agreed to subscribe for the Subscription Shares and the Company intends that the existing indebtedness of the Company shall be restructured by way of the Creditor Scheme.

The Board considers that the Group Reorganisation and the Creditor Scheme will enable the 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) will be released and discharged, which is in the interests of the Company and the Shareholders as a whole.

3. SUBSCRIPTION AGREEMENT DATED 15 JANUARY 2010 (AS AMENDED BY THE SUPPLEMENTAL SUBSCRIPTION AGREEMENT DATED 24 JUNE 2010) AND WHITEWASH WAIVER

3.1 Issuer

The Company

3.2 Subscriber

Skill China Limited, an investment holding company incorporated in the BVI with limited liability.

The Subscriber and its ultimate beneficial owners are independent of, not connected with and not acting in concert with any of the Directors, the chief executives or the substantial Shareholders of the Company or its subsidiaries or any of their respective associates. As at the Latest Practicable Date, the Concert Group did not hold any Existing Shares.

3.3 Guarantor

Dr. So agrees to unconditionally and irrevocably guarantee, inter alia, the due and punctual performance and discharge of and compliance with all obligations (whether actual or contingent) which may at any time thereafter be required to be performed (including, without limitation, the payment of: (a) any monies due, owing, payable; and/or (b) legal and other costs, charges and expenses reasonably incurred in enforcing or attempting to enforce the performance of such obligations) by the Subscriber in favour of or to the Company pursuant to the Subscription Agreement (collectively, the "Guaranteed Obligations"), and agrees that, if at any time or from time to time any of the Guaranteed Obligations is not discharged in full in accordance with the Subscription Agreement, he shall immediately on demand discharge the Guaranteed Obligations which are due, owing or payable.

3.4 Subscription Shares

Pursuant to the Subscription Agreement, 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 of HK$0.010 each (which are New Shares following the completion of the Capital Reorganisation) at the Subscription Price of HK$80,000,000.

The changes in the Company's shareholding structure as a result of the allotment and issue of the Subscription Shares and the Remuneration Shares, and the transfer of the Option Shares by the Subscriber to Schemeco following the Completion are set out in section headed "7. Shareholding structure of the Company" below in this letter from the Board.

The Subscription Shares, when issued and fully-paid, will rank equally in all respects among themselves and with all other New Shares in issue as at the date of their allotment and issue.

3.5 Subscription Price

The Subscription Price of approximately HK$0.0879 per Subscription Share represents:

- a discount of approximately 93.4% to the theoretical closing price of HK$1.34 per Share based on the closing price of HK$0.134 per Existing 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;

- a discount of approximately 94.8% to the theoretical closing price of HK$1.69 per Share based on the closing price of HK$0.169 per Existing Share as quoted on the Stock Exchange on the Last Trading Day;

- a discount of approximately 94.5% to the average theoretical closing price of HK$1.59 per Share based on the average closing price of HK$0.159 per Existing Share as quoted on the Stock Exchange for the last five consecutive trading days up to and including the Last Trading Day;

- a discount of approximately 93.8% to the average theoretical closing price of HK$1.419 per Share based on the average closing price of HK$0.1419 per Existing Share as quoted on the Stock Exchange for the last ten consecutive trading days up to and including the Last Trading Day;

- a discount of approximately 91.3% to the theoretical closing price of HK$1.01 per Share based on the closing price of HK$0.101 per Existing Share as quoted on the Stock Exchange on the Latest Practicable Date; and

- a premium to the theoretical unaudited consolidated net liabilities per Share of approximately HK$3.78 as at 31 December 2009 (based on the audited consolidated net liabilities of the Group as at 31 December 2009 of approximately HK$400,212,000 and the 1,057,889,962 Existing Shares in issue as at 31 December 2009).

The estimated net price of the Subscription Shares to be received by the Company is approximately HK$0.0879 per Subscription Share.

The Subscription Price is determined by the Company and the Subscriber on an arm's length basis having taken into account, among other things, the following factors:

– the significant unaudited gross loss and net loss of the Group for the six months ended 30 September 2009;

– the net asset value of the Company as at 30 September 2009;

– the possible adverse impact of the recent down-sizing of the operations and pressure on the cash flow of the Group;

– the persistent deterioration of market conditions;

– the urgent need to satisfy the Company's financial obligations; and

– the business outlook of the Group and the uncertainty as to its business prospects.

In view of the above, the Directors consider that although the Subscription Price of approximately HK$0.0879 per Subscription Share represents more than 90% discount of the recent theoretical trading price of the Shares based on the closing price of the Existing Share, the Subscription Price has been arrived at on a fair and reasonable basis.

3.6 Conditions Precedent

Pursuant to the Subscription Agreement, Completion shall be conditional upon the following conditions precedent being fulfilled or waived (as the case may be):

(1) passing of the Capital Reorganisation Resolution at the EGM by way of poll by the Shareholders;

(2) passing of the Subscription Resolution at the EGM by way of poll by the Shareholders;

(3) due passing of the Whitewash Waiver Resolution at the EGM;

(4) the Listing Committee of the Stock Exchange granting approval (either unconditionally or subject to conditions to which neither the Company nor the Subscriber shall reasonably object) for the listing of, and permission to deal in, all the Subscription Shares;

(5) Whitewash Waiver having been granted by the Executive to the Concert Group;

(6) a copy of an order of the Court sanctioning the Creditor Scheme pursuant to the Cayman Companies Law having been delivered to the Registrar of Companies in the Cayman Islands for registration and an office copy of an order of the High Court of Hong Kong sanctioning the Creditor Scheme pursuant to the Companies Ordinance having been delivered to the Registrar of Companies in Hong Kong for registration;

(7) passing of the resolutions in respect of the Group Reorganisation (on terms to reasonable satisfaction of the Company, the Subscriber and the Creditors) by way of poll by Shareholders (if necessary) and the Group Reorganisation being completed in accordance with the broad terms of the restructuring memorandum set out in Schedule 1 of the Subscription Agreement;

(8) the Shares remaining listed and traded on the Stock Exchange at all times prior to and on Completion, save for any temporary suspension not exceeding 10 consecutive trading days (or such longer period as the Subscriber may accept in writing) or any temporary suspension in connection with the clearance of the announcement in relation to the Subscription Agreement by the Stock Exchange and the SFC;

(9) listing of the Shares on the Stock Exchange not being revoked or withdrawn at any time prior to Completion and there being no indication received by the Company from the Stock Exchange or the SFC prior to Completion that listing of the Shares will be revoked at any time after Completion;

(10) all necessary governmental, regulatory and corporate authorisations and approvals for the entering into of the Subscription Agreement and the performance of obligations thereunder having been obtained and effective; and

(11) there being no material adverse change in the financial position, business or operations of any Retained Subsidiary as at Completion and the warranties given by the Company under the Subscription Agreement being true and accurate in all material respects as at Completion, in each case save and except as Disclosed (as defined in the Subscription Agreement).

The conditions precedent set out in (1), (2), (4), (6) and (7) are not waivable. The conditions precedent set out in (3), (5), (8), (9), (10) and (11) are waivable at any time by the Subscriber either in whole or in part by giving written notice to the Company. Pursuant to the Takeovers Code, the Whitewash Waiver is subject to the approval of the Independent Shareholders by way of poll at the EGM.

If the conditions precedent are not fulfilled on or before 5:00 p.m. (Hong Kong time) on 31 December 2010 or such later date or dates as may be agreed in writing between the parties to the Subscription Agreement, the Subscription Agreement shall (unless otherwise agreed in writing by the parties) terminate and none of the parties shall have any claim against the other in respect of any matter or thing arising out of or in connection with the Subscription Agreement except (i) in relation to obligations, agreements and liabilities arising prior to such termination (including liabilities arising prior to such termination under the representations, warranties and undertakings referred to in Clause 6 of the Subscription Agreement); and (ii) in relation to any antecedent breach of any obligation under the Subscription Agreement.

In the event that the Subscriber waives the satisfaction of conditions precedent set out in (3) and (5) above and elects to proceed with the Subscription, the Subscriber will comply with all the relevant requirements under the Takeovers Code, including but not limited to, the making of a general offer (subject to, among other things, the financial adviser to the Subscriber being satisfied that the Subscriber has sufficient financial resources to satisfy full acceptance of the general offer) and further announcement(s). As at the Latest Practicable Date, the Subscriber has not yet determined whether or not to proceed with the Subscription in the absence of the Whitewash Waiver.

Given that trading in the Shares on the Stock Exchange was suspended at 9:30 a.m. on 17 May 2010 pending the release of the Company's announcement dated 2 June 2010, the Subscriber has given its consent in writing on 31 May 2010 to waive in part the non-satisfaction of the condition precedent set out in (8) above for the purpose of the Subscription due to the one and single one period of temporary suspension of the Shares commencing on 17 May 2010 which remained valid until the end of stock trading hours on 4 June 2010 without prejudice to any of the Subscriber's other rights as well as its rights as to future non-satisfaction of such condition precedent.

Save for the above, as at the Latest Practicable Date, none of the conditions precedent set out above has been fulfilled or waived.

3.7 Working capital provided by the Subscriber upon Completion

Upon Completion, the Subscriber shall make available to GGP an unsecured and interest-free shareholder loan in an aggregate principal amount of HK$30,000,000.

3.8 Completion

Following the fulfilment or waiver (as the case may be) of the conditions and Subscriber's obligations set out in the Subscription Agreement, the Completion shall take place at such time or such other time as the parties may agree.

3.9 Custody Agreement

Pursuant to the Subscription Agreement, on 15 January 2010, the Subscriber, the Custodian and Success Forever entered into the Custody Agreement pursuant to which Success Forever has agreed at all times prior to the Completion to place 618,492,476 Existing Shares, being its entire shareholding in the Company, in the custody of the Custodian on the terms, and subject to the conditions, set out in the Custody Agreement. The purpose of the Custody Agreement is to ensure there would be no significant change in the shareholding structure of the Company prior to the Completion. Nothing provided in the Custody Agreement shall be construed to prejudice any voting, dividend and other rights and benefits attached to the Custodian Shares to which Success Forever shall be entitled for so long as Success Forever remains the legal and beneficial owner of such Custodian Shares. The Custody Agreement shall terminate on the earlier of (i) the close of business (Hong Kong time) on 31 December 2010; (ii) termination of the Subscription Agreement; and (iii) the date on which the Custodian Securities have been fully released to Success Forever.

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

In connection with the Subscription, the Subscriber has agreed to pay the sum of HK$10,000,000 as earnest money to settle the professional fees to be incurred for the implementation of the Restructuring Proposal. Pursuant to the Subscription Agreement, on 15 January 2010, the Subscriber, the Company and the Escrow Agent entered into the Escrow Agreement in which the Escrow Agent has agreed to establish an escrow account and deposit the HK$10,000,000 earnest money into such escrow account, and to hold all sums standing to the credit of the escrow account from time to time and all rights attaching to such monies beneficially, for the Subscriber. Subject to sufficient funds standing to the credit of such escrow account, as soon as reasonably practicable (and in any event no later than five (5) Business Days) following the receipt by the Escrow Agent of a notice containing written joint instructions of the Subscriber and the Company which shall be irrevocable, the Escrow Agent shall transfer the specified amount to the account(s) specified in the notice for the settlement of professional fees incurred pursuant to the Subscription Agreement.

On 26 February 2010, the Escrow Agent, the Subscriber and the Company entered into a supplemental deed for the purposes of effecting certain amendments to the terms of the Escrow Agreement, pursuant to which, among other things, the Subscriber has agreed to pay the sum of HK$10,000,000 as earnest money in five (5) installments to settle the professional fees to be incurred for the implementation of the restructuring proposal set out in the Subscription Agreement.

Upon the receipt by the Escrow Agent of the first installment of the earnest money in the amount of HK$2,000,000, the Company undertakes that it will not offer to any other party the opportunity to negotiate any terms for the investment in the Group, restructuring of the outstanding indebtedness and/or share capital of any member of the Group before: (a) the close of business (Hong Kong time) on 31 December 2010; or (b) the termination of the Subscription Agreement pursuant to the terms thereof, whichever is earlier.

The Subscriber has paid HK$4,000,000 as part of the earnest money to the Escrow Agent up to the Latest Practicable Date.

3.11 Reasons for the Subscription

As mentioned in sub-section headed "2.4 Reasons for the Group Reorganisation and Creditor Scheme" above in this letter from the Board, the Group continued to be affected by the looming global financial crisis. Sales of the Group for the six months ended 30 September 2009, especially export sales to markets in Europe and Americas plunged by approximately 82% and working capital pressure increased against the credit crunch. In addition, the United States government stopped subsidizing consumers in purchasing digital set top boxes which further dampened sales of set top boxes to the market.

Although the Subscription Price represents a substantial discount to the recent trading price of the Shares and the shareholding of the existing Shareholders will be significantly diluted as a result of the Completion, the Directors, having taken into account (i) the significant unaudited gross loss and net loss of the Group for the six months ended 30 September 2009 and the net assets value of the Group as at 30 September 2009; (ii) the persistent deterioration of market conditions; (iii) the urgent need to satisfy the financial obligations of the Company; and (iv) the business outlook of the Group and the uncertainty as to its business prospects, consider that the Subscription will offer an efficient way for the Company to raise capital so as to repay part of the outstanding bank loans in a timely manner and at the same time enlarge the share capital and shareholder base of the Company. Not only the Subscription will allow the Company to strengthen its financial position and broaden its equity base, the strong industrial and financial expertise and business network in the greater China region of the ultimate beneficial owners of the Subscriber are also considered complementary to the experience of the existing management of the Company. Detailed information relating to the background and expertise of the ultimate beneficial owners of the Subscriber are set out in section headed "10. Information on the Company and the Subscriber" below.

In view of strong expertise and the greater China region business networks of the ultimate beneficial owners of the Subscriber, the introduction of the Subscriber is expected to benefit the Company's long-term business development by strengthening the Company's operational and financial management and opening to it more business opportunities in the future. Accordingly, the Directors consider that the Subscription is in the interests of the Company and the Shareholders as a whole and the terms of the Subscription Agreement are fair and reasonable.

3.12 Use of proceeds

Pursuant to the Subscription Agreement, the Company will pay the Subscription Price to Schemeco for the purpose of the Creditor Scheme.

3.13 Application for listing

The Company will apply to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Subscription Shares.

3.14 Whitewash Waiver

Upon Completion and following the transfer of the Option Shares by the Subscriber to Schemeco, the Concert Group will, in aggregate, hold approximately 85.15% of the enlarged issued share capital of the Company and this will give rise to (in the absence of the Whitewash Waiver) an obligation for the Concert Group to make a mandatory offer for the Shares (not already owned or agreed to be acquired by the Concert Group) under Rule 26.1 of the Takeovers Code. An application will be made by the Subscriber to the Executive for the Whitewash Waiver. The Executive has indicated the grant of the Whitewash Waiver, which, if granted, will be subject to the approval by the Independent Shareholders by way of a poll at the EGM.

As disclosed above, upon Completion, the Concert Group will hold more than 50% of the total voting rights of the Company, and the Subscriber may increase their shareholding interest in the Company without incurring any further obligation under Rule 26 of the Takeovers Code to make a general offer.

4. LOAN AGREEMENT DATED 15 JANUARY 2010 (AS AMENDED BY THE SUPPLEMENTAL LOAN AGREEMENT DATED 24 JUNE 2010)

4.1 Borrower

GGP

4.2 Lender

The Subscriber

4.3 Major terms of the Loan Agreement

Subject to the terms and conditions of the Loan Agreement, the Subscriber agreed to make available to GGP which is a wholly owned subsidiary of the Company and one of the Retained Subsidiaries, the Facility in the principal amount of HK$40,000,000. The Facility has been made available by the Subscriber to the Group on 19 January 2010.

The outstanding principal balance of the Loan, together with any accrued but unpaid interest thereon, shall be due and payable in full on the date falling twelve (12) months after the date of advancement of the Facility.

The proceeds of the Facility have been used for repayment of some outstanding salaries to certain workers and staff of the Group, and for general working capital purposes.

4.4 Interest

Interest shall be payable on the Loan at 2% per annum, and payable on the date falling twelve (12) months after the date of advancement of the Facility.

If any interest pursuant to above is due but not paid, default premium shall be payable on the principal amount of the Loan outstanding at the rate of 4% per annum.

4.5 Security

Until the Loan is repaid and discharged in full, the Subscriber shall have:

(a) a charge over 100% of the shareholdings in GGP under the Share Charge; and

(b) fixed and floating charges over the assets of GGP under the Debenture.

Under the Debenture, among other things, GGP, as beneficial owner, charges by way of first fixed charge in favour of the Subscriber and as a continuing security for the prompt payment and discharge in full and when due (whether at stated maturity, by acceleration or otherwise) of the secured obligations, all its right, title, interest and benefit present and future in, to and under (subject to obtaining any necessary consent from any third party):

- the real property;
- the tangible moveable property;
- the accounts;
- the intellectual property;
- any goodwill and rights in relation to the uncalled capital of GGP;
- the investments;
- the shares, all dividends, interest and other monies payable in respect of the shares and all other related rights;
- all monetary claims and all related rights other than any claims which are otherwise subject to a fixed charge or assignment (at law or in equity) pursuant to the Debenture; and

- the specific contracts and any other contract or agreement to which GGP is a party and all related rights,

the details of each of them have been set out in the Debenture.

Pursuant to the management account of GGP as at 31 March 2010, the major assets of GGP comprise of cash and cash balances of approximately HK$15.9 million and amounts due from fellow subsidiaries of approximately HK$24.0 million.

GGP, as beneficial owner, charges in favour of the Subscriber by way of first floating charge and as a continuing security for the prompt payment and discharge in full and when due of the secured obligations, all its right, title, interest and benefit present and future in, to and under (subject to obtaining any necessary consent from any third party), all its present and future assets and undertaking.

5. PROPOSED ISSUE OF SOMERLEY'S REMUNERATIONS SHARES

Somerley is the financial advisers to the Company in relation to the Capital Reorganisation, the Subscription, the Group Reorganisation and the Whitewash Waiver. Having considered the financial position of the Company, it was agreed between the Company and Somerley that part of the professional fees charged by Somerley may be settled by the issue of up to 2.48% of the share capital of the Company as enlarged by the allotment and issue of the Subscription Shares and the Remuneration Shares upon Completion. The amount of part of the professional fees charged by Somerley that may be settled by the Somerley's Remuneration Shares (comprising 21,157,799 Tranche 1 Remuneration Shares and 5,289,450 Tranche 2 Remuneration Shares) is approximately HK$2,324,000 representing an issue price of approximately HK$0.0879 per Somerley's Remuneration Share. Somerley has the right to elect the settlement of professional fees in cash and/or by way of issue of the Somerley's Remuneration Shares.

As at the Latest Practicable Date, Somerley had no interest in the Company. Upon issue of the Somerley's Remuneration Shares, Somerley will be interested in 26,447,249 New Shares, representing approximately 2.48% of the issued share capital of the Company as enlarged by the allotment and issue of the Subscription Shares and the Remuneration Shares upon Completion.

As at the Latest Practicable Date, the General Mandate has not been utilized since it was granted on 18 September 2009 and the maximum number of new Shares that could be issued by the Company under the General Mandate is 21,157,799 New Shares (assuming the Capital Reorganisation becoming effective). The Tranche 1 Remuneration Shares will be issued under the General Mandate. The Tranche 2 Remuneration Shares will be issued under a specific mandate subject to the approval by the Shareholders at the EGM. Application will be made to the Stock Exchange in respect of such listing of, and permission to deal in, the Somerley's Remuneration Shares. The Somerley's Remuneration Shares will rank *pari passu* with the New Shares then in issue. It is expected that the Tranche 1 Remuneration Shares and Tranche 2 Remuneration Shares will be issued simultaneously.

6. PROPOSED ISSUE OF DTCFL'S REMUNERATION SHARES

DTCFL is the financial advisers to the Company in relation to the Restructuring Proposal. Having considered the financial position of the Company, it was agreed between the Company and DTCFL that the professional fees charged by DTCFL may be settled by the issue of up to 26,447,249 New Shares as remuneration shares, representing approximately 2.48% of the share capital of the Company as enlarged by the allotment and issue of the Subscription Shares and the Remuneration Shares upon Completion. The amount of the professional fees charged by DTCFL that may be settled by the DTCFL's Remuneration Shares is approximately HK$2,324,000, representing an issue price of approximately HK$0.0879 per DTCFL's Remuneration Share. DTCFL has the right to elect the settlement of the professional fees in cash and/or by way of issue of the DTCFL's Remuneration Shares.

As at the Latest Practicable Date, DTCFL had no interest in the Company. Upon issue of the DTCFL's Remuneration Shares, DTCFL will be interested in 26,447,249 New Shares, representing approximately 2.48% of the issued share capital of the Company as enlarged by the allotment and issue of the Subscription Shares and the Remuneration Shares upon Completion.

The DTCFL's Remuneration Shares will be issued under a specific mandate subject to the approval by the Shareholders at the EGM.

Application will be made to the Stock Exchange in respect of such listing of, and permission to deal in, the DTCFL's Remuneration Shares. The DTCFL's Remuneration Shares will rank pari passu with the New Shares then in issue.

7. SHAREHOLDING STRUCTURE OF THE COMPANY

As at the Latest Practicable Date, the Company had a total of 1,057,889,962 issued Existing Shares. Save for the above, the Company did not have any other Shares, outstanding warrants, options, derivatives or other securities carrying any conversion or subscription rights into Shares as at the Latest Practicable Date.

As shown in the shareholding table below and save for the entering into of the Subscription Agreement and the Put Option Agreement as set out in the sub-section headed "2.2 Proposed Creditor Scheme" in this letter from the Board, none of the members of the Concert Group held any Share, outstanding options, derivatives, warrants or other securities convertible or exchangeable into the Shares as at the Latest Practicable Date. Upon Completion and following the transfer of the Option Shares by the Subscriber to Schemeco, the Concert Group will be interested in 909,785,366 New Shares, representing approximately 85.2% of the enlarged issued share capital of the Company.

In order to ensure that immediately after Completion, there will be not less than 25% of the Company's entire issued ordinary share capital held by the public, the Subscriber has engaged Get Nice Securities Limited, who will act as placing agent for the Subscriber 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 Subscriber and the Company and their respective subsidiaries and associates (as defined in the Listing Rules), to subscribe from the Subscriber, after Completion, a sufficient number of Subscription Shares which shall restore the minimum 25% public float. The placing agreement entered into by the Subscriber and the placing agent is legally binding and irrevocable, and is conditional upon the completion of the Subscription. The completion of the placing will only take place immediately after the Completion.

The following table sets out (i) the existing shareholding structure of the Company; (ii) the changes thereto as a result of the allotment and issue of the Subscription Shares and the Remuneration Shares and the transfer of the Option Shares by the Subscriber to Schemeco and (iii) the changes thereto as a result of the placing down by the Subscriber to independent placees:

Name of Shareholders	**As at the Latest Practicable Date**		**Immediately upon Completion, the allotment and issue of the Subscription Shares and the Remuneration Shares and the transfer of the Option Shares by the Subscriber to Schemeco**		**Immediately upon placing down by the Subscriber to independent placees** *(Note 4)*	
	Number of Existing Shares	*%*	*Number of New Shares*	*%*	*Number of New Shares*	*%*
The Subscriber	–	–	846,311,968	79.21	739,327,497	69.20
Schemeco *(Note 2)*	–	–	63,473,398	5.94	63,473,398	5.94
Subtotal of the Concert Group	–	–	909,785,366	85.15	802,800,895	75.14
Success Forever *(Note 1)*	618,492,476	58.46	61,849,247	5.78	61,849,247	5.78
Mr. Wong Ki Cheung *(Note 3)*	1,749,000	0.17	174,900	0.02	174,900	0.02
Other Directors *(Note 3)*	3,768,000	0.36	376,800	0.03	376,800	0.03
Somerley	–	–	26,447,249	2.48	26,447,249	2.48
DTCFL	–	–	26,447,249	2.48	26,447,249	2.48
Independent placees	–	–	–	–	106,984,471	10.01
Other public shareholders	433,880,486	41.01	43,388,048	4.06	43,388,048	4.06
Total	1,057,889,962	100.00	1,068,468,859	100.00	1,068,468,859	100.00

Note:

1 The entire issued share capital of which is beneficially owned by Mr. Ling.

2. Schemeco is regarded as a party acting in concert with the Subscriber and Dr. So due to the arrangement contemplated under the Put Option Agreement.

3. Ms. Li Fung Ching, Catherine, Mr. Wong Ki Cheung and Mr. Cheng Tsang Wai, all being Directors, owned 2,142,000 Existing Shares, 1,749,000 Existing Shares and 1,626,000 Existing Shares respectively as at the Latest Practicable Date.

It is the intention of the Subscriber and the existing Directors that on Completion, (i) the existing Directors will resign as directors of the Company; and (ii) Mr. Ling Siu Man, Simon and Mr. Wong Ki Cheung, the existing Directors, will remain as directors of some subsidiaries of the Company. In such case, Mr. Ling Siu Man, Simon and Mr. Wong Ki Cheung will remain as connected persons of the Company upon Completion. As referred to in note (1), Mr. Ling Siu Man holds the Shares through Success Forever.

4. Upon placing down by the Subscriber:

(a) no independent placees will become a substantial Shareholder; and

(b) 267,117,215 Shares (representing approximately 25.00% of the issued share capital as enlarged by the issue and allotment of the Subscription Shares and the Remuneration Shares) will be held by the public.

8. FUND RAISING EXERCISE BY THE COMPANY IN THE PAST TWELVE MONTHS

Save for the Subscription and the subscription agreement dated 22 July 2009 (and supplemented by the supplemental agreement dated 24 July 2009) entered into between the Company, Success Forever and S.M. Centerus Renewable Energy Limited in relation to the subscription by S.M. Centerus Renewable Energy Limited for an aggregate of 210,000,000 Existing Shares at a consideration of approximately HK$0.155 per Existing Share which was terminated on 28 October 2009 (as disclosed in the Company's announcements dated 24 July 2009 and 29 October 2009), the Company has not conducted any fund raising activities by way of issuing equity securities in the twelve-month period immediately preceding the Latest Practicable Date.

9. FINANCIAL EFFECTS OF THE RESTRUCTURING PROPOSAL

According to the financial information of the Group set out in Appendix I to this circular, the total assets and liabilities of the Scheme Subsidiaries incorporated into the Group' consolidated balance sheets as at 31 December 2009 were approximately HK$630.6 million and HK$1,091.9 million, respectively, representing net liabilities of approximately HK$461.3 million. For the financial year ended 31 March 2008, the net profit of the Scheme Subsidiaries for the year amounted to approximately HK$16.9 million. For the financial year ended 31 March 2009, the net loss of the Scheme Subsidiaries for the year amounted to approximately HK$121.8 million. Upon the transfer of shares of Scheme Subsidiaries to Schemeco immediately following Completion, such assets and liabilities of the Scheme Subsidiaries will be removed from the consolidated financial statements of the Company upon the deconsolidation of the Scheme Subsidiaries.

Based on the unaudited pro forma consolidated balance sheet of the Retained Group upon Completion set out in Appendix II to this circular prepared on the assumption that the Restructuring Proposal had been completed on 31 December 2009, the estimated unaudited gain on debt restructuring would equal to approximately HK$406.6 million. Such estimated pro forma gain on debt restructuring was arrived at in accordance with the principal terms of the Restructuring Proposal which involve, among others, (i) the transfer of the net liabilities of the Scheme Subsidiaries to Schemeco; (ii) the transfer of the net amounts due to the Scheme Subsidiaries to Schemeco; and (iii) proceeds from the issuance of the Subscription Shares made available to the Schemeco.

Prior to Completion, the assets and liabilities of the Scheme Subsidiaries and their operating results will continue to be consolidated into the financial statements of the Company. Upon the transfer of shares of Scheme Subsidiaries to Schemeco immediately following Completion, the Scheme Subsidiaries will cease to be subsidiaries of the Company. The Company will no longer hold any interest in the Scheme Subsidiaries.

10. INFORMATION ON THE COMPANY AND THE SUBSCRIBER

The Group is principally engaged in the manufacturing 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 manufacturing and domestic sales of the Group's products including set top boxes.

Skill China Limited is a company incorporated in the BVI on 29 December 2009 with limited liability whose principal business is investment holding. The Subscriber is wholly-owned by Sinogrand Group Limited which in turn is owned (i) as to 59.5% by Jointprofit Limited, a company wholly-owned by Dr. So; (ii) as to 39.5% by Greatkind Limited, a company wholly-owned by Mr. Ge Zhang ("Mr. Ge"); and (iii) as to 1% by Cheergreat Limited, a Company wholly-owned by the family trust of Mr. Chan Wai Dune, of which Mr. Chan Wai Dune ("Mr. Chan") is one of the beneficiaries. Each of Sinogrand 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 Subscriber comprises Dr. So, Mr. Ge, and Mr. Chan. The board of directors of Sinogrand 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 and the Loan Agreement, the Subscriber has not conducted any business activities and has not acquired any other assets since its incorporation.

Dr. So is currently the Chairman of Shenzhen Super Perfect Optics Limited and a director of certain public listed companies in Hong Kong. Dr. So is a member of the 11th National Committee of CPPCC, the Honorary Consul of the Republic of Portugal in Hong Kong, as well as a member of the Economic Development Council and of the Cultural Consultative Council of the Macau Government.

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.

Save for the entering into of the Subscription Agreement, none of the members of the Concert Group has dealt with Shares, outstanding options, derivatives, warrants or other securities convertible or exchangeable into the Shares during the Relevant Period. As at the Latest Practicable Date, there are no relevant securities in the Company which the Concert Group has borrowed or lent. The Subscriber also confirms that there are no (i) arrangements in relation to the Shares (whether by way of option, indemnity or otherwise) referred to in note 8 to Rule 22 of the Takeovers Code that may be material to the Subscription Agreement and/or the Whitewash Waiver; and (ii) agreements or arrangements 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 Subscription Agreement (other than those listed in the sub-section headed "3.6 Conditions Precedent" in this letter from the Board) and/or the Whitewash Waiver to which the Subscriber is a party to.

11. INTENTIONS OF THE SUBSCRIBER REGARDING THE GROUP

It is the intention of the Subscriber 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 Subscriber). The Subscriber 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 Subscriber 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.

12. BOARD COMPOSITION OF THE COMPANY AND OTHER MEMBERS OF THE RETAINED GROUP

The Subscriber has no intention to make major changes to the employees of the Retained Group save for possible change in the composition of the Board. The Board currently comprises three executive Directors and three independent non-executive Directors. It is the intention of the Subscriber and the existing Directors that on Completion, the Subscriber may nominate directors to be appointed to the Board, subject to their being acceptable to the Stock Exchange, and that the Directors will resign, in each case with effect from Completion such that the new Directors designated by the Subscriber will constitute all or a majority in number of the Directors. Further announcement(s) will be made by the Company as to any changes in the composition of the Board as and when appropriate and in compliance with the relevant requirements of the Listing Rules and the Takeovers Code.

13. MAINTAINING THE LISTING STATUS OF THE COMPANY

The Subscriber intends that the Company will maintain the listing status of the Shares on the Main Board of the Stock Exchange after the Completion. If, at the Completion, less than 25% of the Shares are held in public hands or if the Stock Exchange believes that (i) a false market exists or may exist in the Shares; or (ii) there are insufficient Shares in public hands to maintain an orderly market, then the Stock Exchange will consider exercising its discretion to suspend trading in the Shares. Each of the Subscriber, the existing Directors and the new Directors to be appointed to the Board will undertake to the Stock Exchange to take appropriate steps as soon as possible following the Completion to ensure that not less than 25% of the New Shares will be held by the public.

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.

EGM

The EGM will be convened to consider and, if thought fit, approve the Capital Reorganisation, Group Reorganisation, the Subscription, the Whitewash Waiver, the issue of the Tranche 2 Remuneration Shares and DTCFL's Remuneration Shares, and the transactions contemplated thereunder. A notice of the EGM is set out on pages V-1 to V-7 of this circular.

The completion of the Capital Reorganisation, Group Reorganisation and the Subscription, and the Creditor Scheme becoming effective are inter-conditional upon each other.

The Concert Group did not hold any Existing Shares as at the Latest Practicable Date. Under the Takeovers Code, the Concert Group shall not acquire or dispose of any Shares until Completion, and hence the members of the Concert Group will not vote on any resolutions at the EGM. The resolutions in relation to the Capital Reorganisation, the Group Reorganisation, the Subscription Agreement and the issue of the Tranche 2 Remuneration Shares and DTCFL's Remuneration Shares will be subject to approval by the Shareholders by way of poll. For the avoidance of doubt, Mr. Ling and parties acting in concert with him are allowed to vote on the resolutions to approve the Capital Reorganisation, the Group Reorganisation, the Subscription Agreement and the issue of the Tranche 2 Remuneration Shares and DTCFL's Remuneration Shares at the EGM. Only the Independent Shareholders will vote on the resolution to approve the Whitewash Waiver at the EGM.

In accordance with Rule 25 of the Takeovers Code, if there is any Creditor(s) who is a Shareholder, the transactions contemplated under the Group Reorganisation may constitute a special deal which is subject to the Executive's consent and approval by the relevant Creditor(s) will be required to abstain from voting at the EGM. As at the Latest Practicable Date, no Creditor holds any Existing Shares.

RECOMMENDATION

Based on the above, the Directors consider that the terms of the Restructuring Proposal, the Whitewash Waiver and the transactions contemplated thereunder are fair and reasonable and in the interests of the Company and the Shareholders as a whole, and recommend the Shareholders to vote in favour of the relevant Resolutions to be proposed at the EGM.

In addition, your attention is drawn to the letter from the Independent Board Committee set out on pages 42 to 43 of this circular which contains its recommendation to the Independent Shareholders in respect of the Restructuring Proposal, the Whitewash Waiver and the transactions contemplated thereunder, and the letter from Access Capital Limited set out on pages 44 to 63 of this circular which contains its recommendations and opinions in respect of the Restructuring Proposal, the Whitewash Waiver and the transactions contemplated thereunder and the principal factors and reasons taken into consideration.

ADDITIONAL INFORMATION

Your attention is also drawn to the information contained in the appendices to this circular and the notice of the EGM.

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

28 June 2010

To the Independent Shareholders

Dear Sir or Madam,

PROPOSED CAPITAL REORGANISATION; PROPOSED GROUP REORGANISATION AND CREDITOR SCHEME; PROPOSED SUBSCRIPTION OF NEW SHARES AND APPLICATION FOR THE GRANTING OF THE WHITEWASH WAIVER

INTRODUCTION

We refer to the circular dated 28 June 2010 of Tonic Industries Holdings Limited (the "Circular"), of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context otherwise requires.

We have been appointed as members of the Independent Board Committee to advise you as to whether the terms of the Restructuring Proposal, the Whitewash Waiver and the transactions contemplated thereunder are fair and reasonable so far as the Independent Shareholders are concerned; whether the Restructuring Proposal, the Whitewash Waiver and the transactions contemplated thereunder are in the interests of the Company and the Shareholders as a whole; and whether the Independent Shareholders should vote in favour of the resolutions to approve the Restructuring Proposal, the Whitewash Waiver and the transactions contemplated thereunder at the EGM.

Access Capital Limited has been appointed as the independent financial adviser to the Independent Board Committee and the Independent Shareholders to opine on whether the terms of the Restructuring Proposal, the Whitewash Waiver and the transactions contemplated thereunder are fair and reasonable so far as the Independent Shareholders are concerned; whether the Restructuring Proposal, the Whitewash Waiver and the transactions contemplated thereunder are in the interests of the Company and the Shareholders as a whole; and whether the Independent Shareholders should vote in favour of the resolutions to approve the Restructuring Proposal, the Whitewash Waiver and the transactions contemplated thereunder at the EGM.

* *For identification purpose only*

We wish to draw your attention to the letter from Access Capital Limited set out on pages 44 to 63 of the Circular which contain, among other things, its advice and recommendations to us regarding the Restructuring Proposal, the Whitewash Waiver and the transactions contemplated thereunder and the principal factors and reasons taken into consideration for its advice and recommendations.

RECOMMENDATION

Having taken into account the advice and recommendations of Access Capital Limited and the principal factors and reasons taken into consideration by it in arriving at its opinion, we consider that the Restructuring Proposal, the Whitewash Waiver and the transactions contemplated thereunder are fair and reasonable so far as the Independent Shareholders are concerned and the Restructuring Proposal, the Whitewash Waiver and the transactions contemplated thereunder are in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the relevant resolutions to be proposed at the EGM to approve the Restructuring Proposal, the Whitewash Waiver and the transactions contemplated thereunder.

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

PANG Hon Chung	**CHENG Tsang Wai**	**CHUNG Hing Wah, Paul**

Independent Non-executive Directors

Set out below is the text of the letter of advice from Access Capital to the Independent Board Committee and the Independent Shareholders prepared for inclusion in this Circular in respect of the Restructuring Proposal and the Whitewash Waiver

Access Capital

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

28 June 2010

To the Independent Board Committee and the Independent Shareholders of
Tonic Industries Holdings Limited

Dear Sirs,

PROPOSED CAPITAL REORGANISATION;
PROPOSED GROUP REORGANISATION AND CREDITOR SCHEME;
PROPOSED SUBSCRIPTION OF NEW SHARES;
APPLICATION FOR THE GRANTING OF THE WHITEWASH WAIVER;
AND
PROPOSED ISSUE OF REMUNERATION SHARES

I. INTRODUCTION

We refer to out appointment as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the terms of Restructuring Proposal and the transactions contemplated thereunder, details of which are set out in the letter from the Board (the "Letter from the Board") contained in the circular of the Company dated 28 June 2010 to the Shareholders (the "Circular"), of which this letter forms part. Unless the context requires otherwise, terms defined in the Circular have the same meanings in this letter.

On 27 January 2010, the Board announced the Restructuring Proposal in relation to the financial restructuring of the Group which involves, among other things, the Capital Reorganisation, the Group Reorganisation, the Creditor Scheme, the Subscription and the Whitewash Waiver.

The Restructuring Proposal is subject to a number of conditions as set out in the Circular including, but not limited to, the passing of the relevant resolutions at the EGM.

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 Restructuring Proposal, the Whitewash Waiver and the transactions contemplated thereunder are in the interests of the Company and fair and reasonable so far as the Independent Shareholders are concerned.

As the independent financial adviser to the Independent Board Committee and the Independent Shareholders, our role is to give an independent opinion to the Independent Board Committee and the Independent Shareholders as to whether the Restructuring Proposal, the Whitewash Waiver and the transactions contemplated thereunder are in the interests of the Company and the Shareholders as a whole; whether the terms of the Restructuring Proposal, the Whitewash Waiver and the transactions contemplated thereunder are fair and reasonable so far as the Independent Shareholders are concerned; and whether the Independent Shareholders should vote in favour of the resolutions to approve the Restructuring Proposal, the Whitewash Waiver and the transactions contemplated thereunder at the EGM. Our appointment as the independent financial adviser has been approved by the Independent Board Committee.

II. BASIS AND ASSUMPTIONS

In formulating our opinion, we have relied solely upon the statements, information, opinions and representations contained in the Circular and the information and representations provided to us by the Directors and the management of the Company, for which 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 of the Circular. We have assumed that all the opinions and representations made or provided by the Directors and the management of the Company contained in the Circular have been reasonably made after due and careful enquiry. We have also sought and obtained confirmation from the Directors and the management of the Company that no material facts have been omitted from the information provided and referred to in the Circular.

We consider that we have reviewed all available 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 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, conducted any independent verification of the information provided, nor have we conducted any independent investigation into the business and affairs of the Company or any of its subsidiaries.

III. PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion regarding the Restructuring Proposal, we have taken into consideration, inter alia, the following principal factors:

1. Background to and reasons for the Restructuring Proposal

1.1 Background to the Restructuring Proposal

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.

It was stated in the interim report of the Group for the six months period ended 30 September 2009 ("2009 Interim Report") that the Group continued to be affected by the looming global financial crisis. As such, sales of the Groups for the aforesaid period decreased and, in particular, export sales to markets in Europe and Americas plunged by approximately 82%. In addition, the government of the United States of America stopped subsidizing consumers in purchasing digital set top boxes which further dampened sales of set top boxes to the market. Consequently, the 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 Group.

On 10 January 2010, the Company issued an announcement setting out, among others, information relating to the Group's business restructuring plan. It was stated that the Group has consolidated its sales orders and set top boxes manufacturing operations into the Shi Pai Factory, in the PRC. Meanwhile, with a view to further reduce costs and mitigate the loss-making position of the Group, the Group has suspended the operations of some of its factories in Qi Shi and Tangxia in the PRC since March 2009 and December 2009, respectively. In addition, the Group continued to implement cost rationalisation measures across its operations in order to streamline its cost structure, and to strengthen its cash flow position as well as its competitiveness.

The total balance due to the trade and other creditors by the Group as at 31 December 2009 was approximately HK$330 million, among which almost all were overdue. The Group was in negotiations with its creditors regarding a restructuring of the settlement terms including extension of the repayment period, or acceptance of a discounted settlement of the relevant outstanding balances due.

Further, the total outstanding bank and other borrowings of the Group (excluding accrued interests) as at 31 December 2009 was approximately HK$372 million and the Group has breached the repayment terms of certain banking facilities and certain loan repayments since January 2009. On 10 January 2010, banking facilities and loan repayments (excluding accrued interests) in the aggregated sum of approximately HK$168 million became overdue. In this connection, the Company engaged in discussions with the relevant bankers to explore the possibility of seeking a forbearance of the Group's banking facilities with the view to strengthening the Group's overall cash flow situation.

Given the situation of the Company, the Directors also engaged in discussion with an independent investor for a possible injection of new capital by way of loan and equity. In this connection, the Company, the Subscriber and Dr. So as the guarantor entered into the Subscription Agreement pursuant to which the Company conditionally agreed to allot and issue to the Subscriber, and the Subscriber conditionally agreed to subscribe for 909,785,366 Subscription Shares with a nominal value of HK$0.01 each. The completion of the Capital Reorganisation, Group Reorganisation and the Subscription, and the Creditor Scheme becoming effective are inter-conditional upon each other.

In addition, GGP (which is one of the Retained Subsidiaries) entered into the Loan Agreement with the Subscriber, pursuant to which the Subscriber conditionally agreed to make available to GGP the Facility in the principal amount of HK$40,000,000. Such sum was paid on 19 January 2010 and used for repayment of some outstanding salaries to certain workers and staff of the Group, and for general working capital purposes.

Immediately upon Completion, the issue of the Subscription Shares and the Remuneration Shares and the transfer of the Option Shares by the Subscriber to Schemeco, the Concert Group will be interested in a total of 909,785,366 Shares, representing approximately 85.15% of the enlarged issued share capital of the Company and this will give rise to (in the absence of the Whitewash Waiver) an obligation for the Concert Group to make a mandatory offer for the Shares (not already owned or agreed to be acquired by the Concert Group) under Rule 26.1 of the Takeovers Code. An application will be made by the Subscriber to the Executive for the Whitewash Waiver which, if granted, will be subject to the approval by the Independent Shareholders by way of a poll at the EGM.

Pursuant to the Standstill Letter dated 15 January 2010 received by the Company from certain bank creditors of the Company, in order to facilitate the proposed restructuring and communicate a positive message to the stakeholders of the Group, in principle, each of the bank creditors will not make demand (or further demand) or take any other action (or seek further security) against the Retained Group for three months from the date of the Standstill Letter, unless otherwise extended in writing. The Standstill may be terminated by five days written notice by the majority in number of such bank creditors.

As disclosed in the Joint Announcement, the Group proposed to place before the Shareholders a proposal for the Group Reorganisation, which will involve, among other things, the transfer of all the Company's subsidiaries, other than the Retained Subsidiaries, to Schemeco for the purpose of the Creditor Scheme. It is expected that upon completion of the Group Reorganisation, the Group will consist of the Company and the Retained Subsidiaries which are principally engaged in the manufacturing and domestic sales of set top boxes, while the Scheme Subsidiaries will be held by Schemeco.

As set out in the Joint Announcement, the Company commenced discussion with its creditors (including the banks) to restructure all of its indebtedness and liabilities (actual and contingent) by way of a scheme of arrangement under Section 86 of the Cayman Companies Law and under Section 166 of the Companies Ordinance, such that (i) all Creditors shall release, discharge and waive all of their Claims against the Company, and any guarantees they hold from, or claim against, any of the Retained Subsidiaries; and (ii) Schemeco shall accept and assume liability in place of the Company for all of the Claims, in each case on a limited recourse basis up to the extent of their respective pari passu share of the net realisable assets of Schemeco (after payment of all costs and expenses) and in accordance with the terms and conditions of the Creditor Scheme.

1.2 Financial information of the Company

Set out below is a summary of the financial results of the Group, (i) for each of the two financial years ended 31 March 2008 and 2009 as extracted from the Group's annual report ("2009 Annual Report") and (ii) for the nine months ended 31 December 2009 as extracted from "Financial information of the Group" set out in Appendix I to the Circular.

	For the nine months period ended 31 December	For the year ended 31 March	
	2009	**2009**	**2008**
	HK$'000	*HK$'000*	*HK$'000*
	(Audited)	*(Audited)*	*(Audited)*
Total assets	426,240	1,245,569	1,717,475
Total liabilities	(826,452)	(858,889)	(1,155,725)
Net current liabilities	(705,221)	(211,482)	(94,066)
Net (liabilities)/assets	(400,212)	386,680	561,750
Revenue	482,535	2,055,805	2,120,846
Gross (loss)/profit	(36,279)	(8,985)	171,067
(Loss)/profit for the year/period attributable to equity holders of the Company	(767,316)	(174,887)	5,685

Financial years ended 31 March 2008 and 2009

As depicted from the table above, turnover for each of the two years ended 31 March 2009 were approximately HK$2,120.8 million and HK$2,055.8 million, respectively. The Group's consolidated profit for the year ended 31 March 2008 of approximately HK$5.7 million which deteriorated substantially to a loss of approximately HK$174.9 million for the year ended 31 March 2009.

The Company's interim report for 2009 also stated that certain members of the Group were involved in ongoing litigations in Hong Kong in relation to, inter alia, claims from certain former customers of the Group, details of which are set out in paragraph headed "Litigation" in Appendix IV to the Circular.

Nine months ended 31 December 2009

For the nine months period ended 31 December 2009, the Group's revenue declined significantly to approximately HK$482.5 million, being a decrease of approximately 73.9% from the Group's unaudited revenue of approximately HK$1,849.1 million for the corresponding nine-month period in 2008. The loss for the same period attributable to equity holders of the Company totalled to approximately HK$767.3 million which represents a substantial increase from the loss of approximately HK$95.6 million for the corresponding period last year. As explained by the Directors, the financial results for the aforesaid period were attributable to, among other things, the significant decrease in export sales to markets in Europe and United States of America during and after the occurrence of the global financial crisis. In addition, fixed production overheads as well as suspension of operations of certain factories in the PRC during the same period and write-offs of certain stocks, totalled to approximately HK$421.0 million, also contributed to the significant loss for the aforesaid period.

It was also noted that the Group had net current liabilities of approximately HK$211.5 million as at 31 March 2009, increased from its net current liabilities of approximately HK$94.1 million as at 31 March 2008. Its net current liabilities further increased to approximately HK$705.2 million as at 31 December 2009.

The Group had net assets of approximately HK$386.7 million as at 31 March 2009, which worsen to approximately HK$400.2 million as at 31 December 2009.

1.3 Reasons for the Restructuring Proposal

The Group is facing financial difficulties and under increased working capital pressure for its operations as set out above. In view of this, the Group decided to consolidate and streamline its businesses while to scale down its operations, in particular its export sales, in order to alleviate the financial difficulties of the Group. Due to the immense pressure on the cash flow of the Group, the Group also delayed salary payment to certain workers and staff of the Group.

Given the financial position of the Group, it has been engaged in discussions with its banks to explore the possibility of seeking a forbearance of the Group's banking facilities with a view to strengthening the Group's overall cash flow position, the Company also considered the necessity of fund raising exercises that may be able to relieve the immediate liquidity problem of the Group. After arm's length negotiations between the Company and the Subscriber, the Subscriber conditionally agreed to subscribe for the Subscription Shares and the Company intends that the existing indebtedness of the Company shall be restructured by way of the Creditor Scheme.

As stated in the Letter from the Board, the Board considers that the Restructuring Proposal will enable the 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) will be released and discharged, which we consider to be vital to the Group's immediate survival. If the Restructuring Proposal is not successfully implemented, it is likely that the Scheme Creditors will take legal actions against the Company for any recovery of amounts due and the Company may be forced to be wound up as a result. In such event, the Independent Shareholders would only be entitled to the residual assets, if any, after the realisation of existing assets of the Group and distributions be made to all creditors. Given the Group's net current liabilities and net liabilities of approximately HK$705.2 million and HK$400.2 million, respectively, as at 31 December 2009, it is likely that there would not be any residual value or assets left for the Shareholders in the event of forced sale of assets for realisation and distribution to creditors as a result of winding up of the Company.

In light of the above, we concur with the view of the Board that the Restructuring Proposal will enable the 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) will be released and discharged, which is in the interests of the Company and the Shareholders as a whole.

2. The Restructuring Proposal

The Restructuring Proposal comprises, among other things, the Capital Reorganisation, the Group Reorganisation, the Creditor Scheme, the Subscription and the Whitewash Waiver.

2.1 The Proposed Capital Reorganisation

The Capital Reorganisation comprises the Capital Reduction, Share Sub-division and the Share Consolidation.

Pursuant to the proposed Capital Reduction, the par value of each issued Existing Share will be reduced from HK$0.10 to HK$0.001 by the cancellation of HK$0.099 of the paid-up capital on each issued Existing Share. Pursuant to the proposed Share Sub-division, each authorised but unissued Existing Share with par value of HK$0.10 each will be sub-divided into 100 New Shares with a par value of HK$0.001 each. Pursuant to the proposed Share Consolidation, every 10 issued and unissued Shares with a par value of HK$0.001 each will be consolidated into one New Share of HK$0.010 each.

The New Shares, immediately after the completion of the Capital Reorganisation, will be identical and rank pari passu in all respects with each other and the Capital Reorganisation will not result in any change in the relative rights of the Shareholders.

As set out in the Letter from the Board, the Capital Reorganisation will facilitate future fund raising exercises by the Company through the issuance of new Shares. Presently, the Existing Shares have a par value of HK$0.10, which means that, unless, inter alia, it is sanctioned by the Court, the minimum price at which a new Share can be issued is HK$0.10. In light of the Company's current financial position, the Directors consider that it is not realistic for such a minimum issue price for the Shares to be achieved, and that the Company will not be able to raise any equity funds through issuing new Shares unless the price is set at a level substantially below HK$0.10 per Share. However, a reduction of the par value of the Existing Shares to HK$0.01 does not require the Company to issue new Shares at that price. As such, the Capital Reorganisation shall provide the Company with maximum flexibility in future fund raising exercises through new Share issues.

It is also noted that the Capital Reduction, being one of the conditions precedent of the Subscription Agreement, is necessary to enable the Subscription Agreement to proceed. Hence the Capital Reduction forms an integral part of the Restructuring Proposal.

Further, as advised by the Company, it is expected that a credit balance of approximately HK$104.7 million arising from the Capital Reduction will partially reduce the accumulated losses recorded by the Company.

Given the aforesaid and the completion of the Capital Reorganisation, the Group Reorganisation, the Subscription and the Creditor Scheme becoming effective are inter-conditional upon each other, we are of the view that the Capital Reorganisation is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

2.2 The Proposed Group Reorganisation

As set out in the Letter from the Board, the Board proposes to place before the Shareholders a proposal for the Group Reorganisation, which will involve the following principal elements,

(i) the transfer of the Scheme Subsidiaries to Schemeco for the purpose of the Creditor Scheme;

(ii) the Scheme Subsidiaries assigning to the Company unconditionally and irrevocably all and any indebtedness, actual or contingent, owing to them by any of the Retained Subsidiaries;

(iii) the Company and the Retained Subsidiaries assigning to Schemeco unconditionally and irrevocably all and any indebtedness, actual or contingent, owing to them by any of the Scheme Subsidiaries; and

(iv) the Company paying the Subscription Price to Schemeco for eventual distribution to the Scheme Creditors.

The purpose of the Group Reorganisation is to facilitate the implementation of the Creditor Scheme so that all existing indebtedness and liabilities of the Company (actual and contingent) will be restructured. Upon completion of the Group Reorganisation, the Group will be split into the Retained Group and the companies held by the Administrators.

It is expected that upon completion of the Group Reorganisation, the Group will consist of the Company and the Retained Subsidiaries which are principally engaged in the manufacturing and domestic sales of set top boxes, while the Scheme Subsidiaries will be held by Schemeco, which in turn is controlled by the Administrators.

The Administrators shall carry out the realisation of assets in the Creditor Scheme for the benefit of the Creditors. After all assets subject to the Creditor Scheme have been realised and all distributions have been paid to all Creditors in accordance with the Creditor Scheme, the Creditor Scheme will be terminated on the date of the approval of the committee of the Scheme Creditors' or such later date as the Courts may allow on the application of the Company or the Administrators. Any residual value of the Creditor Scheme shall be distributed to those persons who were Shareholders as at the Record Date on a pro-rata basis to their respective shareholdings in the Company as at the Record Date as soon as reasonably practicable following termination of the Creditor Scheme.

2.2.1 Retained Subsidiaries

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

Pursuant to the Subscription Agreement, the Retained Subsidiaries comprises Tonic Electronic (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.*), GGP, 東莞悦金數碼科技有限公司 (Dongguan Yuejin Digital Technology Company Limited*), Tonic DVB Marketing Limited, Champion Apex Limited and 冠華港貿易(深圳)有限公司 (Guan Hua Gang Trading (Shenzhen) Co. Ltd.*).

Subject to the finalisation of the Creditor Scheme by the Company, its creditors and the Subscriber, the Retained Subsidiaries will retain the ownership of the Shi Pai Factory and continue the business of manufacturing and domestic sales of set up boxes upon Completion. It is the intention of the Subscriber that following Completion, the Retained Group will continue with its existing principal activities of manufacturing and sales of consumer electronic products.

* *For identification purpose only*

2.2.2 Scheme Subsidiaries

As set out in the Letter from the Board, the principal activities of the Scheme Subsidiaries include, among other things, trading and manufacture of electronic products and components, investment and intellectual property rights holding.

As set out in Appendix I to the Circular, the Scheme Subsidiaries incurred total comprehensive loss of approximately HK$121.3 million for the year ended 31 March 2009 and approximately HK$651.6 million for the nine months ended 31 December 2009, and the Scheme Subsidiaries had net liabilities of approximately HK$461.2 million as at 31 December 2009.

Upon Completion, the Scheme Subsidiaries will cease to be subsidiaries of the Company. The Company will no longer hold any interest in the Scheme Subsidiaries.

2.2.3 Inter-company debts

All and any indebtedness, actual or contingent, owed by the Company to its subsidiaries (including the Retained Subsidiaries and Scheme Subsidiaries) will be settled by the Company or assigned by the relevant subsidiary to persons other than the Company before the Effective Date, such that no subsidiary of the Company will be a Scheme Creditor.

All and any indebtedness, actual or contingent, owed by the Scheme Subsidiaries to members of the Retained Group (including the Company) as at the Effective Date will be assigned unconditionally and irrevocably, by way of deed(s), upon the Creditor Scheme becoming effective to Schemeco (to the extent that such assignment is allowed under the applicable laws) for the benefit of the Scheme Creditors.

All and any indebtedness, actual or contingent, owed by the Retained Subsidiaries to members of the Scheme Subsidiaries as at the Effective Date will be assigned unconditionally and irrevocably, by way of deed(s), upon the Creditor Scheme becoming effective to the Company (to the extent that such assignment is allowed under the applicable laws).

Given the existing situation of the Group, in particular, the urgent need to satisfy the Company's financial obligations, the uncertainties to its business prospects, the fact that the Group Reorganisation will facilitate the implementation of the Creditor Scheme so that all existing indebtedness and liabilities of the Company (actual and contingent) will be restructured, released and discharged, and the completion of the Capital Reorganisation, Group Reorganisation and the Subscription, and the Creditor Scheme becoming effective are inter-conditional upon each other, we concur with the view of the Board that the Group Reorganisation is in the interests of the Company and the Shareholders as a whole.

2.3 The Proposed Creditor Scheme

As set out in the Letter from the Board, the principal terms of the Creditor Scheme shall be substantially as follows:

(i) all Claims against the Company will be deemed to be fully and finally discharged and satisfied by virtue of the implementation of the Creditor Scheme, but without prejudice to the rights of any Creditor to enforce any guarantee or security they hold from the Scheme Subsidiaries (or any of them) to the extent as allowed under the moratorium created by the Creditor Scheme; and

(ii) Schemeco shall accept and assume an equivalent liability in place of the Company in respect of the Claims, in each case on a limited recourse basis up to the extent of the Scheme Creditors' respective pari passu share of the net realisable assets of Schemeco (after payment of all costs and expenses) and in accordance with the terms and conditions of the Creditor Scheme.

As set out in the Letter from the Board, upon the Creditor Scheme becoming effective, the Administrators will have the power, among other things, to conduct a realisation of the assets of Schemeco and pari passu distribution of any funds received by Schemeco including without limitation, the Subscription Price, the funds received through the realisation or winding up of the Scheme Subsidiaries after payment of the liabilities of the respective Scheme Subsidiaries and through the realisation or holding of the Option Shares, amongst the Creditors in respect of their admitted Claims within such time period and manner as the Administrators may reasonable determine.

Detailed terms of the Creditor Scheme will be set out in the Scheme Document.

As set out in the section headed "1.1 Background to the Restructuring Proposal" above, the Group is facing severe financial difficulties and immense cash flow pressure. While the Company has been engaging in discussions with its banks to explore the possibility of seeking a forbearance of the Group's banking facilities with a view to strengthening the Group's overall cash flow position, the Company has also considered the necessity of fund raising exercises that may be able to relieve the immediate liquidity problem of the Group. After arm's length negotiations between the Company and the Subscriber, the Subscriber has conditionally agreed to subscribe for the Subscription Shares and the Company intends that the existing indebtedness of the Company shall be restructured by way of the Creditor Scheme.

We understand from the Company that the completion of the Capital Reorganisation, Group Reorganisation and the Subscription, and the Creditor Scheme becoming effective are inter-conditional upon each other, and in the event that the Creditor Scheme fails to proceed, the Restructuring Proposal would lapse and the Company will be wound up.

In view of the above and given that the Board considers the Creditor Scheme will enable the Group to deal with its indebtedness in a formal and orderly manner so that all of the Company's indebtedness and liabilities (actual and contingent) will be released and discharged, we concur with the view of the Board that the Creditor Scheme is in the interests of the Company and the Shareholders as whole.

2.4 The Subscription Agreement

Pursuant to the Subscription Agreement, the Company conditionally agreed to allot and issue to the Subscriber, and the Subscriber conditionally agreed to subscribe for 909,785,366 Subscription Shares of HK$0.01 each (which are New Shares following the completion of the Capital Reorganisation) at the Subscription Price of HK$80,000,000.

2.4.1 The Subscription Price

The Subscription Price of approximately HK$0.0879 per Subscription Share represents:

– a discount of approximately 93.4% to the theoretical closing price of HK$1.34 per Share based on the closing price of HK$0.134 per Existing 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;

– a discount of approximately 94.8% to the theoretical closing price of HK$1.69 per Share based on the closing price of HK$0.169 per Existing Share as quoted on the Stock Exchange on the Last Trading Day;

– a discount of approximately 94.5% to the average theoretical closing price of HK$1.59 per Share based on the average closing price of HK$0.159 per Existing Share as quoted on the Stock Exchange for the last five consecutive trading days up to and including the Last Trading Day;

– a discount of approximately 93.8% to the average theoretical closing price of HK$1.419 per Share based on the average closing price of HK$0.1419 per Existing Share as quoted on the Stock Exchange for the last ten consecutive trading days up to and including the Last Trading Day;

– a discount of approximately 91.3% to the theoretical closing price of HK$1.01 per share based on the closing price of HK$0.101 per Existing Share as quoted on the Stock Exchange on the Latest Practicable Date; and

– a premium to the theoretical unaudited consolidated net liabilities per Share of approximately HK$3.78 as at 31 December 2009 (based on the audited consolidated net liabilities of the Group as at 31 December 2009 of approximately HK$400,212,000 and 1,057,889,962 Existing Shares in issue as at 31 December 2009).

The estimated net price of the Subscription Shares to be received by the Company is approximately HK$0.0879 per Subscription Share.

The Subscription Price is determined by the Company and the Subscriber on an arm's length basis having taken into account, among other things, the following factors:

– the significant unaudited gross loss and net loss of the Group for the six months ended 30 September 2009;

– the net assets value of the Company as at 30 September 2009;

– the possible adverse impact of the recent down-sizing of the operations and pressure on the cash flow of the Group;

– the persistent deterioration of market conditions;

– the urgent need to satisfy the Company's financial obligations; and

– the business outlook of the Group and the uncertainty as to its business prospects.

Pursuant to the Subscription Agreement, Completion shall be conditional upon certain conditions precedent being fulfilled or waived (as the case may be), including but not limited to, the Group Reorganisation being approved and completed, upon which other than the Retained Subsidiaries, all the Company's subsidiaries shall be transferred to Schemeco for the purpose of the Creditor Scheme, enabling the Company's indebtedness and liabilities (actual and contingent) to be released and discharged. As such, we consider that it is inappropriate to compare the Subscription Price with the historical consolidated net assets value of the Group.

As regards the substantial discount represented by the Subscription Price to the prevailing market prices of the Existing Shares, it should be noted that, as mentioned above and based on the latest available audited financial information of the Group set out in Appendix I to the Circular, the Group had net liabilities of approximately HK$400.2 million as at 31 December 2009. Accordingly, in assessing the Subscription Price in terms of reference to the market prices of the Existing Shares or the latest net asset value of the Group, the Subscription Price of approximately HK$0.0879 per Subscription Share is essentially fair and reasonable.

Given (i) the significant net loss of the Group for the nine months ended 31 December 2009; (ii) the substantial deteriorated financial positions of the Group and its existing significant net liabilities; (iii) the urgent need to satisfy the Company's financial obligations; (iv) the business outlook of the Group and the uncertainty as to its business prospects; and (v) the Subscription, being an efficient way for the Company to raise capital so as to repay part of the outstanding bank loans in a timely manner and at the same time to enlarge the share capital and shareholder base of the Company, we consider that the Subscription, including the Subscription Price, is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

2.4.2 Use of proceeds

As set out in the Letter from the Board, the Company will pay the Subscription Price, being HK$80,000,000, to Schemeco for the purpose of the Creditor Scheme, which will enable the Company to repay part of the outstanding indebtedness. In addition, as the completion of the Subscription Agreement and the Creditor Scheme being effective are inter-conditional upon each other and therefore is part and parcel of the Restructuring Proposal.

2.4.3 Shareholding structure of the Company

Set out below is the shareholding structure of the Company as at the Latest Practicable Date and the changes thereto as a result of the allotment and issue of the Subscription Shares and the Remuneration Shares and the transfer of the Option Shares by the Subscriber to Schemeco (but before any placing down by the Subscriber to restore the public float):

Name of Shareholders	As at the Latest Practicable Date		Immediately upon Completion, the allotment and issue of the Subscription Shares and the Remuneration Shares and the transfer of the Option Shares by the Subscriber to Schemeco	
	Number of Existing Shares	*%*	*Number of New Shares*	*%*
The Subscriber	–	–	846,311,968	79.21
Schemeco	–	–	63,473,398	5.94
Subtotal of the Concert Group	–	–	909,785,366	85.15
Success Forever *(Note)*	618,492,476	58.46	61,849,247	5.78
Directors	5,517,000	0.52	551,700	0.05
Somerley	–	–	26,447,249	2.48
DTCFL	–	–	26,447,249	2.48
Other public Shareholders	433,880,486	41.02	43,388,048	4.06
Total	1,057,889,962	100.00	1,068,468,859	100.00

Note: the entire issued share capital of which is beneficially owned by Mr. Ling.

Immediately upon Completion and following the transfer of the Option Shares by the Subscriber to Schemeco but before any placing down by the Subscriber to restore the public float, the Concert Group will be interested in a total of 909,785,366 New Shares, representing approximately 85.15% of the enlarged issued share capital of the Company. As set out in the Letter from the Board, in order to ensure that immediately upon Completion, there will not be less than 25% of the Company's entire issued ordinary share capital held by the public, the Subscriber has engaged Get Nice Securities Limited as a placing agent on a fully-underwritten basis to secure other independent investors to take up sufficient number of Subscription Shares from the Subscriber after Completion which shall restore the minimum 25% public float.

2.4.4 Effects on the shareholding of existing Shareholders

We noted that the Board has considered other fund raising alternatives of debt and equity financing for the Group, such as bank borrowings, rights issue or open offer. However, given the existing net-liabilities financial position of the Group, the Board has found it difficult to obtain further banking facilities or to identify an underwriter for a rights issue or an open offer with acceptable terms. Notwithstanding the dilution, after taking into consideration of various factors, including but not limited to, the current financial difficulties faced by the Group, the feasibility of other fund raising alternatives such as bank borrowings, rights issue or open offer, the receptiveness of the Creditors and the Subscription being part and parcel of the Restructuring Proposal, we concur with the Board that the extent of dilution to the Independent Shareholders, as a result of the Subscription, is acceptable so far as the Independent Shareholders are concerned.

3. Whitewash Waiver

As at the Latest Practicable Date, the Concert Group did not hold any Existing Shares. Immediately upon Completion, the issue of the Subscription Shares and the Remuneration Shares and the transfer of the Option Shares by the Subscriber to Schemeco, the Subscriber and parties acting in concert with it will, in aggregate, hold approximately 85.15% of the enlarged issued share capital of the Company and this will give rise to (in absence of the Whitewash Waiver) an obligation for the Concert Group to make a mandatory offer for the Shares (not already owned or agreed to be acquired by the Concert Group) under Rule 26.1 of the Takeovers Code. An application will be made by the Subscriber to the Executive for the Whitewash Waiver which, if granted, will be subject to the approval by the Independent Shareholders by way of a poll at the EGM.

As set out in the Letter from the Board, Completion is conditional upon, among other things, the approval of the Whitewash Waiver by the Independent Shareholders by way of poll at the EGM and the Whitewash Waiver having been granted by the Executive to the Subscriber and parties acting in concert with it.

If conditions precedent, including but not limited to, Whitewash Waiver being granted by the Executive and approval obtained by the Independent Shareholders, are not fulfilled or waived, the Subscription Agreement will not become unconditional and the Subscription Agreement shall be terminated.

Given that the Restructuring Proposal is in the interests of the Company and the Shareholders as a whole and that the approval of the Whitewash Waiver is one of the conditions precedent of the Subscription Agreement, we are of the view that the Whitewash Waiver is fair and reasonable.

4. Financial effects of the Restructuring Proposal

4.1 Net assets

According to the unaudited pro forma consolidated statement of financial position of the Retained Group set out in Appendix II to the Circular, assuming the Completion had taken place on 31 December 2009, the Group's financial position would improve from net liabilities of approximately HK$400.2 million to net assets of approximately HK$86.2 million, which would mainly be attributable to the combined effect of the proceeds from the Subscription, the Creditor Scheme becoming effective and the entire interests in the Scheme Subsidiaries being transferred to Schemeco. In view of such substantial improvement in the net assets of the Group, we are of the view that the Restructuring Proposal is in the interests of the Company and the Shareholders as a whole.

4.2 Indebtedness

As at 30 April 2010, the Group had total outstanding borrowings and payables of the Group of approximately HK$821 million. In view of the Group's financial difficulties, we understand from the Directors that, in absence of the Restructuring Proposal, the Group would not be in a position to repay all its outstanding indebtedness.

As noted in the Letter from the Board, upon completion of the Restructuring Proposal, all the liabilities of the Company would be discharged and released and based on the unaudited pro forma consolidated statement of financial position of the Retained Group, outstanding borrowings and payables of the Group in the aggregate amount of approximately HK$729 million would be excluded from the Retained Group on the assumption that the Restructuring Proposal took place on 31 December 2009. Accordingly, we consider that the Restructuring Proposal will be able to lessen the significant indebtedness of the Group.

4.3 Working capital

As set out in Appendix I to the Circular, the Group had cash and bank balances of approximately HK$1.2 million and net current liabilities of approximately HK$705.2 million as at 31 December 2009, which demonstrated the severe liquidity problem the Group faced.

Based on the unaudited pro forma consolidated statement of financial position of the Retained Group as set out in Appendix II to the Circular, assuming that the Restructuring Proposal took place on 31 December 2009, the Retained Group would have cash and bank balances of approximately HK$70.0 million and its net current liabilities would reduce significantly to approximately HK$21.3 million.

As set out in Appendix I to the Circular, the Directors are of the opinion that, upon successful implementation of the Restructuring Proposal, after taking into account the financial resources, including part of the working capital from the Facility and its internally generated funds arising from the future business model, the Retained Group has sufficient working capital to meet its present requirements.

5. Future prospects of the Group

As per the Letter from the Board, it is the intention of the Subscriber that following Completion, the Retained Group will continue with its existing principal activities of manufacture and sales of consumer electronic products (subject to the finalisation of the Creditor Scheme by the Company, its creditors and the Subscriber). The Subscriber will conduct a detailed review of the business and operations of the Retained Group in order to formulate 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 Subscriber did not have any concrete 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.

IV RECOMMENDATION

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

(i) the Group Reorganisation and the Creditor Scheme will enable the Group to deal with its indebtedness in a formal and orderly manner which is essential to the Group's survival given its existing financial difficulties;

(ii) the Restructuring Proposal represents the only restructuring proposal currently available; and

(iii) upon Completion, all of the Company's indebtedness and liabilities will be released and discharged, we consider that the terms of the Restructuring Proposal, the Whitewash Waiver and the transactions contemplated thereunder are fair and reasonable and the Restructuring Proposal, the Whitewash Waiver and the transactions contemplated thereunder are in the interests of the Company and the Shareholders as a whole. We therefore recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the resolutions to be proposed at the EGM to approve the Restructuring Proposal and the Whitewash Waiver.

Yours faithfully,
For and on behalf of
Access Capital Limited

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

1. ACCOUNTANTS' REPORT ON THE FINANCIAL INFORMATION OF THE GROUP

The following is the text of the accountants' report (the "Accountants' Report") on the financial information of the Group for each of the three financial years ended 31 March 2009 and for the nine months ended 31 December 2009 which is prepared by ANDA CPA Limited for inclusion in this circular.

The Group did not have any extraordinary, exceptional items or profits/loss to minority interest for each of the three financial years ended 31 March 2009 and for the nine months ended 31 December 2009.

ANDA CPA Limited ("ANDA") were engaged as reporting accountants on 22 February 2010 to report on the financial information of the Group and were not the auditors of the Group for the three years ended 31 March 2007, 2008 and 2009 and the nine months ended 31 December 2009. In consequence, ANDA were unable to attend the Group's physical count of inventories as at 31 March 2007, 2008, 2009 and 31 December 2009. There are no other satisfactory audit procedures that ANDA could adopt to satisfy themselves as to the quantities and conditions of the inventories as at 31 March 2007, 2008, 2009 and 31 December 2009. The Board has resolved to appoint ANDA as the new auditor of the Group to fill the casual vacancy, and ANDA has attended the Group's physical count of inventories as at 31 March 2010. Therefore, the scope limitation on inventories as described in the Accountants Report is expected to be removed in the auditors' report in the Group's 2010 annual report.

All Claims against the Company will deem to be fully and finally discharged and satisfied by virtue of the implementation of the Creditors Scheme. 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 in the Accountants Report are expected to be removed in the auditors' report in the financial year end which the Completion takes place.

A. ACCOUNTANTS' REPORT

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 verity 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

B. FINANCIAL INFORMATION

CONSOLIDATED INCOME STATEMENTS

	Notes	Year ended 31 March 2007 HK$'000	Year ended 31 March 2008 HK$'000	Year ended 31 March 2009 HK$'000	Nine months ended 31 December 2008 HK$'000 (unaudited)	Nine months ended 31 December 2009 HK$'000
CONTINUING OPERATION						
Turnover	8	2,316,557	2,120,846	2,055,805	1,849,089	482,535
Cost of sales		(2,209,263)	(1,949,779)	(2,064,790)	(1,880,687)	(518,814)
Gross profit/(loss)		107,294	171,067	(8,985)	(31,598)	(36,279)
Other income	9	14,289	5,619	37,692	37,454	5,673
Selling expenses and distribution costs		(6,248)	(9,750)	(3,313)	(545)	(1,132)
Administrative expenses		(71,077)	(73,237)	(78,970)	(50,128)	(91,905)
Fair value gain/(losses) on equity investments at fair value through profit or loss		8,964	(6,432)	(1,488)	(816)	2,352
Provision for impairment of assets	12	–	(13,256)	(60,697)	–	(223,246)
Provision against inventories and loss on auctions of sequestrated inventories	12	(1,830)	(4,201)	(10,981)	(6,745)	(420,991)
Professional expenses on aborted projects		–	(21,326)	–	–	–
Profit/(loss) from operations		51,392	48,484	(126,742)	(52,378)	(765,528)
Finance costs	10	(29,667)	(36,470)	(25,716)	(20,456)	(16,770)
Profit/(loss) before tax		21,725	12,014	(152,458)	(72,834)	(782,298)
Income tax	11	(6,760)	(13,515)	(140)	(448)	14,982
Profit/(loss) for the year/period from continuing operation		14,965	(1,501)	(152,598)	(73,282)	(767,316)
DISCONTINUED OPERATION						
Profit/(loss) for the year/period from discontinued operation	13	9,047	7,186	(22,289)	(22,289)	–
Profit/(loss) for the year/period attributable to equity holders of the Company	12, 18	24,012	5,685	(174,887)	(95,571)	(767,316)
Earnings/(loss) per share	16					
Basic (HK cents per share)						
– Continuing operation		1.6	(0.2)	(14.4)	(6.9)	(72.5)
– Discontinued operation		0.9	0.8	(2.1)	(2.1)	–
From continuing and discontinued operations		2.5	0.6	(16.5)	(9.0)	(72.5)
Diluted (HK cents per share)		N/A	N/A	N/A	N/A	N/A

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

		Year ended 31 March			Nine months ended 31 December	
		2007	2008	2009	2008	2009
	Note	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Profit/(loss) for the year/period attributable to equity holders of the Company	12	24,012	5,685	(174,887)	(95,571)	(767,316)
Translation differences of foreign operations		12,269	1,434	(1,283)	(781)	283
Surplus/(deficit) on property revaluation		24,925	–	1,177	–	(27,384)
Deferred tax on property revaluation reserve:						
Deficit/(surplus) on revaluation		(3,120)	–	(274)	–	6,901
Change in tax rate		(15,253)	–	7	–	–
Release on disposal		–	–	190	190	624
Other comprehensive income for the year/period, net of tax		18,821	1,434	(183)	(591)	(19,576)
Total comprehensive income for the year/period, net of tax		42,833	7,119	(175,070)	(96,162)	(786,892)

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

		As at 31 March			As at 31 December
		2007	2008	2009	2009
	Notes	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Non-current assets					
Property, plant and equipment	19	704,250	736,084	661,300	371,331
Prepaid lease payments	20	44,155	43,279	41,091	34,329
Intangible assets	21	27,228	22,716	10,345	–
Available-for-sale investments	23	14,219	–	–	–
Non-current portion of an other receivable		4,780	2,470	–	–
Non-current portion of loans receivable		93	–	–	–
Deposits for acquisition of items of property, plant and equipment		5,510	2,399	53	–
		800,235	806,948	712,789	405,660
Current assets					
Inventories	24	315,509	526,835	353,832	8,554
Accounts and bills receivables	25	199,162	207,724	68,495	144
Factored accounts receivables	26	–	118,451	53,394	–
Current portion of loans receivable		188	93	–	–
Prepayments, deposits and other receivables	27	61,772	21,342	16,418	3,000
Prepaid lease payments	20	1,004	971	909	762
Equity investments at fair value through profit or loss	28	10,512	4,080	2,592	4,944
Derivative financial instruments	29	1,582	–	382	–
Current tax assets		921	–	–	1,931
Cash and bank balances	30	92,698	31,031	36,758	1,245
		683,348	910,527	532,780	20,580
Current liabilities					
Accounts payables	31	288,408	507,856	342,022	333,462
Accruals and other payables	32	65,858	53,143	43,548	75,126
Borrowings	33	373,111	421,634	337,427	300,932
Derivative financial instruments	29	–	3,325	–	–
Amounts due to directors	35	–	–	–	2,419
Current tax liabilities		5,410	18,635	21,265	13,862
		732,787	1,004,593	744,262	725,801
Net current liabilities		(49,439)	(94,066)	(211,482)	(705,221)
Total assets less current liabilities		750,796	712,882	501,307	(299,561)

		As at 31 March			As at 31 December
		2007	2008	2009	2009
	Notes	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Non-current liabilities					
Borrowings	*33*	156,785	96,686	61,144	69,174
Deferred tax liabilities	*37*	52,641	54,446	53,483	31,477
		209,426	151,132	114,627	100,651
NET ASSETS/(LIABILITIES)		541,370	561,750	386,680	(400,212)
Capital and reserves					
Share capital	*38*	95,289	105,789	105,789	105,789
Proposed final dividend	*15*	9,529	–	–	–
Reserves	*40(a)*	436,552	455,961	280,891	(506,001)
TOTAL EQUITY		541,370	561,750	386,680	(400,212)

STATEMENTS OF FINANCIAL POSITION

		As at 31 March			As at 31 December
		2007	2008	2009	2009
	Notes	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Non-current assets					
Investments in subsidiaries	22	251,547	270,085	269,488	–
Available-for-sale investments	23	13,256	–	–	–
		264,803	270,085	269,488	–
Current assets					
Cash and bank balances		137	138	138	–
Current liabilities					
Accruals and other payables		9	9	9	9
Financial guarantee liabilities	36	–	–	–	160,969
		9	9	9	160,978
Net current assets/(liabilities)		128	129	129	(160,978)
NET ASSETS/(LIABILITIES)		264,931	270,214	269,617	(160,978)
Capital and reserves					
Issued capital	38	95,289	105,789	105,789	105,789
Reserves	40(b)	160,113	164,425	163,828	(266,767)
Proposed final dividend	15	9,529	–	–	–
TOTAL EQUITY		264,931	270,214	269,617	(160,978)

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended 31 March			Nine months ended 31 December	
	2007	**2008**	**2009**	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (unaudited)	*HK$'000*
Cash flows from operating activities					
Profit/(loss) before tax					
From continuing operation	21,725	12,014	(152,458)	(72,834)	(782,298)
From discontinued operation	9,960	7,919	(21,980)	(21,980)	–
Adjustments for:					
Finance costs	30,351	36,870	25,955	20,695	16,770
Bank interest income	(1,680)	(1,504)	(174)	(109)	(70)
Dividend income from listed investment	(134)	(153)	(143)	(143)	(167)
(Gain)/loss on disposal of items of property, plant and equipment	(8,871)	3,968	(29,886)	(29,212)	43,083
Gain on disposal of a subsidiary	–	(1,922)	–	–	–
Fair value (gains)/losses, net:					
Equity investment at fair value through profit or loss	(8,964)	6,432	1,488	816	(2,352)
Derivative financial instruments – forward currency contract, net	(1,582)	3,325	(382)	(2,724)	–
Depreciation	70,463	73,333	66,813	47,042	35,380
Provision against inventories and loss on auctions of sequestrated inventories	1,830	4,201	10,981	6,745	420,991
Amortisation of prepaid land lease payments	1,004	967	981	750	705
Amortisation of software development costs and trademarks	348	355	357	273	55
Amortisation of deferred development costs	7,396	11,280	8,330	7,829	5,577
Provision for impairment of assets	–	13,256	65,795	5,098	223,246
Operating profit/(loss) before working capital changes	121,846	170,341	(24,323)	(37,754)	(39,080)
Change in inventories	36,938	(215,527)	162,022	216,016	(75,713)
Change in accounts and bills receivables	75,088	(14,057)	131,132	(252,411)	35,375
Change in factored accounts receivables	–	(118,451)	(53,394)	118,451	33,703
Change in prepayments, deposits and other receivables	(22,416)	39,357	2,124	(91,084)	3,986
Change in accounts payables	(160,686)	196,962	(175,055)	137,418	(8,178)
Change in accruals and other payables	(13,789)	(13,349)	(25,986)	37,846	31,576
Cash generated from/(used in) operations	36,981	45,276	16,520	128,482	(18,331)
Interest received	1,680	1,504	174	109	70
Interest paid	(28,479)	(35,518)	(25,361)	(20,650)	(16,674)
Interest element on finance lease rental payment	(1,872)	(1,352)	(594)	(45)	(96)
Hong Kong profits tax refund/(paid)	1,610	(52)	(55)	(55)	(8,611)
Oversea taxes paid	(241)	(672)	–	–	(232)
Net cash generated from/(used in) operating activities	9,679	9,186	(9,316)	107,841	(43,874)

	Year ended 31 March			Nine months ended 31 December	
	2007	2008	2009	2008	2009
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (unaudited)	*HK$'000*
Cash flows from investing activities					
Dividends received from listed investment	134	153	143	143	167
Purchase of items of property, plant and equipment	(62,965)	(74,196)	(13,921)	(10,874)	(23,687)
Proceeds from disposal of items of property, plant and equipment	539	6,848	35,619	34,789	57,792
Proceeds from disposal of an equity investment at fair value through profit and loss	8,832	–	–	–	–
Proceeds from disposal of an available-for-sale investment	–	963	–	–	–
Net inflow from disposal of a subsidiary	–	4,525	–	–	–
Additions to intangible assets	(17,739)	(7,123)	(3,867)	(3,081)	–
Decrease in loans receivable	188	188	93	93	–
Deposits for acquisition of items of property, plant and equipment	(4,759)	(2,346)	–	–	–
Net cash generated from/(used in) investing activities	(75,770)	(70,988)	18,067	21,070	34,272
Cash flows from financing activities					
Proceeds from issue of shares, net	–	22,790	–	–	–
Increase/(decrease) in trust receipt loans	33,284	(48,336)	(76,059)	1,333	(3,708)
New bank and other loans	135,257	201,454	226,850	–	42,618
Repayment of bank and other loans	(89,994)	(159,764)	(151,883)	(127,142)	(63,160)
Capital element of finance lease rental payment	(10,724)	(11,168)	(8,445)	(5,043)	(3,294)
Advances from directors	–	–	–	–	2,419
Dividend paid	(9,529)	(9,529)	–	–	–
Net cash generated from/(used in) financing activities	58,294	(4,553)	(9,537)	(130,852)	(25,125)
Net decrease in cash and cash equivalents	(7,797)	(66,355)	(786)	(1,941)	(34,727)
Cash and cash equivalents at beginning of year/period	99,971	92,698	26,732	26,732	26,143
Effect of changes in foreign exchange rate	524	389	197	249	181
Cash and cash equivalents at end of year/period	92,698	26,732	26,143	25,040	(8,403)
Analysis of cash and cash equivalents					
Cash and bank balances	92,698	31,031	36,758	34,793	1,245
Bank overdrafts, secured	–	(4,299)	(10,615)	(9,753)	(9,648)
	92,698	26,732	26,143	25,040	(8,403)

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to equity holders of the Company							
	Share capital HK$'000	Share premium account HK$'000	Contributed reserve HK$'000	Property revaluation reserve HK$'000	Foreign currency translation reserve HK$'000	Retained profits HK$'000	Proposed final dividend HK$'000	Total HK$'000
At 1 April 2006	95,289	59,098	280	91,613	(5,240)	257,497	9,529	508,066
Total comprehensive income for the year	–	–	–	6,552	12,269	24,012	–	42,833
Final 2006 dividend paid	–	–	–	–	–	–	(9,529)	(9,529)
Proposed final 2007 dividend	–	–	–	–	–	(9,529)	9,529	–
At 31 March 2007 and 1 April 2007	95,289	59,098	280	98,165	7,029	271,980	9,529	541,370
Total comprehensive income for the year	–	–	–	–	1,434	5,685	–	7,119
Final 2007 dividend paid	–	–	–	–	–	–	(9,529)	(9,529)
Issue of shares	10,500	12,390	–	–	–	–	–	22,890
Share issue expenses	–	(100)	–	–	–	–	–	(100)
At 31 March 2008 and 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 period	–	–	–	(19,859)	283	(767,316)	–	(786,892)
Transfer on disposal	–	–	–	(3,784)	–	3,784	–	–
At 31 December 2009	105,789	71,388	280	74,068	7,463	(659,200)	–	(400,212)
For the nine months ended 31 December 2008 (unaudited)								
At 31 March 2008 and 1 April 2008	105,789	71,388	280	98,165	8,463	277,665	–	561,750
Total comprehensive income for the period	–	–	–	190	(781)	(95,571)	–	(96,162)
Transfer on disposal	–	–	–	(1,554)	–	1,554	–	–
At 31 December 2008	105,789	71,388	280	96,801	7,682	183,648	–	465,588

B. NOTES TO FINANCIAL INFORMATION

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 Unit B, 10th Floor, Summit Building, 30 Man Yue Street, Hung Hom, Kowloon, Hong Kong. The Company's shares are listed on the Main Board of the Stock Exchange.

The Company is an investment holding company and the principal activities of its subsidiaries are design, manufacture and trading 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

As at 31 December 2009, the Group had consolidated net current liabilities of approximately HK$705,221,000 (2009: HK$211,482,000; 2008: HK$94,066,000; 2007: HK$49,439,000) and consolidated net liabilities of approximately HK$400,212,000 (2009: net assets of HK$386,680,000; 2008: net assets of HK$561,750,000; 2007: net assets of HK$541,370,000). The group incurred a net loss attributable to equity holders of the Company for the nine months ended 31 December 2009 of approximately HK$767,316,000 (2009: a loss of HK$174,887,000; 2008: a profit of HK$5,685,000; 2007: a profit of HK$24,012,000). During the nine months ended 31 December 2009 and as at that date, the Group has breached certain terms and defaulted on the repayment of certain banking facilities. As at 31 December 2009, loan repayments in the aggregate sum of approximately HK$15,168,000 were overdue and HK$163,733,000 of bank borrowings became repayable on demand as a result of the breaches.

To address the issues above, the Group has been in discussion and negotiation with banks to explore the possibility of seeking a forbearance of the Group's bank borrowings and with potential investors to explore the possibility of injecting new funds into the Group through a restructuring proposal. The restructuring proposal is conditional upon passing of the resolutions by the shareholders of the Company in an extraordinary general meeting to approve the proposed capital reorganisation, the proposed group reorganisation and the proposed subscription of new shares (as disclosed in the joint announcement of the Company and Skill China Limited (the "Subscriber") dated 27 January 2010 and hereinafter referred to as the "Announcement") and other conditions precedent more fully described under sections 1.4 and 3.6 of the Announcement. 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 Announcement.

(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 was HK$300,000,000 divided into 3,000,000,000 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 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 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 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 will be released and discharged and (i) a cash payment of HK$80 million (which will be funded by the Company out of the 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) any inter-company receivables due to the Retained Subsidiaries by the Scheme Subsidiaries, will be made available to the Schemeco for the purpose of the Creditor Scheme to settle and discharge the Claims.

(iv) Subscription of New Shares

Pursuant to the Subscription Agreement dated 15 January 2010 as amended by the supplemental loan 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 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 cash consideration of HK$80 million.

The Financial Information has 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 date of this report, 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 Financial Information on a going concern basis. The Financial Information does 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, 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 Information for the nine months ended 31 December 2009 and as at that date.

(b) Possible outcome of outstanding litigations

Certain subsidiaries of the Group 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 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. 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 positions for the nine months ended 31 December 2009, and related disclosures thereof in the Financial Information.

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

The Group has adopted, all the new and revised standards, amendments and interpretations of HKFRSs issued by the HKICPA, which are effective for the Group's financial periods beginning on 1 April 2009 in the preparation of the Underlying Financial Information throughout the Relevant Periods.

At the date of this report, the Group has not early adopted the new and revised standards and interpretations that have been issued but are not yet effective. The Directors are in the process of assessing the potential impact and so far concluded that the application of these standards or interpretations will have no material impact on the results and the financial position of the Group.

4. SIGNIFICANT ACCOUNTING POLICIES

The Financial Information has been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the Financial Information includes applicable disclosures required by the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange.

The Financial Information has 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 Information is presented in Hong Kong dollars ("HK$") and all values are rounded to the nearest thousand except when otherwise indicated.

The preparation of Financial Information 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 Information are further disclosed in note 5 to the Financial Information.

The significant accounting policies applied in the preparation of the Financial Information are set out below.

Consolidation

The Financial Information includes the financial statements of the Company and its subsidiaries made up to 31 March/31 December. 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 the income statement 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 the 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 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 income statement.

Prepaid land lease payment

Prepaid land lease payment represents interest in land held under operating lease arrangements and are 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 reliably measured 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 income statement in the period in which it is incurred.

(b) Trademarks

Trademarks are stated at cost less accumulated amortisation and impairment losses. 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 the income statement.

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

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.

(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 the income statement.

Impairment losses are reversed in subsequent periods and recognised in the consolidated income statement 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 the income statement 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 owernership 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.

Share-based payments

The Group issues equity-based payments to certain employees. Equity-settled share-based payments are measured at fair value (excluding the effect of non-market based vesting conditions) of the equity instruments at the date of grant. The fair value determined at the grant date of the equity-settled share based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest and adjusted for the effect of non market-based vesting conditions.

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 the income statement 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 Information 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 the Financial Information. Events after the reporting period that are not adjusting events are disclosed in the notes to the Financial Information 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 Information (apart from those involving estimations, which are dealt with below).

Going concern basis

The Financial Information has 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 Information.

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 Information.

(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 36 to the Financial Information.

(g) Provision for litigation

Certain subsidiaries of the Group had been involved in certain litigations in respect of goods sold and 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 advice. 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 Information.

(a) Interest rate risk

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

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

	Group	
	Increase/ (decrease) in basis point	**Increase/ (decrease) in profit/(loss) before tax**
		HK$'000
Year ended 31 March 2007		
Floating rate borrowings	100	(4,975)
Floating rate borrowings	(100)	4,975
Year ended 31 March 2008		
Floating rate borrowings	100	(4,906)
Floating rate borrowings	(100)	4,906
Year ended 31 March 2009		
Floating rate borrowings	100	(3,289)
Floating rate borrowings	(100)	3,289
Nine months ended 31 December 2009		
Floating rate borrowings	100	(3,701)
Floating rate borrowings	(100)	3,701
Nine months ended 31 December 2008 (unaudited)		
Floating rate borrowings	100	(4,121)
Floating rate borrowings	(100)	4,121

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

	Year ended 31 March			Nine months ended 31 December	
	2007	2008	2009	2008	2009
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (unaudited)	*HK$'000*
Increase/(decrease) in profit/(loss) before tax					
– if Hong Kong dollar weakens against RMB with 5%	(1,508)	(8,658)	(9,525)	(3,631)	(4,282)
– if Hong Kong dollar strengthens against RMB with 5%	1,508	8,658	9,525	3,631	4,282

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 trades only 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 Information.

(d) Price risk

The Group's financial assets at fair value through profit or loss available-for-sale financial assets are measured at fair value at the end of each 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 policies. At the end of each reporting period, the Group is not exposed to significant price risk.

(e) Liquidity risk

The Group is exposed to liquidity risk as at 31 December 2009 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$705,221,000 and the consolidated net liabilities of HK$400,212,000 as at 31 December 2009.

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 disclosed in note 2 to this Financial Information.

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

	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*
Group					
As at 31 December 2009					
Accounts payables	32,566	33,119	267,777	–	333,462
Financial liabilities included in accruals and other payables	20,785	–	–	–	20,785
Borrowings	165,151	128,978	6,823	69,174	370,126
Amounts due to directors	2,419	–	–	–	2,419
	220,921	162,097	274,600	69,174	726,792
As 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
As at 31 March 2008					
Accounts payables	38,067	296,377	173,412	–	507,856
Financial liabilities included in accruals and other payables	–	6,179	–	–	6,179
Borrowings	4,299	322,841	95,412	96,896	519,448
Derivative financial instruments	–	3,325	–	–	3,325
	42,366	628,722	268,557	96,896	1,036,808
As at 31 March 2007					
Accounts payables	–	205,129	83,279	–	288,408
Financial liabilities included in accruals and other payables	–	2,643	–	–	2,643
Borrowings	–	247,668	126,707	157,734	532,109
	–	455,440	209,986	157,734	823,160

(f) Fair value

The carrying amounts of the Group's financial assets and financial liabilities as reflected in the consolidated statement of financial position approximate their respective fair values.

The following disclosures of fair value measurements use a fair value hierarchy which has 3 levels:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The disclosures of the 3-level fair value hierarchy are as follows:

		At 31 March		At 31 December
	2007	**2008**	**2009**	**2009**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Fair value measurement using:				
Level 1:				
Financial assets/(liabilities) at fair value through profit and loss				
– Equity investments	10,512	4,080	2,592	4,944
– Derivatives	1,582	(3,325)	382	–
	12,094	755	2,974	4,944

Level 2: The disclosure of fair value measurements at this level is not presented, as the Group does not have any financial assets measured at level 2 at end of each reporting period.

		At 31 March		At 31 December
Level 3:				
Available-for-sale financial assets				
– Equity investments	13,256	–	–	–
– Club debentures	963	–	–	–
	14,219	–	–	–

(g) Financial instrument by category

The carrying amounts for each category of the financial instrument at end of each reporting period are as follows:

		At 31 March		At 31 December
	2007	**2008**	**2009**	**2009**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Financial assets:				
– Financial assets at fair value through profit or loss – held for trading	12,094	4,080	2,974	4,944
– Loans and receivables	335,269	362,715	166,780	4,389
– Available-for-sales financial assets	14,219	–	–	–
Financial liabilities:				
– Financial liabilities at fair value through profit and loss – held for trading	–	3,325	–	–
– Financial liabilities at amortised cost	820,947	1,032,355	751,011	724,353

7. SEGMENT INFORMATION

During the years ended 31 March 2007, 2008 and 2009, 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 year ended 31 March 2009. During the nine months ended 31 December 2009, the Group retained a reportable segment which is 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 information. 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 to third parties, i.e. at current market prices.

	Home appliance products (Discontinued operation)	Electronic products and components	Total
Year ended 31 March 2007			
Revenue from external customers	282,857	2,316,557	2,599,414
Segment profits	8,775	49,578	58,353
Interest revenue	–	1,680	1,680
Interest expense	684	29,667	30,351
Depreciation and amortisation	7,501	70,706	78,207
Other material items of income and expense:			
Fair value gains on equity at fair value through profit or loss	–	8,964	8,964
Surplus on revaluation recognised directly in equity	110	24,815	24,925
Income tax	913	6,760	7,673
Other material non-cash item:			
Provision against inventories	200	1,630	1,830
Additions to segment non-current assets	3,751	82,958	86,709
At 31 March 2007			
Segment assets	103,860	1,259,510	1,363,370
Segment liabilities	61,475	292,782	354,257

	Home appliance products (Discontinued operation)	Electronic products and components	Total
Year ended 31 March 2008			
Revenue from external customers	300,072	2,120,846	2,420,918
Segment profits	8,319	50,141	58,460
Interest revenue	–	1,504	1,504
Interest expense	400	36,470	36,870
Other material items of income and expense:			
Fair value losses on equity at fair value through profit or loss	–	6,432	6,432
Depreciation and amortisation	8,729	76,239	84,968
Income tax	733	13,515	14,248
Other material non-cash item:			
Provision against inventories	2,399	1,802	4,201
Additions to segment non-current assets	3,419	80,246	83,665
At 31 March 2008			
Segment assets	115,211	1,567,060	1,682,271
Segment liabilities	63,047	497,943	560,990

	Home appliance products (Discontinued operation)	Electronic products and components	Total
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:			
Fair value 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

	Home appliance products (Discontinued operation)	Electronic products and components	Total
Nine months ended 31 December 2008 (unaudited)			
Revenue from external customers	340,198	1,849,089	2,189,287
Segment losses	21,741	52,126	73,867
Interest revenue	–	109	109
Interest expense	239	20,456	20,695
Other material items of income and expense:			
Fair value losses on equity at fair value through profit or loss	–	816	816
Depreciation and amortisation	1,743	53,401	55,144
Income tax	309	448	757
Other material non-cash items:			
Provision against inventories	6,745	–	6,745
Provision for impairment of assets	5,098	–	5,098
Additions to segment non-current assets	626	17,237	17,863
At 31 December 2008			
Segment assets	11,971	1,653,082	1,665,053
Segment liabilities	9,043	731,261	740,304

	Electronic products and components
Nine months ended 31 December 2009	
Revenue from external customers	482,535
Segment losses	765,291
Interest revenue	70
Interest expense	16,770
Other material items of income and expense:	
Fair value gains on equity at fair value through profit or loss	2,352
Deficit on revaluation recognised directly in equity	27,384
Depreciation and amortisation	41,102
Income tax	14,982
Other material non-cash items:	
Provision against inventories and loss on auctions of sequestrated inventories	420,991
Provision for impairment of assets	223,246
Additions to segment non-current assets	23,687
At 31 December 2009	
Segment assets	418,120
Segment liabilities	408,579

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

	Year ended 31 March			Nine months ended 31 December	
	2007	**2008**	**2009**	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(unaudited)	
Revenue					
Total turnover of reportable segments disclosed as consolidated turnover from continuing and discontinued operations	2,599,414	2,420,918	2,396,003	2,189,287	482,535
Profit or loss					
Total profit/(loss) of reportable segments	58,353	58,460	(148,166)	(73,867)	(765,291)
Other profit and loss	(34,341)	(52,775)	(26,721)	(21,704)	(2,025)
Consolidated profit/(loss)	24,012	5,685	(174,887)	(95,571)	(767,316)

	At 31 March			At 31 December	
	2007	**2008**	**2009**	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(unaudited)	
Assets					
Total assets of reportable segments	1,363,370	1,682,271	1,205,837	1,665,053	418,120
Other assets	120,213	35,204	39,732	40,551	8,120
Consolidated total assets	1,483,583	1,717,475	1,245,569	1,705,604	426,240
Liabilities					
Total liabilities of reportable segments	354,257	560,990	385,561	740,304	408,579
Other liabilities	587,956	594,735	473,328	499,711	417,873
Consolidated total liabilities	942,213	1,155,725	858,889	1,240,015	826,452

Geographical information:

	Year ended 31 March			Nine months ended 31 December	
	2007	**2008**	**2009**	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(unaudited)	
Revenue					
Americas	1,648,820	1,187,108	1,447,920	1,333,459	128,545
Europe	520,054	665,456	326,538	328,329	67,663
Asia Pacific countries	409,416	519,569	548,722	486,350	283,991
Others	21,124	48,785	72,823	41,149	2,336
Discontinued operation	(282,857)	(300,072)	(340,198)	(340,198)	–
	2,316,557	2,120,846	2,055,805	1,849,089	482,535

In presenting the geographical information, revenue is based on the locations of the customers.

8. TURNOVER

The Group's turnover is as follows:

	Year ended 31 March			Nine months ended 31 December	
	2007	2008	2009	2008	2009
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (unaudited)	*HK$'000*
Manufacture and sale of electronic products and components attributable to continuing operation	2,316,557	2,120,846	2,055,805	1,849,089	482,535
Manufacture and sale of home appliance products attributable to discontinued operation *(note 13)*	282,857	300,072	340,198	340,198	–
	2,599,414	2,420,918	2,396,003	2,189,287	482,535

9. OTHER INCOME

	Year ended 31 March			Nine months ended 31 December	
	2007	2008	2009	2008	2009
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (unaudited)	*HK$'000*
Handling fee income	228	250	–	–	–
Bank interest income	1,680	1,504	174	109	70
Dividend income from listed investments	134	153	143	143	167
Foreign exchange differences, net	544	1,219	9	850	–
Gain on disposal of items of property, plant and equipment	8,871	–	29,886	29,212	–
Gain on disposal of a subsidiary	–	1,922	–	–	–
Sales of scrap materials and raw materials	–	–	7,287	7,003	–
Sundry income	2,875	571	193	137	5,436
	14,332	5,619	37,692	37,454	5,673
Attributable to:					
Continuing operation	14,289	5,619	37,692	37,454	5,673
Discontinued operation *(note 13)*	43	–	–	–	–
	14,332	5,619	37,692	37,454	5,673

10. FINANCE COSTS

	Year ended 31 March			Nine months ended 31 December	
	2007	2008	2009	2008	2009
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(unaudited)	
Interest on:					
Bank and other borrowings wholly repayable within five years	28,479	35,518	25,361	20,650	16,674
Finance leases	1,872	1,352	594	45	96
	30,351	36,870	25,955	20,695	16,770
Attributable to:					
Continuing operation	29,667	36,470	25,716	20,456	16,770
Discontinued operation *(note 13)*	684	400	239	239	–
	30,351	36,870	25,955	20,695	16,770

11. INCOME TAX

	Year ended 31 March			Nine months ended 31 December	
	2007	2008	2009	2008	2009
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(unaudited)	
Current – Hong Kong					
Charge for the year/period	1,263	5,933	3,113	1,327	–
Overprovision in prior years	(303)	(158)	(1,393)	(1,393)	(904)
Current – Mainland China					
Charge for the year/period	1,637	8,362	1,142	514	410
Deferred tax	4,163	(622)	(2,722)	–	(14,488)
	6,760	13,515	140	448	(14,982)

Hong Kong Profits Tax is provided at a rate of 17.5%, 17.5%, 16.5%, 16.5% and 16.5% for the years ended 31 March 2007, 2008, 2009 and the nine months ended 31 December 2008 and 2009 respectively based on assessable profit for the year/period less allowable losses brought forward. Certain allowable losses of the Company's subsidiaries incorporated in Hong Kong are yet to be agreed by the Inland Revenue Department. 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.

The reconciliation between the income tax and the profit/(loss) before tax is as follows:

	Year ended 31 March			Nine months ended 31 December	
	2007	2008	2009	2008	2009
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (unaudited)	*HK$'000*
Profit/(loss) before tax from continuing and discontinued operations)	31,685	19,933	(174,438)	(94,814)	(782,298)
Tax at the domestic income tax rates	5,545	3,488	(28,782)	(15,644)	(129,079)
Effect of different tax rates of subsidiaries	(84)	(1,155)	(5,909)	(4,054)	(21,784)
Effect of change in tax rate	–	–	(159)	(159)	–
Net loss not subject to tax, due to concession	401	1,398	326	309	–
Adjustments in respect of current tax of previous periods	(303)	(158)	(1,393)	(1,393)	(904)
Income not subject to tax	(1,936)	(1,874)	(67)	(35)	(428)
Expenses not deductible for tax	2,293	6,373	12,606	5,183	83,876
Tax losses utilised from previous periods	(1,227)	(1,029)	–	–	(291)
Tax losses not recognised	3,713	6,395	22,832	16,478	53,692
Deferred tax not recognised, due to concession	(536)	(68)	–	–	–
Others	(193)	878	995	72	(64)
Tax at the Group's effective rate	7,673	14,248	449	757	(14,982)
Tax attributable to:					
Continuing operation	6,760	13,515	140	448	(14,982)
Discontinued operation *(note 13)*	913	733	309	309	–
	7,673	14,248	449	757	(14,982)

12. PROFIT/(LOSS) FOR THE YEAR/PERIOD

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

	Year ended 31 March			Nine months ended 31 December	
	2007	**2008**	**2009**	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (unaudited)	*HK$'000*
Cost of inventories sold	2,474,661	2,222,462	2,405,318	2,223,557	518,814
Provision against inventories:					
Continuing operation	1,830	1,802	4,236	–	264,991
Discontinued operation	–	2,399	6,745	6,745	–
Loss on auctions of sequestrated inventories Continuing operation[##]	–	–	–	–	156,000
	1,830	4,201	10,981	6,745	420,991
Fair value (gains)/losses on derivative financial instruments – forward currency contracts, net	(1,582)	3,325	(382)	(2,724)	–
Depreciation	70,463	73,333	66,813	47,042	35,380
Amortisation of software development costs*	79	75	75	61	55
Amortisation of trademark*	269	280	282	212	–
Amortisation of prepaid land lease payments	1,004	967	981	750	705
Research and development costs:					
Deferred development costs amortised*	7,396	11,280	8,330	7,829	5,577
Current year expenditure	1,090	4,789	2,115	1,002	123
	8,486	16,069	10,445	8,831	5,700
Minimum lease payments under operating leases on land and buildings	3,999	4,401	3,771	2,830	524
Auditors' remuneration	1,085	1,242	1,180	916	450
Employee benefits expense (including directors' remuneration – note 14):					
Wages and salaries	150,282	166,140	160,378	120,283	75,259
Pension scheme contributions	2,326	2,446	2,386	1,722	768
Less: Forfeited contributions**	–	–	–	–	–
	2,326	2,446	2,386	1,722	768
	152,608	168,586	162,764	122,005	76,027

	Year ended 31 March			Nine months ended 31 December	
	2007	2008	2009	2008	2009
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(unaudited)	
Provision for impairment of assets:					
Continuing operation:					
Impairment of items of property, plant and equipment	–	–	37,409	–	155,784
Impairment of deposits for acquisition of items of property, plant and equipment	–	–	–	–	53
Impairment of intangible assets	–	–	7,551	–	4,713
Impairment of accounts receivables	–	–	10,179	–	32,975
Impairment of factored accounts receivables	–	–	–	–	19,691
Impairment of deposits and other receivables	–	–	5,558	–	9,432
Impairment of prepaid land lease payments	–	–	–	–	598
Impairment of available-for-sale investment	–	13,256	–	–	–
	–	13,256	60,697	–	223,246
Discontinued operation:					
Impairment of items of property, plant and equipment	–	–	5,098	5,098	–
	–	13,256	65,795	5,098	223,246
(Gain)/loss on disposal of items of property, plant and equipment	(8,871)	3,968	(29,886)	(29,212)	43,083

* *The amortisation of software development costs, trademarks, and the deferred development costs for the Relevant Periods 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 for the Relevant Periods.*

The disclosures presented in this note include those amounts charged/credited in respect of the discontinued operation.

Further details of the auctions are stated in note 19 to the Financial Information.

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 has 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 for the Relevant Periods are presented below:

	Year ended 31 March			Nine months ended 31 December	
	2007	**2008**	**2009**	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(unaudited)	
Turnover	282,857	300,072	340,198	340,198	–
Cost of sales	(263,816)	(276,008)	(340,146)	(340,146)	–
Other income	43	–	–	–	–
Expenses	(8,440)	(13,346)	(9,950)	(9,950)	–
Impairment of items of property, plant and equipment	–	–	(5,098)	(5,098)	–
Provision against inventories	–	(2,399)	(6,745)	(6,745)	–
Finance costs	(684)	(400)	(239)	(239)	–
Profit/(loss) before tax from discontinued operation	9,960	7,919	(21,980)	(21,980)	–
Income tax	(913)	(733)	(309)	(309)	–
Profit/(loss) for the year/period from discontinued operation	9,047	7,186	(22,289)	(22,289)	–

The net cash (inflows)/outflows incurred by home appliances products business for the Relevant Periods are as follows:

	Year ended 31 March			Nine months ended 31 December	
	2007	**2008**	**2009**	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(unaudited)	
Operating activities	8,459	5,439	1,547	1,547	–
Investing activities	1,708	2,650	417	417	–
Financing activities	(2,369)	2,048	3,097	3,097	–
Net cash outflow	7,798	10,137	5,061	5,061	–

14. DIRECTORS' AND FIVE HIGHEST PAID INDIVIDUAL EMOLUMENTS

Name of Directors	Fees	Salaries, allowances and benefits in kind	Commission	Pension scheme contribution	Total emoluments
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Executive directors					
Ling Siu Man, Simon	–	3,888	–	194	4,082
Wong Ki Cheung	–	1,944	–	97	2,041
Li Fung Ching, Catherine	–	1,944	–	97	2,041
Lam Kwai Wah	300	510	1,828	12	2,650
Au Wai Man	–	1,620	–	81	1,701
Liu Hoi Keung, Gary	300	1,689	–	99	2,088
Lee Ka Yue, Peter	–	–	–	–	–
Non-executive director:					
Wong Wai Kwong, David	88	–	–	–	88
Independent non-executive directors					
Pang Hon Chung	107	–	–	–	107
Cheng Tsang Wai	106	–	–	–	106
Chung Hing Wah, Paul	70	–	–	–	70
Total for the year ended 31 March 2007	971	11,595	1,828	580	14,974

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	3,588	194	4,082
Wong Ki Cheung	300	1,644	97	2,041
Li Fung Ching, Catherine	300	1,644	97	2,041
Lam Kwai Wah	300	1,500	12	1,812
Au Wai Man	300	1,320	81	1,701
Liu Hoi Keung, Gary	200	1,542	79	1,821
Lee Ka Yue, Peter	–	–	–	–
Non-executive director:				
Wong Wai Kwong, David (a)	–	–	–	–
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 2008	2,001	11,238	560	13,799

(a): Resigned as a director on 3 August 2007.

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.

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	225	3,383	146	3,754
Wong Ki Cheung	225	1,458	73	1,756
Li Fung Ching, Catherine	225	1,458	73	1,756
Lam Kwai Wah	225	1,350	9	1,584
Au Wai Man	225	1,183	55	1,463
Independent non-executive directors				
Pang Hon Chung	80	–	–	80
Cheng Tsang Wai	80	–	–	80
Chung Hing Wah, Paul	66	–	–	66
Total for the nine months ended 31 December 2008 (unaudited)	1,351	8,832	356	10,539

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	–	2,609	100	2,709
Wong Ki Cheung	–	1,199	60	1,259
Li Fung Ching, Catherine	–	1,199	60	1,259
Lam Kwai Wah (c)	–	1,110	6	1,116
Independent non-executive directors				
Pang Hon Chung	64	–	–	64
Cheng Tsang Wai	63	–	–	63
Chung Hing Wah, Paul	53	–	–	53
Total for the nine months ended 31 December 2009	180	6,117	226	6,523

(c): Mr. Lam Kwai Wah tendered his resignation from the position of director on 18 November 2009 and his resignation became effective on 12 January 2010.

The five highest paid individuals in the Group during the nine months ended 31 December 2009 included 4 directors. All five highest paid employees during the years ended 31 March 2007, 2008 and 2009 were directors, and details of whose emoluments are reflected in the analysis presented above. The emolument of the remaining individual for the nine months ended 31 December 2009, falling within the band ranging from HK$nil to HK$1,000,000, is detailed below:

	Nine months ended 31 December 2009
	HK$'000
Salaries and allowances	705
Pension scheme contribution	8
	713

There was no arrangement under which a director waived or agreed to waive any remuneration during the years ended 31 March 2007, 2008, 2009 and the nine months ended 31 December 2009.

15. DIVIDEND

During the year ended 31 March 2007, the Directors recommended the payment of a final cash dividend of HK1 cent per ordinary share. No dividend has been proposed or declared by the Company during the years ended 31 March 2008, 2009 and the nine months ended 31 December 2008 and 2009.

16. EARNINGS/(LOSS) PER SHARE

From continuing and discontinued operations

The calculation of the basic earning/(loss) per share attributable to the equity holders of the Company for the Relevant Periods is based on the following data:

	Year ended 31 March			Nine months ended 31 December	
	2007	**2008**	**2009**	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(unaudited)	
Profit/(loss) for the Relevant Periods attributable to the equity holders of the Company	24,012	5,685	(174,887)	(95,571)	(767,316)

	Year ended 31 March			Nine months ended 31 December	
	2007	**2008**	**2009**	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(unaudited)	
Weighted average number of ordinary shares in issue for the year/period used in the basic earning/(loss) per share calculation	952,889,962	979,068,044	1,057,889,962	1,057,889,962	1,057,889,562

From continuing operation

The calculation of the basic earnings/(loss) per share from continuing operation attributable to the equity holders of the Company is based on the following data:

	Year ended 31 March			Nine months ended 31 December	
	2007	2008	2009	2008	2009
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(unaudited)	
Profit/(loss) for the Relevant Periods attributable to equity holders of the Company	24,012	5,685	(174,887)	(95,571)	(767,316)
Add/(less):					
Profit/(loss) for the Relevant Periods from discontinued operation	9,047	7,186	(22,289)	(22,289)	–
Profit/(loss) for the Relevant Periods for the purpose of basic earning/(loss) per share from continuing operation	14,965	(1,501)	(152,598)	(73,282)	(767,316)

The denominators used are the same as those detailed above for both basic and diluted earning/(loss) per share.

From discontinued operation

Basic earning/(loss) per share from the discontinued operation for the Relevant Periods is as follows:

	Year ended 31 March			Nine months ended 31 December	
	2007	2008	2009	2008	2009
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(unaudited)	
Earning/(loss) per share for discontinued operation	0.9	0.8	(2.1)	(2.1)	–

No diluted earning/(loss) per share is presented for the Relevant Periods as the Company did not have any dilutive potential ordinary shares during the Relevant Periods.

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. PROFIT/(LOSS) FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS

The consolidated profit/(loss) attributable to equity holders of the Company includes a profit of approximately HK$40,007,000 for the year ended 31 March 2007 and a loss of approximately HK$7,978,000, HK$597,000, and HK$430,595,000 for the years ended 31 March 2008, 2009 and the nine months ended 31 December 2009 respectively, which has been dealt with in the financial statements of the Company (note 40(b)).

19. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Construction in progress	Leasehold improve-ments	Furniture and fixtures	Equipment and tools	Motor vehicles	Moulds	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
31 March 2007								
At 1 April 2006								
Cost or valuation	253,483	89,192	103,910	31,445	426,850	9,484	173,825	1,088,189
Accumulated depreciation and impairments	(9,991)	–	(49,191)	(23,983)	(226,809)	(7,722)	(137,373)	(455,069)
Net carrying amount	243,492	89,192	54,719	7,462	200,041	1,762	36,452	633,120
At 1 April 2006, net of accumulated depreciation	243,492	89,192	54,719	7,462	200,041	1,762	36,452	633,120
Additions	–	15,420	2,769	5,801	53,411	1,554	16,270	95,225
Disposals	–	–	(9)	(29)	(109)	(95)	(268)	(510)
Surplus on revaluation	24,925	–	–	–	–	–	–	24,925
Depreciation provided during the year	(10,709)	–	(8,205)	(2,268)	(29,038)	(676)	(19,567)	(70,463)
Transfers	–	(4,108)	800	–	–	–	3,308	–
Exchange differences	13,082	5,530	2,101	115	1,107	18	–	21,953
At 31 March 2007, net of accumulated depreciation and impairments	270,790	106,034	52,175	11,081	225,412	2,563	36,195	704,250
At 31 March 2007								
Cost or valuation	270,790	106,034	111,191	37,527	482,357	10,942	172,795	1,191,636
Accumulated depreciation and impairments	–	–	(59,016)	(26,446)	(256,945)	(8,379)	(136,600)	(487,386)
Net carrying amount	270,790	106,034	52,175	11,081	225,412	2,563	36,195	704,250
Analysis of cost or valuation at 31 March 2007								
At cost	–	106,034	111,191	37,527	482,357	10,942	172,795	920,846
At valuation	270,790	–	–	–	–	–	–	270,790
	270,790	106,034	111,191	37,527	482,357	10,942	172,795	1,191,636

	Buildings	Construction in progress	Leasehold improve-ments	Furniture and fixtures	Equipment and tools	Motor vehicles	Moulds	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
31 March 2008								
At 31 March 2007 and 1 April 2007								
Cost or valuation	270,790	106,034	111,191	37,527	482,357	10,942	172,795	1,191,636
Accumulated depreciation and impairments	–	–	(59,016)	(26,446)	(256,945)	(8,379)	(136,600)	(487,386)
Net carrying amount	270,790	106,034	52,175	11,081	225,412	2,563	36,195	704,250
At 1 April 2007, net of accumulated depreciation and impairments	270,790	106,034	52,175	11,081	225,412	2,563	36,195	704,250
Additions	–	35,286	14,402	2,614	7,742	–	19,609	79,653
Disposals	(286)	(640)	–	(4)	(6,316)	(572)	(930)	(8,748)
Depreciation provided during the year	(12,691)	–	(7,093)	(2,490)	(28,497)	(648)	(21,914)	(73,333)
Transfers	57,253	(61,295)	15	(43)	50	–	4,020	–
Exchange differences	20,106	8,388	2,387	355	2,990	36	–	34,262
At 31 March 2008, net of accumulated depreciation and impairments	335,172	87,773	61,886	11,513	201,381	1,379	36,980	736,084
At 31 March 2008								
Cost or valuation	348,385	87,773	130,999	40,989	485,155	10,270	169,209	1,272,780
Accumulated depreciation and impairments	(13,213)	–	(69,113)	(29,476)	(283,774)	(8,891)	(132,229)	(536,696)
Net carrying amount	335,172	87,773	61,886	11,513	201,381	1,379	36,980	736,084
Analysis of cost or valuation at 31 March 2008								
At cost	77,595	87,773	130,999	40,989	485,155	10,270	169,209	1,001,990
At valuation	270,790	–	–	–	–	–	–	270,790
	348,385	87,773	130,999	40,989	485,155	10,270	169,209	1,272,780

	Buildings	Construction in progress	Leasehold improve-ments	Furniture and fixtures	Equipment and tools	Motor vehicles	Moulds	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
31 March 2009								
At 31 March 2008 and 1 April 2008								
Cost or valuation	348,385	87,773	130,999	40,989	485,155	10,270	169,209	1,272,780
Accumulated depreciation and impairments	(13,213)	–	(69,113)	(29,476)	(283,774)	(8,891)	(132,229)	(536,696)
Net carrying amount	335,172	87,773	61,886	11,513	201,381	1,379	36,980	736,084
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

	Buildings	Construction in progress	Leasehold improve-ments	Furniture and fixtures	Equipment and tools	Motor vehicles	Moulds	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
31 December 2009								
At 31 March and 1 April 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
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)	(19,261)	(155,784)
Deficit on revaluation	(27,384)	–	–	–	–	–	–	(27,384)
Depreciation provided during the period	(9,572)	–	(5,354)	(1,287)	(11,738)	(109)	(7,320)	(35,380)
Transfers	2,654	(2,654)	–	–	–	–	–	–
Exchange differences	88	24	27	1	3	–	–	143
At 31 December 2009, net of accumulated depreciation and impairments	294,778	–	21,072	1,946	52,481	510	544	371,331
At 31 December 2009								
Cost or valuation	294,778	–	35,759	16,528	92,584	6,152	1,017	446,818
Accumulated depreciation and impairments	–	–	(14,687)	(14,582)	(40,103)	(5,642)	(473)	(75,487)
Net carrying amount	294,778	–	21,072	1,946	52,481	510	544	371,331
Analysis of cost or valuation at 31 December 2009								
At cost	–	–	35,759	16,528	92,584	6,152	1,017	152,040
At valuation	294,778	–	–	–	–	–	–	294,778
	294,778	–	35,759	16,528	92,584	6,152	1,017	446,818

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 their 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 losses were recognised and charged to income statement in the period in which it arises to the extent that the carrying amounts exceed their recoverable amounts.

During the year ended 31 March 2009, 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 impairment losses of HK$42,507,000 were charged to the consolidated income statement during the year ended 31 March 2009.

During the nine months ended 31 December 2009, 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$155,784,000, were impaired and impairment losses of HK$155,784,000 were charged to the consolidated income statement during the nine months ended 31 December 2009.

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 nine months ended 31 December 2009. 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 Shi Tan Pu Community Residents' Committee") and 東莞市塘廈鎮石潭埔勞動服務站 ("Dongguan Tangxia Town Shi Tan Pu Labour Service Station") to sequestrate certain of the Group's assets (collectively "Sequestrated Assets") located in the Tangxia Factory with the net 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 nine months ended 31 December 2009) 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 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 in the consolidated income statement for the nine months ended 31 December 2009.

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

	At 31 March			At 31 December
	2007	2008	2009	2009
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At valuation:				
– Held under medium term leases				
Hong Kong	9,910	9,514	8,206	4,838
Mainland China	260,590	325,658	324,626	289,940
	270,500	335,172	332,832	294,778
– Held under long term leases				
Hong Kong	290	–	–	–
	270,790	335,172	332,832	294,778

In determining the fair values, the valuers have utilised a method of valuation which involves certain estimates. The Directors have exercised their judgement and are satisfied that the method of valuation is reflective of the current market conditions. The Group's buildings were revalued at 31 March 2007 and 2009 by Sallmanns (Far East) Limited, an independent professional valuer, on an open market basis, at approximately HK$270,790,000 and HK$332,832,000 respectively. The Group's buildings were also revalued at 31 March 2010 by Jones Lang Lasalle Sallmanns Limited, an independent professional valuer, by making reference to comparable sales transaction for similar properties as available in the relevant market. The fair value of the Group's buildings at 31 December 2009 has been estimated based on the valuations at 31 March 2010 as adjusted appropriately as if it had taken place on 31 December 2009. A revaluation surplus of approximately HK$24,925,000 at 31 March 2007 and approximately HK$1,177,000 at 31 March 2009, and a revaluation deficit of approximately HK$27,384,000 at 31 December 2009, resulting from the above valuations, have been dealt with as movement in the property revaluation reserve.

At 31 March 2007, 2008, 2009 and 31 December 2009, 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 Information at the carrying amount of approximately HK$169,150,000, HK$221,715,000, HK$220,765,000 and HK$208,948,000.

Included in the carrying amount of equipment and tools at 31 March 2007, 2008, 2009 and 31 December 2009 were assets held under finance leases with a carrying amount of approximately HK$41,324,000, HK$33,970,000, HK$21,475,000 and HK$19,864,000.

At 31 March 2007, 2008, 2009 and 31 December 2009, the Group was in the process of obtaining the building ownership certificates in respect of certain factories of the Group located in Mainland China with the carrying amounts of approximately HK$200,349,000, HK$263,355,000, HK$261,944,000 and HK$231,790,000 respectively.

At 31 March 2007, 2008, 2009 and 31 December 2009, certain of the Group's buildings with the carrying amounts of approximately HK$nil, HK$60,950,000, HK$208,059,000 and HK$182,987,000 were pledged to secure for general banking facilities granted to the Group as further detailed in note 33 to the Financial Information. Included in the carrying amounts of the Group's pledged leasehold buildings at 31 December 2009, approximately HK$5,232,000 of which 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.

20. PREPAID LEASE PAYMENTS

	At 31 March			At 31 December
	2007	**2008**	**2009**	**2009**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Carrying amount at beginning of year/period	44,798	45,159	44,250	42,000
Disposals	–	(2,068)	(2,445)	(5,622)
Amortisation of prepaid land lease payments during the year/period	(1,004)	(967)	(981)	(705)
Impairments	–	–	–	(598)
Exchange differences	1,365	2,126	1,176	16
Carrying amount at end of year/period	45,159	44,250	42,000	35,091
Current portion	(1,004)	(971)	(909)	(762)
Non-current portion	44,155	43,279	41,091	34,329

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

	At 31 March			At 31 December
	2007	**2008**	**2009**	**2009**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
– Held under medium term leases				
Hong Kong	15,613	15,227	12,437	6,632
Mainland China	27,473	29,023	29,563	28,459
	43,086	44,250	42,000	35,091
– Held under long term leases				
Hong Kong	2,073	–	–	–
	45,159	44,250	42,000	35,091

Having regard to the market conditions and the existing use of the leasehold lands, the Directors carried out a review of the recoverable amount of the Group's prepaid land lease payments as at 31 December 2009. The review led to the recognition of an impairment loss of HK$598,000 that was charged to consolidated income statement. The recoverable amount of the prepaid land lease payments has been determined on the basis of their estimated fair values.

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 2007, 2008, 2009 and 31 December 2009, these leasehold lands had an aggregate carrying amount of approximately HK$16,231,000, HK$17,225,000, HK$17,617,000 and HK$16,781,000.

At 31 March 2007, 2008, 2009 and 31 December 2009, the leasehold lands of HK$nil, HK$16,632,000, HK$42,000,000 and HK$35,091,000 are pledged for certain bank loans as further detailed in note 33 to the Financial Information. Included in the carrying amounts of the Group's pledged leasehold lands at 31 December 2009, approximately HK$1,344,000 of which 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

	Software development costs HK$'000	Trademarks HK$'000	Deferred development costs HK$'000	Total HK$'000
31 March 2007				
At 1 April 2006				
Cost	316	2,625	31,995	34,936
Accumulated amortisation and impairments	(32)	(1,509)	(16,162)	(17,703)
	284	1,116	15,833	17,233
Cost at 1 April 2006, net of accumulated amortisation and impairments	284	1,116	15,833	17,233
Additions	426	143	17,170	17,739
Amortisation provided during the year	(79)	(269)	(7,396)	(7,744)
At 31 March 2007	631	990	25,607	27,228
At 31 March 2007				
Cost	742	2,768	49,165	52,675
Accumulated amortisation and impairments	(111)	(1,778)	(23,558)	(25,447)
	631	990	25,607	27,228
31 March 2008				
Cost at 1 April 2007, net of accumulated amortisation and impairments	631	990	25,607	27,228
Additions	–	53	7,070	7,123
Amortisation provided during the year	(75)	(280)	(11,280)	(11,635)
At 31 March 2008	556	763	21,397	22,716
At 31 March 2008				
Cost	742	2,821	56,237	59,800
Accumulated amortisation and impairments	(186)	(2,058)	(34,840)	(37,084)
	556	763	21,397	22,716
31 March 2009				
Cost 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

	Software development costs	Trademarks	Deferred development costs	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
31 December 2009				
Cost 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 period	(55)	–	(5,577)	(5,632)
At 31 December 2009	–	–	–	–
At 31 December 2009				
Cost	742	2,821	60,104	63,667
Accumulated amortisation and impairments	(742)	(2,821)	(60,104)	(63,667)
Net carrying amount	–	–	–	–

During the year ended 31 March 2009 and the nine months ended 31 December 2009, the Directors considered that certain of the Group's intangible assets, with carrying amounts of HK$7,551,000 and HK$4,713,000, were impaired as the Group ceased to develop the related products. Impairment losses of HK$7,551,000 and HK$4,713,000 were charged to the consolidated income statement during the year ended 31 March 2009 and the nine months ended 31 December 2009. These impairment losses were recognised in the period in which it arises to the extent that the carrying amounts exceed their recoverable amounts on the basis of their estimated fair values.

22. INVESTMENTS IN SUBSIDIARIES

	At 31 March			At 31 December
	2007	**2008**	**2009**	**2009**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Unlisted investments, at cost	58,812	58,812	58,812	58,812
Due from subsidiaries	192,735	211,273	210,972	210,811
	251,547	270,085	269,784	269,623
Less: Impairments	–	–	(296)	(269,623)
	251,547	270,085	269,488	–

The amounts due from subsidiaries are unsecured, interest-free and not repayable within one year from the end of the reporting period. The carrying amounts of the balances with subsidiaries approximate to their amortised costs.

As at the date of this report, 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 %	Percentage of equity attributable to the Group 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 Ltd.	Hong Kong	HK$2	100	–	Inactive
Tonic Centerus Wind Energy (Holdings) Limited	BVI	US$200	100	–	Inactive
Tonic Electronics (B.V.I.) Ltd.	BVI	HK$1	100	–	Investment holding
Tonic International Investment Ltd.	BVI	US$1	–	100	Investment holding
Tonic Technology Ltd.	Hong Kong	HK$10,000	100	–	Inactive
Indirectly held					
Dongguan Gold Beam Electronics Co., Ltd.##	PRC	HK$24,527,340	–	100	Inactive
Dongguan Tonic Electronic Co., Ltd.##	PRC	HK$90,299,051	–	100	Inactive
Dongguan Xin Lian Digital Technology Co., Ltd.##	PRC	RMB56,730,488	–	100	Manufacture of electronic products
Panatone Licensing Ltd.	BVI	US$1	–	100	Inactive
Tonic Digital Products Ltd.	Hong Kong	HK$100	–	100	Inactive
Tonic DVB Marketing Ltd.	BVI/PRC	US$0.01	–	100	Trading of electronic products
Tonic Electronics Ltd.	Hong Kong	Ordinary HK$200 Non-voting deferred HK$300,000###	–	100	Inactive
Tonic Enterprises Ltd.	BVI	US$1	–	100	Inactive
Tonic International Ltd.	BVI/PRC	HK$0.01	–	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 Investment (B.V.I.) Ltd.	BVI	HK$0.01	–	100	Investment holding
Tonic Marketing Ltd.	BVI	US$0.01	–	100	Investment holding
Tonic Technology (Shenzhen) Ltd.##	PRC	RMB15,400,000	–	100	Inactive
Tonic Trading Development Ltd.	Hong Kong	HK$100	–	100	Inactive
Tonic Venture Capital Ltd.	Hong Kong	HK$1,000,000	–	100	Investment holding
TA Ltd.	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 Limited)##	PRC	RMB500,000	–	100	Inactive
Technotrend Trading Ltd.	Hong Kong	HK$10,000	–	100	Inactive

Companies incorporated subsequent to 31 December 2009

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.

23. AVAILABLE-FOR-SALE INVESTMENTS

	Group			
		At 31 March		At 31 December
	2007	2008	2009	2009
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Unlisted equity securities, at cost	24,366	24,366	24,366	24,366
Less: Impairments	(11,110)	(24,366)	(24,366)	(24,366)
	13,256	–	–	–
Club debentures, at fair value	963	–	–	–
	14,219	–	–	–

	Company			
		At 31 March		At 31 December
	2007	2008	2009	2009
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Unlisted equity securities, at cost	24,366	24,366	24,366	24,366
Less: Impairments	(11,110)	(24,366)	(24,366)	(24,366)
	13,256	–	–	–

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

The unlisted available-for-sale equity investment is stated at cost less impairments.

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

24. INVENTORIES

	Group			
		At 31 March		At 31 December
	2007	2008	2009	2009
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Raw materials	148,515	250,328	223,563	8,506
Work in progress	120,193	175,810	85,662	–
Finished goods	46,801	100,697	44,607	48
	315,509	526,835	353,832	8,554

25. ACCOUNTS AND BILLS RECEIVABLES

	Group			
		At 31 March		At 31 December
	2007	2008	2009	2009
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Accounts receivables	186,348	195,589	78,674	33,119
Bills receivables	12,814	12,135	–	–
	199,162	207,724	78,674	33,119
Less: Impairments *(note 12)*	–	–	(10,179)	(32,975)
	199,162	207,724	68,495	144

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 end of each reporting period, based on the invoice date, is as follows:

	Group			
				At
		At 31 March		31 December
	2007	**2008**	**2009**	**2009**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
30 days or less	125,828	126,393	45,221	144
31 days to 60 days	10,098	32,993	7,948	–
61 days to 90 days	47,828	16,950	11,192	–
Over 90 days	15,408	31,388	4,134	–
	199,162	207,724	68,495	144

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

Included in the provision for impairment of accounts and bills receivables are individually impaired accounts receivables of HK$nil, HK$nil, HK$10,179,000 and HK$32,975,000 with an equivalent gross amount at 31 March 2007, 2008, 2009 and 31 December 2009. 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 end of each reporting period that are not considered to be impaired is as follows:

	Group			
				At
		At 31 March		31 December
	2007	**2008**	**2009**	**2009**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Neither past due nor impaired	128,333	129,252	62,878	144
Less than 30 days	19,001	35,693	2,321	–
30 to 90 days past due	51,828	42,779	2,494	–
Over 90 days past due	–	–	802	–
	199,162	207,724	68,495	144

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			
		At 31 March		At 31 December
	2007	2008	2009	2009
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Factored accounts receivables	–	118,451	53,394	19,691
Less: Impairments	–	–	–	(19,691)
	–	118,451	53,394	–

At 31 March 2008, 2009 and 31 December 2009, the Group factored trade receivables of HK$118,451,000, HK$53,394,000 and HK$19,691,000 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 end of each reporting period is as follows:

	Group			
		At 31 March		At 31 December
	2007	2008	2009	2009
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
30 days or less	–	40,172	23,493	–
31 days to 60 days	–	31,231	7,276	–
61 days to 90 days	–	36,728	12,993	–
Over 90 days	–	10,320	9,632	–
	–	118,451	53,394	–

There was a provision for individually impaired factored accounts receivables of HK$19,691,000 with an equivalent gross amount at 31 December 2009. 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 end of each reporting period that are not considered to be impaired is as follows:

	Group			
		At 31 March		At 31 December
	2007	**2008**	**2009**	**2009**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Neither past due nor impaired	–	90,176	43,763	–
Less than 30 days	–	28,275	6,995	–
30 to 90 days past due	–	–	–	–
Over 90 days past due	–	–	2,636	–
	–	118,451	53,394	–

27. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group			
		At 31 March		At 31 December
	2007	**2008**	**2009**	**2009**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Prepayments	23,424	18,396	13,843	8,912
Deposits and other receivables	38,348	2,946	8,133	3,520
	61,772	21,342	21,976	12,432
Less: Impairments	–	–	(5,558)	(9,432)
	61,772	21,342	16,418	3,000

The carrying amounts of the Group's prepayments, deposits and other receivables approximate to their fair values

Included in the impairment recognised in respect of prepayments, deposits and other receivables are individually impaired deposits and other receivables with an aggregate amount of approximately HK$5,558,000 and HK$9,432,000 with an equivalent gross amount at 31 March 2009 and 31 December 2009. 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			
		At 31 March		At 31 December
	2007	**2008**	**2009**	**2009**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Listed equity investments in Hong Kong, at fair value	10,512	4,080	2,592	4,944

The above equity investments at 31 March 2007, 2008, 2009 and 31 December 2009 were classified as held for trading. The fair values of the listed equity investments are based on quoted market prices.

29. DERIVATIVE FINANCIAL INSTRUMENTS

	Group			
		At 31 March		At 31 December
	2007	2008	2009	2009
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Forward currency contracts	1,582	(3,325)	382	–

Forward currency contracts with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market bid prices and ask prices. The carrying amounts of the forward currency contracts approximate 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/(losses) of non-hedging currency derivatives credited/(charged) to the consolidated income statement for the years ended 31 March 2007, 2008, 2009 and the nine months ended 31 December 2009 are anlaysed follows:

		Year ended 31 March		Nine months ended 31 December
	2007	2008	2009	2009
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Net gains/(losses) charged/credited to consolidated income statement	1,600,000	(3,300,000)	400,000	786

At 31 March 2007, 2008, 2009 and 31 December 2009, the Group had outstanding forward currency contracts with an aggregate notional amount of approximately HK$662 million, HK$502 million, HK$162 million and HK$nil 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 2007, 2008, 2009 and 31 December 2009, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted approximately to HK$14,807,000, HK$4,919,000, HK$12,091,000 and HK$871,000. 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 each reporting period, based on the invoice date, is as follows:

	Group			
		At 31 March		At 31 December
	2007	2008	2009	2009
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
30 days or less	111,368	230,043	123,488	32,566
31 days to 60 days	44,628	66,951	24,509	26,959
61 days to 90 days	44,869	67,128	7,346	6,160
Over 90 days	87,543	143,734	186,679	267,777
	288,408	507,856	342,022	333,462

32. ACCRUED LIABILITIES AND OTHER PAYABLES

	Group			
		At 31 March		At 31 December
	2007	2008	2009	2009
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Deferred income	4,062	4,191	4,396	–
Other payables	2,643	6,179	10,418	20,785
Accruals	59,153	42,773	28,734	54,341
	65,858	53,143	43,548	75,126

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

33. BORROWINGS

			Group			
				At 31 March		At 31 December
	Effective interest rate	Maturity	2007	2008	2009	2009
	(%)		*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Current						
Finance lease payables *(note 34)*	1.5	March 2010	10,640	8,234	6,681	3,387
Bank overdrafts – secured#	5	On demand	–	4,299	10,615	9,648
Bank factored loans#	1.45-2.34	On demand	–	118,451	53,394	14,641
Trust receipt loans#	1.4-2.34	On demand	229,007	180,671	104,612	100,904
Bank loans – unsecured	1.63	February 2011##	133,464	–	–	10,695
Bank loans – secured	1.54-4.04	January – March 2010##	–	109,979	154,625	143,585
Bank loans – secured	2.1	January 2010 – April 2011##	–	–	7,500	9,000
Other loan – secured	7.11	January – December 2010	–	–	–	9,072
			373,111	421,634	337,427	300,932

	Effective interest rate	Maturity	Group			
				At 31 March		At 31 December
			2007	2008	2009	2009
	(%)		HK$'000	HK$'000	HK$'000	HK$'000
Non-current						
Finance lease payables *(note 34)*	–	–	15,653	6,891	–	–
Bank loans – secured	–	–	141,132	89,795	12,395	–
Other loan – secured	7.11	January 2011 – March 2011	–	–	48,749	69,174
			156,785	96,686	61,144	69,174
			529,896	518,320	398,571	370,106

\# *At at 31 December 2009, 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 bank overdrafts, trust receipt loans, bank factored loans and bank loans of HK$9,648,000, HK$100,904,000, HK$14,641,000 and HK$38,540,000, respectively, as at 31 December 2009. Due to the Group's non-compliance of the covenant requirements, all these banks borrowings became due for repayment on demand as at 31 December 2009. In addition, the non-current portion of bank loans of HK$10,348,000 as at 31 December 2009, with original maturity terms between January 2011 and April 2011, was also classified as current as at 31 December 2009. Subsequent to the end of the reporting period 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			
		At 31 March		At 31 December
	2007	2008	2009	2009
	HK$'000	HK$'000	HK$'000	HK$'000
Analysed into:				
Bank loans repayable:				
– Within one year or on demand	362,471	413,400	330,746	288,473
– In the second year	92,632	38,508	4,023	–
– In the third to fifth years, inclusive	48,500	51,287	8,372	–
	503,603	503,195	343,141	288,473
Finance lease payables *(note 34)*				
– Within one year	10,640	8,234	6,681	3,387
– In the second year	8,417	6,841	–	–
– In the third to fifth years, inclusive	7,236	50	–	–
	26,293	15,125	6,681	3,387
Other borrowings repayable:				
– Within one year	–	–	–	9,072
– Beyond one year	–	–	48,749	69,174
	–	–	–	78,246
	529,896	518,320	398,571	370,106

At 31 March 2008, 2009 and 31 December 2009, all the Group's bank borrowings were secured by a corporate guarantee granted by the Company, cross-corporate guarantees granted by certain subsidiaries and the Company, and mortgages over certain of the Group's buildings and prepaid land lease payments which had an aggregate carrying amount at 31 March 2008, 2009 and 31 December 2009 of approximately HK$60,950,000, HK$208,059,000, HK$182,987,000 and HK$16,632,000, HK$42,000,000 and HK$35,091,000. As disclosed in note 43 to the Financial Information, under the terms of the Group's general banking facilities, 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.

34. FINANCE LEASE PAYABLE

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

	Group			
		At 31 March		At 31 December
	2007	**2008**	**2009**	**2009**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Minimum lease payments				
Amounts payable				
– Within one year or on demand	11,904	8,885	6,948	3,407
– In the second year	9,096	7,050	–	–
– In the third to fifth years, inclusive	7,506	51	–	–
Total minimum finance lease payments	28,506	15,986	6,948	3,407
Future finance charges	(2,213)	(861)	(267)	(20)
Total net finance lease payables	26,293	15,125	6,681	3,387
Portion classified as current liabilities	(10,640)	(8,234)	(6,681)	(3,387)
Non-current portion	15,653	6,891	–	–
Amounts payable				
– Within one year or on demand	10,640	8,234	6,681	3,387
– In the second year	8,417	6,841	–	–
– In the third to fifth years, inclusive	7,236	50	–	–
	26,293	15,125	6,681	3,387

35. AMOUNTS DUE TO DIRECTORS

The amounts due to directors are unsecured, interest free and have no fixed terms of repayment. The carrying amounts of balances with the directors approximate to their amortised costs.

36. FINANCIAL GUARANTEE LIABILITIES

At 31 December 2009, as disclosed in note 43 to the Financial Information, the Company has given corporate guarantees to certain banks to secure for general banking facilities of approximately HK$786,169,000 to its subsidiaries, and approximately HK$160,969,000 of which were utilised by the subsidiaries as at that date. As disclosed in note 2 and 33 to the Financial Information, 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$160,969,000 for the Company has been made against the banking facilities utilised by the subsidiaries under the guarantees as at 31 December 2009.

37. DEFERRED TAX LIABILITIES

The movements in deferred tax liabilities and assets during the Relevant Periods are as follows:

	Group			
	Accelerated tax depreciation	**Development costs**	**Revaluation of properties**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Deferred tax liabilities	19,224	1,349	12,420	32,993
At 1 April 2006				
Charged to income statement for the year	2,891	1,593	–	4,484
Deferred tax debited to other comprehensive income:				
– Surplus on revaluation	–	–	3,120	3,120
– Change in tax rate	–	–	15,253	15,253
– Exchange differences	–	–	593	593
At 31 March 2007 and 1 April 2007	22,115	2,942	31,386	56,443
Credited to income statement for the year	(2,972)	(582)	(7)	(3,561)
Exchange differences	–	–	2,427	2,427
At 31 March 2008 and 1 April 2008	19,143	2,360	33,806	55,309
Credited to income statement for the year	(2,411)	(865)	(309)	(3,585)
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 period	(12,993)	(1,495)	–	(14,488)
Deferred tax debited to other comprehensive income:				
– Release on disposal	–	–	(624)	(624)
– Deficit on revaluation	–	–	(6,901)	(6,901)
– Exchange differences	–	–	7	7
At 31 December 2009	3,739	–	27,738	31,477

Deferred tax assets

	Losses available for offset against future taxable profits	**Others**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
At 1 April 2006	3,117	364	3,481
(Charged)/credited to income statement for the year	(322)	643	321
At 31 March 2007 and 1 April 2007	2,795	1,007	3,802
Credited to income statement for the year	(2,795)	(144)	(2,939)
At 31 March 2008 and 1 April 2008	–	863	863
Credited to income statement for the year	–	(863)	(863)
At 31 March 2009, 1 April 2009 and 31 December 2009	–	–	–

	At 31 March			**At 31 December**
	2007	**2008**	**2009**	**2009**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Net deferred tax liabilities	52,641	54,446	53,483	31,477

At 31 March 2007, 2008, 2009 and 31 December 2009, the Group has tax losses arising in Hong Kong of approximately HK$38,459,000, HK$47,031,000, HK$91,518,000 and HK$92,210,000 that are available indefinitely, for offsetting against future taxable profits of the companies in which the losses arose. At 31 March 2007, 2008, 2009 and 31 December 2009, the Group also has tax losses arising in Mainland China of approximately HK$5,095,000, HK$10,636,000, HK$65,009,000 and HK$8,015,000 that will expire in one to five years for offsetting against future taxable profit. In the opinion of the Directors, it is not probable that the subsidiaries will have sufficient future taxable profits against which those losses can be utilised. Accordingly, deferred tax assets have not been recognised in respect of these losses.

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 2007, 2008, 2009 and 31 December 2009, 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. In the opinion of the Directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future. At 31 December 2009, there was no significant unrecognised deferred tax liability for taxes that would be payable on the unremitted earnings of the Group's subsidiaries as the Group has no liability to additional tax should such amounts be remitted.

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

38. SHARE CAPITAL

		COMPANY			
			At 31 March		At 31 December
	Note	2007	2008	2009	2009
Authorised:					
Number of ordinary shares	*(i)*	1,200,000,000	1,200,000,000	3,000,000,000	3,000,000,000
Par value, HK$		0.10	0.10	0.10	0.10
Amount, HK$'000		120,000	120,000	300,000	300,000
Issued and fully paid:					
Number of ordinary shares		952,889,962	1,057,889,962	1,057,889,962	1,057,889,962
Par value, HK$		0.10	0.10	0.10	0.10
Amount, HK$'000		95,289	105,789	105,789	105,789

The following is a summary of the above movements in the issued share capital:

	Notes	Number of shares in issue	Issued share capital *HK$000*	Share premium account *HK$000*	Total *HK$000*
At 1 April 2006, 31 March 2007 and 1 April 2007		952,889,962	95,289	59,098	154,387
Issue of shares	*(ii), 40*	105,000,000	10,500	12,390	22,890
Share issue expenses	*40*	–	–	(100)	(100)
At 31 March 2008, 31 March 2009, and 31 December 2009		1,057,889,962	105,789	71,388	177,177

(i) 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 180,000,000 additional shares of HK$0.10 each, ranking pari passu in all respects with the existing share capital of the Company.

(ii) On 13 November 2007, the Company entered into a share subscription agreement with CorporActive Fund Limited, a third party company, for the subscription of 105,000,000 new ordinary shares of the Company of HK$0.10 each at the price of HK$0.218 per share. 105,000,000 shares of HK$0.10 each of the Company were issued and cash proceeds of HK$22,890,000, net of share issue expenses of HK$100,000, were received by 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 years ended 31 March 2007, 2008, 2009 and the nine months ended 31 December 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 end of each reporting period were as follows:

	Group			
		At 31 March		**At 31 December**
	2007	**2008**	**2009**	**2009**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Interest-bearing bank and other borrowings	529,896	518,320	398,571	370,106
Less: Cash and bank balances	(92,698)	(31,031)	(36,758)	(1,245)
Net debt	437,198	487,289	361,813	368,861
Capital	541,370	561,750	386,680	(400,212)
Gearing ratio	80.8%	86.7%	93.6%	N/A#

As the Group had a net deficiency in capital at 31 December 2009, 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 10 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/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 date of this report, 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 Relevant Periods:

	Weighted average exercise price per share	**Number of option**
	HK$	*'000*
At 1 April 2006, 31 March 2007 and 1 April 2007	0.467	65,175
Lapsed during the year	0.467	(8,355)
At 31 March 2008 and 1 April 2008	0.467	56,820
Lapsed during the year	0.467	(9,690)
At 31 March 2009 and 1 April 2009	0.467	47,130
Lapsed during the period	0.467	(9,225)
At 31 December 2009	0.467	37,905

The exercise prices and exercise periods of the share options outstanding at end of reporting period are as follows:

	Number of options	**Exercise price***	**Exercise period**
	'000	*HK$ per share*	
At 31 March 2007	65,175	0.467	10/04/2000 – 09/04/2010
At 31 March 2008	56,820	0.467	10/04/2000 – 09/04/2010
At 31 March 2009	47,130	0.467	10/04/2000 – 09/04/2010
At 31 December 2009	37,905	0.467	10/04/2000 – 09/04/2010

* *The exercise price of the share options is subject to adjustment in case of rights or bonus issues, or other similar changes in the Company's share capital.*

At 31 March 2007, 2008, 2009 and 31 December 2009, the Company had 65,175,000, 56,820,000, 47,130,000 and 37,905,000 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 65,175,000, 56,820,000, 47,130,000 and 37,905,000 additional shares totalling HK$6,517,500, HK$5,682,000, HK$4,713,000 and HK$3,790,500, and share premium of HK$23,919,000, HK$20,853,000, HK$17,297,000 and HK$13,911,135 (before issue expenses).

At the date of approval of the Financial Information, the Company had 37,905,000 share options outstanding under the Option Scheme, which represented approximately 3.6% 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 Relevant Periods are presented in the consolidated statement of changes in equity of the Financial Information.

(b) Company

	Note	**Share premium account** *HK$'000*	**Contributed reserve** *HK$'000*	**Retained profits** *HK$'000*	**Total** *HK$'000*
At 1 April 2006		59,098	58,794	11,743	129,635
Profit for the year		–	–	40,007	40,007
Proposed final 2007 dividend		–	–	(9,529)	(9,529)
At 31 March 2007 and 1 April 2007		59,098	58,794	42,221	160,113
Issue of shares	*38*	12,390	–	–	12,390
Share issue expenses	*38*	(100)	–	–	(100)
Loss for the year		–	–	(7,978)	(7,978)
At 31 March 2008 and 1 April 2008		71,388	58,794	34,243	164,425
Loss for the year		–	–	(597)	(597)
At 31 March 2009 and 1 April 2009		71,388	58,794	33,646	163,828
Loss for the period		–	–	(430,595)	(430,595)
At 31 December 2009		71,388	58,794	(396,949)	(266,767)

(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 Information.

(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 Information.

41. DISPOSAL OF A SUBSIDIARY

On 28 November 2007, the Group entered into a disposal agreement to dispose of its entire interest in Tonic Appliances Limited ("TAL"), a wholly-owned subsidiary of the Group to a third party company, for a cash consideration of HK$5.6 million. The transaction was completed on 21 December 2007.

	HK$'000
Net assets disposed of:	
Accounts and bills receivable	2,424
Prepayments, deposits and other receivable	2,569
Cash and bank balances	1,085
Accounts payables	(9)
Accrued liabilities and other payables	(1,967)
Interest-bearing bank and other borrowings	(414)
	3,688
Gain on disposal of a subsidiary *(note 9)*	1,922
	5,610
Satisfied by:	
Cash	5,610
An analysis of the net inflow of cash and cash equivalents in respect of the disposal of a subsidiary is as follows:	
Cash consideration	5,610
Cash and bank balances disposed of	(1,085)
Net inflow of cash and cash equivalents in respect of the disposal of a subsidiary	4,525

42. MAJOR NON-CASH TRANSACTION

(a) During the years ended 31 March 2007, 2008 and 2009, deposits for the acquisition of items of property, plant and equipment of HK$31,014,000, HK$5,457,000, HK$2,346,000 were utilised as part of the considerations paid for the purchases of items of property, plant and equipment.

(b) During the year ended 31 March 2007, the Group entered into finance lease arrangement in respect of property, plant and equipment with a total capital value at the inception of leases of HK$1,246,000.

(c) During the year ended 31 March 2007, the Group disposed of certain items of property, plant and equipment for a consideration of HK$8,842,000. The amount was recorded as an other receivable at its amortised cost of HK$8,842,000 at 31 March 2007 and was subsequently settled during the year ended 31 March 2008.

(d) During the nine months ended 31 December 2009, 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 and compensation payables of the Group. Further details of which are included in note 19 to the Financial Information.

43. CONTINGENT LIABILITIES

At end of each reporting period, contingent liabilities not provided for in the Financial Information were as follows:

				At
		At 31 March		**31 December**
	2007	**2008**	**2009**	**2009**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
(a) Group				
Shipping guarantees	10,294	1,643	2,523	–
(b) Company				
Guarantees for general banking facilities of subsidiaries*	1,466,339	1,388,027	785,206	–

* At 31 March 2007, 2008, 2009 and 31 December 2009, HK$529,896,000, HK$518,320,000, HK$349,822,000 and HK$160,969,000 of the general banking facilities were utilised by the subsidiaries. At 31 December 2009, a provision for financial guarantee liabilities of approximately HK$160,969,000 has been made against the banking facilities utilised by the subsidiaries under the guarantees. Further details of which are included in note 36 to the Financial Information.

44. LEASE COMMITMENTS

The Group leases certain of its buildings under operating lease arrangements, with leases negotiated for terms ranging from one to ten years. At end of each reporting period, the Group had total future minimum lease receivables under noncancellable operating leases with its tenants falling due as follows:

		At 31 March		At 31 December
	2007	**2008**	**2009**	**2009**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
– within one year	1,076	1,076	1,076	1,076
– in the second to fifth year inclusive	4,304	4,304	4,304	4,304
– in more than five years	3,587	2,511	1,435	628
	8,967	7,891	6,815	6,008

45. CAPITAL COMMITMENTS

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

		At 31 March		At 31 December
	2007	**2008**	**2009**	**2009**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Contracted, but not provided for equipment and tools	53	590	53	–

46. LITIGATIONS

Up to the date of this report, a number of lawsuits and claims were lodged against certain subsidiaries of the Group which remain outstanding as follows:

(a) Gold Beam Development 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 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$85,987 (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, Skytec (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$1,122,862 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 December 2009. The hearing of the winding-up petition is scheduled to be held in the High Court of Hong Kong on 30 June 2010.

(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 summons in the District Court of Hong Kong against TEL, in respect of transportation services in the amount of RMB876,596 together with interest and costs.

(e) 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 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.

(f) 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 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.

(g) 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.

(h) 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.

(i) Dongguan Tonic Electronic Co., Ltd. ("Dongguan TEL") and Tonic Electronics Limited

Civil petitions

(i) 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 Tonic Electronics Limited (東力電子有限公司) and Dongguan TEL seeking a judgment on an outstanding sum of RMB1,571,852 together with interest thereon in relation to the goods supplied and the cost of legal proceedings. Two factories of Dongguan TEL in Dongguan have been sequestrated.

(j) 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 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 instalment 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.

(k) Tonic Electronics Limited and 東莞塘廈鎮石潭布東輝電子廠 (Dongguan Tangxia Town Shitanpu Donghui Electronics Factory*)

(i) 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 Tonic Electronics Limited and 東莞塘廈鎮石潭布東輝電子廠 (Dongguan Tangxia Town Shitanpu Donghui Electronics Factory*) seeking a judgment on an outstanding sum of RMB16,228.13 together with interest of RMB1,125 thereon in relation to the goods supplied.

(l) 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 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 will be 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 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.

(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 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.

(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 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 will be commenced on 1 July 2010 but judgment is yet to be made by the court.

(m) 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. H.S.P. 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)

(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.

* *The English name is transliteration only.*

At 31 December 2009, trade and other payables of approximately HK$96 million have been recorded for the above litigations. As at the date of approval of the Financial Information, the 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.

47. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances detailed elsewhere in the Financial Information, the Group had the following related party and connected transactions during the Relevant Periods:

(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:

	Year ended 31 March			Nine months ended 31 December	
	2007	2008	2009	2008	2009
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(unaudited)	
Short term employee benefits	14,394	13,239	12,727	10,332	6,297
Post-employment benefits	580	560	455	356	226
Total compensation paid to key management personnel	14,974	13,799	13,182	10,688	6,523

Further details of directors' emoluments are included in note 14 to the Financial Information.

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

48. EVENTS AFTER THE REPORTING PERIOD

The Company received a Standstill Letter dated 15 January 2010 from certain bank creditors ("Bank Creditors") of the Company that, in order to facilitate the proposed restructuring and to communicate a positive message to the stakeholders of the Group, in principle, each of the bank creditors will not make demand (or further demand) or take any other action (or seek further security) against the Retained Group. The Standstill Letter may be terminated by 5 days written notice by the majority in number of such bank creditors. The Standstill Letter is however without prejudice to any Bank Creditors rights to withdraw at any time from discussion with the Group on any restructuring and upon such withdrawal, any Bank Creditor is entitled to make demand and enforce any of its rights under the existing facilities.

On 27 January 2010, the Company announced the Restructuring Proposal in relation to the debt restructuring of the Group. 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 Announcement.

(a) The Company proposed the Capital Reorganisation comprising the Capital Reduction, Share Sub-division and the Share Consolidation through (i) reduction of the par value of each issued Share from HK$0.10 to HK$0.001 by the cancellation of HK$0.099 of the paid-up capital on each issued Share; (ii) sub-division of each authorised but unissued Shares with a par value of HK$0.10 each into 100 Share with a par value of HK$0.001 each; and (iii) consolidation of every 10 issued and unissued Shares with a par value of HK$0.001 each into one Share of HK$0.01 each.

(b) 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 of the Company at par value of HK$0.010 each at a Subscription Price of approximately HK$0.0879 per Subscription Share, resulting in a cash consideration of HK$80 million for eventual distribution to the Creditors.

(c) 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 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 realisation for the benefits of the Creditors. If the Creditor Scheme is effective upon completion of the Restructuring Proposal, the Scheme Subsidiaries will be deconsolidated subsequently.

The consolidated statements of financial position as at the end of each reporting period, the consolidated income statements, consolidated statements of comprehensive income and the consolidated statements of cash flows of the Scheme Subsidiaries during the Relevant Periods are set out as follows:

(i) Consolidated statements of financial position of the Scheme Subsidiaries

		As at 31 March		As at 31 December
	2007	**2008**	**2009**	**2009**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Non-current assets				
Property, plant and equipment	477,222	476,743	378,648	204,482
Prepaid lease payments	28,195	26,280	23,761	17,835
Intangible assets	26,597	22,159	9,863	–
Available-for-sale investments	963	–	–	–
Non-current portion of an other receivable	4,780	2,470	–	–
Non-current portion of loans receivable	94	–	–	–
Deposits for acquisition of items of property, plant and equipment	4,976	2,399	53	–
	542,827	530,051	412,325	222,317
Current assets				
Inventories	262,955	526,824	347,088	8,554
Accounts and bills receivables	175,093	185,244	58,768	101
Factored accounts receivables	–	118,451	53,394	–
Current portion of loans receivable	188	94	–	–
Prepayments, deposits and other receivables	56,607	20,253	15,167	2,716
Prepaid lease payments	733	745	622	474
Equity investments at fair value through profit or loss	10,512	4,080	2,592	4,944
Derivative financial instruments	1,582	–	382	–
Current tax assets	263	–	–	1,931
Cash and bank balances	52,908	27,565	26,548	1,057
Amounts due from Retained Group	307,264	305,931	420,594	388,536
	868,105	1,189,187	925,155	408,313

	As at 31 March			As at 31 December
	2007	2008	2009	2009
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Current liabilities				
Amounts due to Retained Group	287,381	350,345	356,056	363,170
Accounts payables	235,564	477,328	335,090	333,292
Accruals and other payables	40,339	43,022	42,450	62,883
Borrowings	353,048	413,650	337,426	291,860
Derivative financial instruments	–	3,325	–	–
Amounts due to directors	–	–	–	2,419
Current tax liabilities	5,411	18,617	21,008	13,418
	921,743	1,306,287	1,092,030	1,067,042
Net current liabilities	(53,638)	(117,100)	(166,875)	(658,729)
Total assets less current liabilities	489,189	412,951	245,450	(436,412)
Non-current liabilities				
Borrowings	156,554	56,711	12,395	–
Deferred tax	42,713	44,811	42,946	24,825
	199,267	101,522	55,341	24,825
NET ASSETS/(LIABILITIES)	289,922	311,429	190,109	(461,237)
Capital and reserves				
Share capital	310	310	320	320
Reserves	289,612	311,119	189,789	(461,557)
TOTAL EQUITY	289,922	311,429	190,109	(461,237)

(ii) Consolidated income statements and statements of comprehensive income of the Scheme Subsidiaries

	Year ended 31 March			Nine months ended 31 December	
	2007	**2008**	**2009**	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
CONTINUING OPERATIONS					
Turnover	2,219,407	2,101,532	2,082,750	1,842,101	472,522
Cost of sales	(2,116,433)	(1,947,127)	(2,040,584)	(1,844,812)	(496,596)
Gross profit/(loss)	102,974	154,405	42,166	(2,711)	(24,074)
Other income	25,462	148	32,947	21,648	4,753
Selling expenses and distribution costs	(5,445)	(3,375)	(2,700)	(2,865)	(991)
Administrative expenses	(65,010)	(60,277)	(81,342)	(30,661)	(85,879)
Fair value gains/(losses) on equity investments at fair value through profit or loss	–	(6,432)	(1,488)	(816)	2,352
Provision for impairment of assets	–	–	(55,599)	(11,843)	(128,333)
Provision against inventories and loss on auctions of sequestrated inventories	(1,830)	(2,436)	(10,981)	(6,745)	(414,658)
Professional expenses on aborted projects	–	(21,326)	–	–	–
Profit/(loss) from operation	56,151	60,707	(76,997)	(33,993)	(646,830)
Finance costs	(29,625)	(33,862)	(22,640)	(17,399)	(12,410)
Profit/(loss) before tax	26,526	26,845	(99,637)	(51,392)	(659,240)
Income tax	(6,758)	(13,174)	118	33	15,169
Profit/(loss) for the year/period from continuing operation	19,768	13,671	(99,519)	(51,359)	(644,071)
DISCONTINUED OPERATION					
Profit/(loss) for the year/period from discontinued operation	–	3,260	(22,289)	(22,289)	–
Profit/(loss) for the year/period	19,768	16,931	(121,808)	(73,648)	(644,071)
Exchange differences on translating foreign operations	10,786	4,576	928	646	636
Changes in property revaluation reserves	(7,788)	–	(450)	(450)	(8,194)
Total comprehensive income for the year/period, net of tax	22,766	21,507	(121,330)	(73,452)	(651,629)

(iii) Consolidated statements of cash flows of the Scheme Subsidiaries

	Year ended 31 March			Nine months ended 31 December	
	2007	**2008**	**2009**	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Cash flows from operating activities					
Profit/(loss) before tax					
From continuing operation	26,526	26,845	(99,637)	(51,392)	(659,240)
From discontinued operation	–	3,993	(21,980)	(21,980)	–
Adjustments for:					
Finance costs	29,625	33,983	22,879	17,638	12,410
Bank interest income	(964)	(603)	(150)	(86)	(70)
Dividend income from listed investment	(134)	(153)	(143)	(143)	(167)
(Gain)/loss on disposal of items of property, plant and equipment	(8,871)	3,968	(29,886)	(29,212)	42,948
Fair value losses/(gains), net:					
Equity investment at fair value through profit or loss	(8,964)	6,432	1,488	816	(2,352)
Derivative financial instruments – forward currency contract, net	(1,582)	3,325	(382)	(2,724)	–
Depreciation	60,237	65,244	55,845	38,796	27,072
Provision against inventories and loss on auctions of sequestrated inventories	1,830	2,436	10,981	6,745	414,658
Amortisation of prepaid land lease payments	734	704	695	507	462
Amortisation of intangible assets	7,665	11,391	8,655	8,041	5,577
Provision for impairment of assets	–	–	65,795	5,098	128,333
Operating profit/(loss) before working capital changes	106,102	157,565	14,160	(27,896)	(30,369)
Change in inventories	55,701	(266,305)	168,755	212,023	(76,124)
Change in accounts and bills receivables	83,262	(10,151)	113,739	(239,453)	26,762
Change in factored accounts receivable	–	(118,451)	(53,394)	118,451	33,703
Change in prepayments, deposits and other receivables	(42,106)	37,991	1,997	(91,151)	3,773
Change in accounts payables	(160,876)	229,792	(151,872)	28,251	(1,415)
Change in accruals and other payables	(21,728)	2,682	(562)	28,742	20,433
Cash generated from/(used in) operation	20,355	33,123	92,823	28,967	(23,237)
Interest received	964	603	150	86	70
Interest paid	(27,766)	(32,638)	(22,285)	(17,593)	(12,314)
Interest element on finance lease rental payment	(1,859)	(1,345)	(594)	(45)	(96)
Hong Kong profits tax refund/(paid)	2,854	(52)	(55)	(55)	(8,611)
Oversea taxes paid	(240)	(672)	–	–	(232)
Net cash generated from/(used in) operating activities	(5,692)	(981)	70,039	11,360	(44,420)

	Year ended 31 March			Nine months ended 31 December	
	2007	2008	2009	2008	2009
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Cash flows from investing activities					
Dividends received from listed investment	134	153	143	143	167
Purchase of items of property, plant and equipment	(39,348)	(42,157)	(12,974)	(9,908)	(23,324)
Proceeds from disposal of items of property, plant and equipment	539	6,848	35,619	34,788	57,611
Proceeds from disposal of an equity investment at fair value through profit and loss	8,832	–	–	–	–
Proceeds from disposal of an available-for-sale investment	–	963	–	–	–
Additions to intangible assets	(17,313)	(6,813)	(3,867)	(3,081)	–
Decrease in loans receivable	188	188	93	93	–
Deposits for acquisition of items of property, plant and equipment	(4,826)	(2,346)	–	–	–
Net cash generated from/(used in) investing activities	(51,794)	(43,164)	19,014	22,035	34,454
Cash flows from financing activities					
Increase/(decrease) in trust receipt loans	33,157	(45,783)	(46,059)	1,333	(3,708)
New bank loans	132,769	149,134	178,101	–	12,000
Repayment of bank loans	(90,290)	(135,956)	(132,002)	(127,142)	(62,026)
Capital element of finance lease rental payment	(9,789)	(10,856)	(8,445)	(5,043)	(3,294)
Advances from the directors	–	–	–	–	2,419
Net advances from/(to) Retained Group	(17,688)	58,080	(88,081)	93,305	39,885
Net cash generated from/(used in) financing activities	48,159	14,619	(96,486)	(37,547)	(14,724)
Net decrease in cash and cash equivalents	(9,327)	(29,526)	(7,433)	(4,152)	(24,690)
Cash and cash equivalents at beginning of year/period	61,464	52,405	23,266	23,266	15,933
Effect of changes in foreign exchange rate	268	387	100	102	166
Cash and cash equivalents at end of year/period	52,405	23,266	15,933	19,216	(8,591)
Analysis of cash and cash equivalents					
Cash and bank balances	52,908	27,565	26,548	28,969	1,057
Bank overdrafts, secured	(503)	(4,299)	(10,615)	(9,753)	(9,648)
	52,405	23,266	15,933	19,216	(8,591)

49. RE-PRESENTATION OF PRIOR PERIOD FIGURES

The Group has re-presented certain figures of the comparative consolidated income statements for the years ended 31 March 2007, 2008 and 2009 and the relevant explanatory notes in relation to the discontinued operation of the Group's home appliances products division.

50. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company or any of its subsidiaries in respect of any period subsequent to 31 December 2009.

2. INDEBTEDNESS

As at the close of business on 30 April 2010, being the latest practicable date for the purpose of ascertaining information contained in the indebtedness statement prior to the printing of this Circular, the total outstanding borrowings and payables of the Group approximately amounted to HK$821 million, comprising the secured and unsecured bank borrowings of approximately HK$249 million and HK$25 million, a secured and unsecured other borrowings of approximately HK$129 million and HK$5 million, finance lease payables of approximately HK$3 million, amounts due to directors of approximately HK$1 million, trade and other payables of approximately HK$409 million. The secured borrowings of the Group, in aggregrate, of approximately HK$378 million were secured or guaranteed by:

(i) first legal charges over certain leasehold lands and buildings of the Group with the carrying amounts of approximately HK$6.6 million and HK$4.8 million respectively;

(ii) the mortgages over certain leasehold lands and buildings of the Group with the carrying amounts of approximately HK$286 million and HK$28 million respectively;

(iii) the pledges over certain equipment and tools of the Group with the carrying amount of approximately HK$19 million;

(iv) the all monies debenture executed by certain subsidiaries of the Company;

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

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

(vii) the corporate guarantees executed by the Company and cross guarantees between certain subsidiaries of the Company to secure for the general banking facilities granted to certain subsidiaries of the Group.

As at the close of business on 30 April 2010, the Group had the following contingent liabilities:

(i) the Company has given corporate guarantees to certain banks to secure for the general banking facilities of approximately HK$786 million granted to certain subsidiaries of the Company, approximately HK$249 million of which were utilised by these subsidiaries as at 30 April 2010.

(ii) as disclosed in note 46 to the Financial Information in Appendix I of this Circular, a number of lawsuits and claims arising from the normal course of business were lodged against certain subsidiaries of the Group, and remained outstanding as at 30 April 2010 and up to the date of this Circular. 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 defense 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. 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 Group.

Save as aforesaid or as otherwise disclosed herein, and apart from intra-group liabilities, the Group did not have outstanding at the close of business on 30 April 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 April 2010.

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

3. FINANCIAL AND TRADING PROSPECTS

The Group will continue its existing principal businesses of manufacture and trading of consumer electronic products. As stated in the 2009 Interim Report, the Group continued to be affected by the looming global financial crisis. Sales of the Group for the six months ended 30 September 2009, especially export sales to markets in Europe and Americas plunged by 82% and working capital pressure increased against the credit crunch. In addition, the United States government stopped subsidizing consumers in purchasing digital set top boxes and that further dampened sales of set top boxes to the market.

The Group has a solid foundation in the electronic industry with establishment for more than three decades. While the Company has spent the past several months working closely at the Restructuring Proposal, the Company has found all of its stakeholders, including customers, suppliers, bankers and employees being supportive to the Group and the management has worked diligently and effectively within its businesses.

The Company strives to move beyond the issues in recent months and restore itself to a healthy position. With the successful implementation of the Restructuring Proposal, all Claims against the Company will be released and discharged. Although the Group is still operating under a difficult environment, the management of the Group is committed to maintain the business and operations with the continuing support of various stakeholders. Focus of the group is placed on managing cash flow and working capital and implementing short-term operation improvements, including identifying cheaper sourcing and reducing overheads. The management of the Group is confident that the Group will be able to turnaround and survive despite the existing challenging economic climate.

4. FINANCIAL INFORMATION ON THE RETAINED GROUP

Liquidity, financial and capital structure

Assuming the Restructuring Proposal had taken place on 31 December 2009, all claims of the Company would be discharged and released on 31 December 2009. Other than accounts payable, accruals and other payables and current tax liabilities of approximately HK$12.9 million, borrowing of approximately HK$148.2 million and deferred tax of approximately HK$6.7 million, the Retained Group would not have any other debts as at 31 December 2009.

The Retained Group would have net current liabilities of approximately HK$21.4 million as at 31 December 2009. Equity attributable to equity holders of the Company would amount to approximately HK$86.2 million as at 31 December 2009. Gearing ratio of the Retained Group (defined as total borrowings less cash and bank balances divided by equity) was 0.91 as at 31 December 2009.

The Retained Group was largely financed by (i) the other loan amounting to approximately HK$78.2 million as at 31 December 2009, which was secured, bearing an effective interest rate of approximately 7.11%, and repayable beyond one year; and (ii) the unsecured interest-free loan in an aggregate principal amount of HK$30 million and the secured interest-bearing short term loan in an aggregate principal amount of HK$40 million to be made available by the Subscriber to GGP.

The working capital pressure of the Group has been lessened upon the receipt of such proceed from the Subscriber. Upon the receipt of the proceed of the Facility, the operation level of the Group has been recovering. The Group had received confirmed orders of manufacturing of set top boxes which amounted to over HK$10 million in April and May 2010.

Pledge of assets

As at 31 December 2009, the Retained Group has pledged certain of its lands and buildings with the carrying amounts of approximately HK$136,791,000 to secure for the other loan.

Capital commitments and contingent liabilities

As at 31 December 2009, the Retained Group would have no capital commitments.

As at 31 December 2009, a provision for financial guarantee liabilities of approximately HK$160,969,000 has been made against the banking facilities utilised by the subsidiaries under the guarantees. Save as above, the Retained Group would have no contingent liabilities.

Treasury policy

The Retained Group has transactional currency exposures. Such exposures arise from a substantial portion of sales or purchases by operating units in RMB. The Retained Group constantly reviews the economic situation and its foreign currency risk profile, and considers implementing appropriate hedging measures in future as the need arises.

As at 31 December 2009, the Retained Group did not have any effective facilities in entering into hedging contracts for currency as well as interest rate exposure.

Employee information

As at 31 December 2009, the Retained Group had approximately 606 employees.

The total remuneration for the period ended 31 December 2009 was approximately HK$15.68 million. Employee remuneration packages were maintained at competitive levels and employees were rewarded on a performance-related basis.

Significant investments held, material acquisition or disposal of subsidiaries or associates

The Retained Group did not have any significant investments held, material acquisition or disposal of subsidiaries or associates during the period ended 31 December 2009.

It is the intention of the Subscriber 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 Subscriber). As at the Latest Practicable Date, the Subscriber 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.

5. WORKING CAPITAL

The Directors are of the opinion that, upon successful implementation of the Restructuring Proposal, after taking into account the financial resources, including part of the working capital from the Facility as set out on page 32 and its internally generated funds arising from the future business development as set out on page 62, the Retained Group has sufficient working capital to meet its present requirements.

6. MATERIAL CHANGE

Save as (i) the disclaimer of conclusion expressed by the Company's auditors in respect of the Group's financial information for the nine months ended 31 December 2009 as set out in the Appendix I to the Circular; (ii) the financial difficulties encountered by the Group as disclosed in the relevant announcements of the Company published since 24 July 2009 (being the date of the publication of its annual report for the year ended 31 March 2009); (iii) the uncertainties relating to the possible outcome of the litigations as set out in the section headed "Litigations" in Appendix I to the Circular; (iv) the significant drop in the Group's turnover since 1 January 2010; and (v) the ongoing net-liabilities financial position of the Group, the Board confirms that there is no material change in the financial or trading position or outlook of the Group since 31 December 2009 (the date to which the latest audited consolidated financial statements of the Group were made up) to and including the Latest Practicable Date.

7. PROPERTY INTERESTS AND PROPERTY VALUATION

The Group's property interests that are attributable to equity holders of the Company as valued by Jones Lang Lasalle Sallmanns Limited, an independent property valuer, as at 31 March 2010 was HK$369,260,000. There is a net revaluation surplus, representing the excess market value of the properties over their net carrying amounts of approximately HK$42,533,000 (after adjusting for depreciation and amortisation during the period from 31 December 2009 to 31 March 2010). See Appendix III to this Financial Information for further details of the property interests and the text of the letter and valuation report of these property interests prepared by the property valuer.

Disclosure of the reconciliation between the valuation of the interests in properties attributable to equity holders of the Company as at 31 March 2010 and such property interests in the Group's consolidated statement of financial position as at 31 December 2009 as required under Rule 5.07 of Listing Rules is set forth below:

	HK$'000
Net carrying amounts of property interests of the Group as at 31 December 2009	
Buildings	294,778
Prepaid land lease payments	35,091
	329,869
Movements for the period from 31 December 2009 to 31 March 2010	
Less: depreciation during the period (unaudited)	(2,948)
Less: amortisation during the period (unaudited)	(194)
Net carrying amounts of property interests of the Group as at 31 March 2010 (unaudited)	326,727
Valuation surplus (unaudited)	42,533
Valuation of property interests of the Group as at 31 March 2010 (unaudited)	369,260
Comprising:	
Property interests of the Group with proper title certificates	124,660
Property interests of the Group without proper title certificates	244,600
	369,260

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)			99,637		(493,512)
			(200)					
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 Limted, 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

The following is the text of a letter, summary of values and valuation certificates, 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 31 March 2010 of the property interests of the Group.

JONES LANG LASALLE® SALLMANNS

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

28 June 2010

The Board of Directors
Tonic Industries Holdings Limited
Unit B, 10th Floor
Summit Building
30 Man Yue Street
Hung Hom
Kowloon
Hong Kong

Dear Sirs,

In accordance with your instructions to value the properties in which Tonic Industries Holdings Limited (the "Company") and its subsidiaries (hereinafter together referred to as the "Group") have interests in Hong Kong and 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 values of the property interests as at 31 March 2010 (the "date of valuation").

Our valuation of the property interests 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".

We have valued the property interests in Group I and property no. 7 in Group II by direct comparison approach assuming sale of the property interest in its existing state with the benefit of immediate vacant possession and by making reference to comparable sales transactions as available in the relevant market.

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 interests of property nos. 4, 5 and 6 in Group II have been valued on the basis of their depreciated replacement cost.

Depreciated replacement cost is defined as "the current cost of replacement replacing an asset with its modern equivalent 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 interests 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 values of the property interests.

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

In valuing the property interests of the Group in Hong Kong held under the Government Leases expiring before 30th June, 1997, we have taken into account the stipulations contained in Annex III of the Joint Declaration of the Government of the United Kingdom and the Government of the People's Republic of China on the question of Hong Kong and the New Territories Leases (Extension) Ordinance 1988 that such leases have been extended without premium until 30th June, 2047 and that a rent of three per cent of the then ratable value is charged per annum from the date of extension.

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 (6th Edition) 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 not been provided with copies of title relating to the property interests and have caused searches to be made at the Hong Kong Land Registries. However, we have not searched the original documents to verify the ownership or to ascertain any amendment.

We have been shown copies of various title documents including State-owned Land Use Rights Certificates, Building Ownership Certificates and official plans relating to the property interests and have made relevant enquiries. Where possible, we have examined the original documents to verify the existing title to the property interests in the PRC and any material encumbrance that might be attached to the property interests 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 interests in the PRC.

We have not carried out detailed measurements to verify the correctness of the areas in respect of the properties 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 properties. 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 properties are 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 Hong Kong at the amount of market value comprise Hong Kong corporate profit tax of 16.5% with effect from the year of assessment 2008/09. Further, as advised by the Group, since the Group has no intention to dispose of its property interests in Hong Kong, it is unlikely that such potential tax liabilities arising from the disposal of the subject properties will be crystallized in the near future.

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 property Nos. 4, 5 and 7 of Group II might be intended for sale, it is likely that such potential tax liabilities arising from the disposal of the subject properties will be crystallized in the near future. For the property No. 6 of Group II, the likelihood of the potential tax liability 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=RMB0.88 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 in the Asia-Pacific region.

SUMMARY OF VALUES

Group I – Property interests owned and occupied by the Group in Hong Kong

No.	**Property**	**Capital value in existing state as at 31 March 2010** *HKD*
1.	Unit B 10th Floor Summit Building No. 30 Man Yue Street and Nos. 21-23 Tai Wan Road Hung Hom Kowloon Hong Kong	20,500,000
2.	Lorry Parking Spaces Nos. 7, 8, 9 and 10 1st Floor Summit Building No. 30 Man Yue Street and Nos. 21-23 Tai Wan Road Hung Hom Kowloon Hong Kong	2,000,000
3.	Private Car Parking Spaces Nos. 10, 14, 21 and 22 in Basement Summit Building No. 30 Man Yue Street and Nos. 21-23 Tai Wan Road Hung Hom Kowloon Hong Kong	1,600,000
	Sub-total:	24,100,000

GROUP II – Property interests held and occupied by the Group in The PRC

No.	Property	Capital value in existing state as at 31 March 2010 *HKD*
4.	A factory complex located at Zhenhua Industrial District Qishi Town Dongguan City Guangdong Province The PRC	28,590,000
5.	A factory complex located at Jiangyuan Road Shitanpu Administrative Zone Tangxia Town Dongguan City Guangdong Province The PRC	59,870,000
6.	A factory complex located at The Industrial Area No. Two in Huangjiabo Village Dongguan City Guangdong Province The PRC	No commercial value
7.	Unit A805 Tiananchuangxin Technology Square Futian District Shenzhen City Guangdong Province The PRC	12,100,000
	Sub-total:	100,560,000
	Total:	124,660,000

VALUATION CERTIFICATE

Group I – Property interests owned and occupied by the Group in Hong Kong

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 March 2010 *HKD*
1.	Unit B 10th Floor Summit Building No. 30 Man Yue Street and Nos. 21-23 Tai Wan Road Hung Hom Kowloon Hong Kong (15,098/43,5384th share of Section A and B of Sub-section 1 of Section F; Sub-section 2 and 3 of Section F; and the Remaining Portion of Section G of Kowloon Marine Lot No. 40)	The property comprises an industrial unit on 10th floor of a 14-storey (including a basement) industrial building completed in 1976. The saleable area of the property is approximately 1,164.44 sq.m. (12,534 sq.ft.). The property is held from the Government for a common term of 75 years commencing from 15 September 1897 renewable for a further term of 75 years. The current total Government rent payable for Section A and B of Sub-section 1 of Section F, Sub-section 2 and 3 of Section F, and the Remaining Portion of Section G of Kowloon Marine Lot No. 40 is HKD3,456 per annum.	The property is currently vacant expect portions are occupied by the Group for storage with ancillary office purposes.	20,500,000

Notes:

1. The registered owner of the property is Tonic Electronics Limited vide Memorial No. 7206058 dated 27 July 1989.

2. Tonic Electronics Limited is a wholly-owned subsidiary of the Company.

3. The property is subject to a Deed of Mutual Covenant vide Memorial No. 1328438 dated 29 November 1976 and re-registered vide Memorial No. 2062751 dated 29 November 1976.

4. The property is subject to a Management Agreement in favour of Goodyear Property Management Limited "The Property Manager" vide Memorial No. 1328439 dated 29 November 1976.

5. The property is subject to a Memorandum of Deposit of Title Deeds and Undertaking to secure the general banking facilities in favour of Hang Seng Bank Limited vide Memorial No. 09013001760196 dated 31 December 2008.

6. The property is subject to a Mortgage into secure general banking facilities to extent of HKD432,836,000 and USD42,500,000 in favour of Hang Seng Bank Limited vide Memorial No. 09071003020220 dated 9 July 2009.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 March 2010 *HKD*
2.	Lorry Parking Spaces Nos. 7, 8, 9 and 10 1st Floor Summit Building No. 30 Man Yue Street and Nos. 21-23 Tai Wan Road Hung Hom Kowloon Hong Kong (3,568/43,5384th share of Section A and B of Sub-section 1 of Section F of Kowloon Marine Lot No. 40; Sub-section 2 and 3 of Section F of Kowloon Marine Lot No. 40; and the Remaining Portion of Section G of Kowloon Marine Lot No. 40)	The property comprises 4 lorry parking spaces on 1st floor of a 14-storey (including a basement) industrial building completed in 1976. The property is held from the Government for a common term of 75 years commencing from 15 September 1897 renewable for a further term of 75 years. The current total Government rent payable for Section A and B of Sub-section 1 of Section F of Kowloon Marine Lot No. 40, Sub-section 2 and 3 of Section F of Kowloon Marine Lot No. 40, and the Remaining Portion of Section G of Kowloon Marine Lot No. 40 is HKD72 per annum.	The property is currently occupied by the Group for lorry parking purpose.	2,000,000

Notes:

1. The registered owner of the property is Tonic Electronics Limited vide the following Memorial Nos.:

   Lorry Car Parking Space No. 7 – Memorial No. 3500829 dated 28 August 1987;

   Lorry Car Parking Space Nos. 8 & 9 – Memorial No. 3222785 dated 19 November 1986; and

   Lorry Car Parking Space No. 10 – Memorial No. 7206057 dated 27 July 1989.

2. Tonic Electronics Limited is a wholly owned subsidiary of the Company.

3. The property is subject to a Deed of Mutual Covenant vide Memorial No. 1328438 dated 29 November 1976 and re-registered vide Memorial No. 2062751 dated 29 November 1976.

4. The property is subject to a Management Agreement in favour of Goodyear Property Management Limited “The Property Manager” vide Memorial No. 1328439 dated 29 November 1976.

5. The property is subject to a Second Mortgage to secure all moneys in respect of general banking facilities in favour of Hang Seng Bank Limited vide Memorial No. 09071402860594 dated 13 July 2009.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 March 2010 *HKD*
3.	Private Car Parking Spaces Nos. 10, 14, 21 and 22 in Basement Summit Building No. 30 Man Yue Street and Nos. 21-23 Tai Wan Road Hung Hom Kowloon Hong Kong (1,720/43,5384th share of Section A and B of Sub-section 1 of Section F of Kowloon Marine Lot No. 40; Sub-section 2 and 3 of Section F of Kowloon Marine Lot No. 40; and the Remaining Portion of Section G of Kowloon Marine Lot No. 40)	The property comprises 4 private car parking spaces on basement of a 14-storey (including a basement) industrial building completed in 1976. The property is held from the Government for a common term of 75 years commencing from 15 September 1897 renewable for a further term of 75 years. The current total Government rent payable for Section A and B of Sub-section 1 of Section F of Kowloon Marine Lot No. 40, Sub-section 2 and 3 of Section F of Kowloon Marine Lot No. 40, and the Remaining Portion of Section G of Kowloon Marine Lot No. 40 is HKD72 per annum.	The property is currently occupied by the Group for car parking purpose.	1,600,000

Notes:

1. The registered owner of the property is Tonic Electronics Limited vide the following Memorial Nos.:

   Car Parking Space No. 10 – Memorial No. 4680875 dated 17 December 1990;

   Car Parking Space No. 14 – Memorial No. 4077913 dated 24 April 1989; and

   Car Parking Space Nos. 21 & 22 – Memorial No. 3500829 dated 28 August 1987.

2. Tonic Electronics Limited is a wholly owned subsidiary of the Company.

3. The property is subject to a Deed of Mutual Covenant vide Memorial No. 1328438 dated 29 November 1976 and re-registered vide Memorial No. 2062751 dated 29 November 1976.

4. The property is subject to a Management Agreement in favour of Goodyear Property Management Limited "The Property Manager" vide Memorial No. 1328439 dated 29 November 1976.

5. The property is subject to a Second Mortgage to secure all moneys in respect of general banking facilities in favour of Hang Seng Bank Limited vide Memorial No. 09071402860594 dated 13 July 2009.

VALUATION CERTIFICATE

Group II – Property interests held and occupied by the Group in the PRC

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 March 2010 *HKD*
4.	A factory complex located at Zhenhua Industrial District Qishi Town Dongguan City Guangdong Province The PRC	The property comprises a factory complex with 8 buildings and ancillary structures erected on a rectangular-shaped site with a site area of approximately 12,036.4 sq.m. (129,560 sq.ft.). The buildings have a total gross floor area of approximately 33,138.97 sq.m. (356,708 sq.ft.). The major buildings of the complex were completed in various stages between 1993 and 2000 and include a main factory with east and west wings, a PCB factory, a factory building, a dormitory, a power generation and maintenance room, a canteen, a store room and a guard room. Other structures and facilities include a sewage treatment plant, a water boiler room, a dangerous goods warehouse, a basketball court and some simplified factories. The land use rights of the property have been granted to the Group for a term expiring on 11 July 2045 for industrial use.	The property is currently vacant.	28,590,000

Notes:

1. Pursuant to a State-owned Land Use Rights Certificate, Dong Fu Guo Yong (1995) Zi Di Te No. 244 dated 20 September 1998, the land use rights of the property with a site area of approximately 12,036.4 sq.m. have been granted to Dongguan Goldbeam Electronics Limited, a wholly-owned subsidiary of the Company, for a term expiring on 11 July 2045 for industrial use.

2. Pursuant to 5 Real Estate Ownership Certificates, 5 buildings of the property with a total gross floor area of approximately 32,382.05 sq.m. are owned by Dongguan Goldbeam Electronics Limited. Details of the certificates are summarised as follows:

No.	Real Estate Ownership Certificate Number	Name of Building	Date of Issue	Gross Floor Area *(sq.m.)*
1	Yue Fang Di Zheng Zi No. 1481307	PCB Factory	29 September 1998	2,246.40
2	Yue Fang Di Zheng Zi No.1481306	Main Factory	29 September 1998	19,224.00
3	Yue Fang Di Zheng Zi No. 1481305	Dormitory	29 September 1998	4,320.00
4	Yue Fang Di Zheng Zi No. 1481309	Power Generation and Maintenance Room	29 September 1998	807.65
5	Yue Fang Di Zheng Zi No. 2933945	New Factory	1 December 2000	5,784.00

3. For the remaining 3 buildings (a canteen, a store and a guard room) of the property with a total gross floor area of approximately 756.92 sq.m., we have not been provided with any proper title certificates. 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 buildings as at the date of valuation would be HKD320,000 assuming all of the relevant title certificates have been obtained and the buildings 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. The Group has legally obtained the land use rights and the ownership rights of the buildings mentioned in notes 1, 2 and 3;

   b. The property is subject to a Mortgage in favour of Dongguan Branch – China CITIC Bank for a amount of RMB33,830,027 with the security term from 25 March 2010 to 24 March 2015;

   c. For the land use rights of the property and the ownership rights of the buildings which are subject to mortgage mentioned above, the Group should obtain prior written consent from the mortgagee when transferring re-mortgaging or otherwise disposing of such land use rights and ownership rights of the buildings; and

   d. For the remaining 3 buildings mentioned in note 3, the Group does not have the right to use, transfer and mortgage such buildings unless relevant titles and ownership certificates are granted from the relevant department of the government. There is no legal impediment for the Group to obtain relevant title certificates.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 March 2010 *HKD*
5.	A factory complex located at Jiangyuan Road Shitanpu Administrative Zone Tangxia Town Dongguan City Guangdong Province The PRC	The property comprises a factory complex with 17 buildings and ancillary structures erected on 2 parcels of land with a total site area of approximately 69,307.08 sq.m. The buildings have a total gross floor area of approximately 177,352.89 sq.m. (1,914,347 sq.ft.). The major buildings of the complex were completed in various stages between 1992 and 2002 and include 9 factory buildings, 5 dormitory blocks, 2 guardhouses and a sub-station. Other structures and facilities include a bathroom, a hot water pool, a water tower, a well and a basketball court. The land use rights of 2 parcels of the land of the property have been granted to the Group for terms expiring on 27 January 2044 and 24 March 2055 respectively for industrial use.	The property is currently vacant.	59,870,000

Notes:

1. Pursuant to a State-owned Land Use Rights Certificate, Dong Fu Guo Yong (1994) Di Te No. 382 , the land use rights of a portion of the land of the property with a site area of approximately 50,752.28 sq.m. have been granted to Dongguan Tonic Electronics Company Limited, a wholly-owned subsidiary of the Company, for a term of 50 years expiring on 27 January 2044 for industrial use.

2. Pursuant to a State-owned Land Use Rights Certificate, Dong Fu Guo Yong (2005) Zi Di Te No. 1623 , the land use rights of a portion of the land of the property with a site area of approximately 18,554.80 sq.m. have been granted to Dongguan Tonic Electronics Company Limited, a wholly-owned subsidiary of the Company, for a term expiring on 24 March 2055 for industrial use.

3. Pursuant to 8 Building Ownership Certificates, 8 buildings of the property with a total gross floor area of approximately 56,953.89 sq.m. are owned by Dongguan Tonic Electronics Company Limited. Details of the certificates are summarised as follows:

No.	Building Ownership Certificate Number	Name of Building	Date of Issue	Gross Floor Area *(sq.m.)*
1	Yue Fang Zi No. 0518969	Dormitory Block No. 1	1 September 1993	3,258.75
2	Yue Fang Zi No. 0518970	Dormitory Block No. 2	1 September 1993	3,258.75
3	Yue Fang Zi No. 0518971	Factory Block No. 2	1 September 1993	5,529.88
4	Yue Fang Zi No. 0518973	Factory Block No. 1	1 September 1993	5,529.88
5	Yue Fang Zi No. 0518974	Factory Block No. 4	1 September 1993	5,529.88
6	Yue Fang Zi No. 0518975	Factory Block No. 3	1 September 1993	5,529.88
7	Yue Fang Zi No. 0384198	Dormitory Block No. 3	30 December 1995	3,129.95
8	Yue Fang Zi No. 0384199	Factory Block No. 5	30 December 1995	25,186.92

4. For the remaining 9 buildings of the property with a total gross floor area of approximately 120,399 sq.m., we have not been provided with any proper title certificates. Therefore, we have attributed no commercial value to these 9 buildings. However, for reference purpose of our valuation, we are of the opinion that the capital value of these 9 buildings (excluding the land) as at the date of valuation would be HKD100,580,000 assuming all relevant title certificates have been obtained and they can be freely transferred.

5. 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. The Group has legally obtained the land use rights and the ownership rights of the buildings mentioned in notes 1, 2 and 3. There is no legal impediment for the Group to obtain remaining title certificates for the remaining 9 buildings mentioned in note 4.

   b. The property is subject to mortages in favour of Dongguan Branch – China CITIC Bank with the security term from 29 December 2008 to 4 January 2015.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 March 2010 *HKD*
6.	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 116,217.09 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 pacel 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 exclude leased land of 4,800 sq.m. as at the date of valuation would be HKD133,400,000 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.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 March 2010 *HKD*
7.	Unit A805 Tiananchuangxin Technology Square Futian District Shenzhen City Guangdong Province The PRC	The property comprises a unit on the 8th floor of a 19-storey office building completed in about 2002. The property has a gross floor area of approximately 822.92 sq.m. (8,858 sq.ft.). The land use rights of the property have been granted for a term of 50 years expiring on 15 November 2038.	The property is currently vacant.	12,100,000

Notes:

1. Pursuant to a Real Estate Ownership Certificate – Shen Fang Di Zi Di No. 3000212985 dated 27 October 2003 issued by the Planning and State-owned Land Resources Administrative Bureau, an unit with a gross floor area of approximately 822.92 sq.m. is owned by Tonic Technology (Shenzhen) Limited ("Tonic Shenzhen") (東力科技(深圳)有限公司) , a wholly-owned subsidiary of the Company, together with the land use rights for a term of 50 years expiring on 15 November 2038.

2. 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 Shenzhen City Real Estate Charging Document (Filing) list (深圳市房地產查封(備案)表), the property owned by Tonic Shenzhen is subject to various Charging Orders issued by Shenzhen City Futian District People's Court with details as follows;

      i. Pursuant to a Charging Document – (2009) Shen Fu Fa Min Er Chu Zi Di No. 5151 (2009深福法民二初字第5151號) dated 5 November 2009, the property is subject to a Charging order issued by Shenzhen City Futian District People's Court.

      ii. Pursuant to a Charging Document – (2009) Shen Fu Fa Min Er Chu Zi Di No. 5186 (2009深福法民二初字第5186號) dated 24 November 2009, the property is subject to a Charging order in waiting 1st Priority issued by Shenzhen City Futian District People's Court.

      iii. Pursuant to a Charging Document – (2009) Shen Fu Fa Min Er Chu Zi Di No. 5126 (2009深福法民二初字第5126號) dated 14 December 2009, the property is subject to a Charging order in waiting 2nd Priority issued by Shenzhen City Futian District People's Court.

      iv. Pursuant to a Charging Document – (2010) Shen Fu Fa Min Er Chu Zi Di No. 630 (2010深福法民二初字第630號) dated 14 December 2009, the property is subject to a Charging order in waiting 3rd Priority issued by Shenzhen City Futian District People's Court.

      v. Pursuant to a Charging Document – (2009) Dan Hou Min Er Chu Zi Di No. 16 (2009丹後民二初字第16號) dated 14 December 2009, the property is subject to a Charging order in waiting 4th Priority issued by Jiangsu Province Danyang City People's Court.

vi. Pursuant to a Charging Document – (2010) Shen Fu Fa Min Er Chu Zi Di No. 525 (2010深福法民二初字第525號) dated 24 December 2009, the property is subject to a Charging order in waiting 5th Priority issued by Shenzhen City Futian District People's Court.

vii. Pursuant to a Charging Document – (2010) Shen Fu Fa Min Er Chu Zi Di No. 1029 (2010深福法民二初字第1029號) dated 28 December 2009, the property is subject to a Charging order in waiting 6th Priority issued by Shenzhen City Futian District People's Court.

b. If all the Charging orders are discharged by the court, afterward Tonic Shenzhen has rights to lease, transfer, mortgage or otherwise disposing of the property without legal impediment.

1. RESPONSIBILITY STATEMENTS

This circular includes particulars given in compliance with the Takeovers Code and the Listing Rules for the purpose of giving information with regard to the Group.

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

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

2. SHARE CAPITAL

The authorised and issued share capital of the Company as at 31 March 2009 (being the latest financial year end of the Company), the Latest Practicable Date and immediately after Completion will be as follows:

Authorised:		*HK$*
3,000,000,000	Existing Shares of HK$0.10 each as at 31 March 2009 and the Latest Practicable Date	300,000,000
27,000,000,000	Capital Reorganisation	–
30,000,000,000	New Shares of HK$0.01 each upon completion of the Capital Reorganisation	300,000,000
Issued and fully paid:		
1,057,889,962	Existing Shares as at 31 March 2009 and the Latest Practicable Date	105,788,996.20
(952,100,967)	Capital Reorganisation	(104,731,106.25)
909,785,366	Subscription Shares to be issued	9,097,853.66
52,894,498	Remuneration Shares to be issued	528,944.98
1,068,468,859	New Shares upon Completion	10,684,688.59

The New Shares after Capital Reorganisation, the Subscription Shares and the Remuneration Shares to be allotted and issued will be identical 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 2009 (being the latest financial year end of the Company) until the Latest Practicable Date:

	As at 31 March 2009	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 circular pursuant to the requirements of the Takeovers Code:

(i) 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)*	618,492,476	58.46
Li Fung Ching, Catherine	Personal	2,142,000	0.20
Wong Ki Cheung	Personal	1,749,000	0.16
Cheng Tsang Wai	Personal	1,626,000	0.15

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.

(ii) Associated corporation

As at the Latest Practicable Date, Mr. Ling personally held 3,000 non-voting deferred shares of HK$100 each of Tonic Electronics Limited, a subsidiary of the Company.

Save as disclosed above, as at 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 2009 (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.

(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 Shares Long position	Number of Shares Short position	Percentage of holding
Success Forever Limited	*1*	Directly beneficially owned	618,492,476 Existing Shares	–	58.46%
Skill China Limited	*2*	Beneficial interest	909,785,366 New Shares	–	86.0%

Notes:

1. The entire issued share capital of Success Forever Limited is beneficially owned by Mr. Ling Siu Man, Simon, as disclosed in the section "Disclosure of interests" in this Appendix.

2. The interest represents 909,785,366 New Shares to be subscribed by the Subscriber under the Subscription Agreement. The Subscriber is wholly-owned by Sinogrand Group Limited which in turn is owned (i) as to 59.5% by Jointprofit Limited, a company wholly-owned by Dr. So; (ii) as to 39.5% by Greatkind Limited, a company wholly-owned by Mr. Ge Zhang; and (iii) as to 1% by Cheergreat Limited, a Company wholly-owned by the family trust of Mr. Chan Wai Dune, of which Mr. Chan Wai Dune is one of the beneficiaries.

Save as disclosed above and the Subscriber's interest in the Shares pursuant to the Subscription Agreement, 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) As at the Latest Practicable Date, no Shares had been borrowed or lent by any of the Directors or by the Company.

(c) 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 Subscription and/or the Whitewash Waiver or otherwise connected with any of them.

(d) 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.

(e) As at the Latest Practicable Date, no person has irrevocably committed themselves to vote for or against the resolutions to be proposed at the EGM. Four Directors, namely, Mr. Ling Siu Man, Simon, Mr. Wong Ki Cheung, Ms. Li Fung Ching, Catherine and Mr. Cheng Tsang Wai have expressed their intention, in respect of their own beneficial shareholdings, to vote for the resolutions to be proposed at the EGM. As at the Latest Practicable Date, the other Directors did not have any Shares and thus will not be entitled to vote on the resolutions to be proposed at the EGM.

(f) As at the Latest Practicable Date, no benefit will be or have been given to any Director as compensation for loss of office or otherwise in any members of the Group in connection with the Subscription and/or the Whitewash Waiver.

(g) 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 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 Subscriber 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 Subscription and/or the Whitewash Waiver.

(j) Save as the Subscriber's interest in the Shares pursuant to the Subscription Agreement and the Schemeco's interest in the Shares pursuant to the Creditor Scheme, none of the Subscriber, 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 Subscriber 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 Subscriber or parties acting in concert with it.

(m) As at the Latest Practicable Date, the Subscriber 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. No person with whom the Subscriber or parties acting in concert with it or its associates had any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code owned or controlled any Shares, convertible securities, warrants, options or derivatives of the Company as at the Latest Practicable Date.

(n) As at the Latest Practicable Date, none of the Company or the Directors holds any shares, convertible securities, warrants, options or derivatives of the Subscriber. During the Relevant Period, none of the Company or the Directors had dealt in any shares, convertible securities, warrants, options or derivatives of the Subscriber.

(o) As at the Latest Practicable Date, save for the transfer of the Option Shares by the Subscriber to the Schemeco and the Put Option Agreement for the purposes of the Creditor Scheme, there was no agreement, arrangement or understanding between the Concert Group and other persons in relation to the transfer, charge or pledge of the Shares to be issued to the Concert Group.

6. MARKET PRICES

(a) The highest and lowest closing prices of the Existing Shares as quoted on the Stock Exchange in the Relevant Period was HK$0.219 on 4 September 2009 and HK$0.1 on 15, 17 and 18 June 2010, respectively.

(b) The table below sets out the closing prices of the Existing 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 Existing Shares took place:

Date	**Closing Price** *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

(c) The closing price of the Existing 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 Existing Shares on the Stock Exchange on 14 January 2010, being the last trading day pending the issue of the Joint Announcement was HK$0.169.

(e) The closing price of the Existing Shares on the Stock Exchange on the Latest Practicable Date was HK$0.101.

7. LITIGATION

(a) Gold Beam Development 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 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$85,987 (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$1,122,862 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 (the "Winding-up Petition") was filed against Tonic Electronics Limited ("TEL"), a wholly owned subsidiary of the Company, by an ex-employee of TEL claiming for payment in the aggregate sum of HK$1,235,810.61 together with interest thereon from TEL as stated in the award obtained by Ng Hing Wing (the "Ex-employee") and other ex-employees against TEL on 26 January 2010. The unsettled amount of HK$1,235,810.61 is yet to be paid and was fully accrued in other payables as at 31 December 2009. The hearing of the Winding-up Petition is scheduled to be held in the High Court of Hong Kong on 30 June 2010.

TEL is a limited company incorporated in Hong Kong and a wholly-owned subsidiary of the Company. TEL was engaged in, among other things, overseas trading of electronic products with customers in US and Europe. However, its operation completely ceased in November 2009. The Board has proposed a settlement plan to the Ex-employee for settlement of the unsettled amount by instalments. However, the settlement plan was rejected by the Ex-employee. The Board is in negotiations with the Ex-employee to reach an accommodation.

As mentioned in the Company's announcement dated 10 January 2010, the Group's business strategy is to focus on domestic sales and to operate in an optimum scale. Due to the cessation of the overseas trading business, the Board considers that the filing of Winding-up Petition against TEL does not have a material adverse impact on the operations of the Group. As TEL is not a member of the Retained Subsidiaries, the Board considers that the filing of Winding-up Petition against TEL does not have a material adverse impact on the restructuring of the Group. The major assets of TEL are the principal office of the Company in Hung Hom (the "Office") and the car parks in the same building. The Office has been charged under the bank loan from Hang Seng Bank. The Company has secured a tenancy of another office located in Hung Hom. The Board expects that a provision will be made in the consolidated financial results of the Group mainly due to an asset impairment loss in respect of the Group's interests in TEL.

(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 summons in the District Court of Hong Kong against TEL, in respect of transportation services in the amount of RMB876,596 together with interest and costs.

(e) 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 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.

(f) 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 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.

(g) 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.

(h) 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.

Tonic Technology (Shenzhen) Ltd. ("TTLSZ") and Dongguan Tonic Electronic Co., Ltd. ("Dongguan TEL"), being two Scheme Subsidiaries, have suspended their businesses since December 2009. Up to the Latest Practicable Date, certain of the Group's suppliers (the "Creditors") brought the legal actions in the local PRC courts against TTLSZ and Dongguan TEL (collectively the "Defendants") for approximately RMB25,081,571 (approximately HK$28,442,502) and approximately RMB19,144,496 (approximately HK$21,709,858), being the outstanding balances of goods sold and services delivered to the Defendants up to 31 December 2009 together with interest, further and/or other relief and cost. Out of all the claimants, certain Creditors have been applying court orders to freeze the major assets of the Defendants. According to the updates from their PRC legal advisors, the major assets of the Defendants, including, but not limited to, bank balances, land and buildings with the equivalent value of approximately RMB9,066,306 (approximately HK$10,281,191) against TTLSZ and approximately RMB1,992,416 (approximately HK$2,259,400) against Dongguan TEL have been frozen or sequestrated. Further details of these legal actions are set out below.

(a) Dongguan Tonic Electronic Co., Ltd. ("Dongguan TEL") and Tonic Electronics Limited

(i) 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 Tonic Electronics Limited (東力電子有限公司) and Dongguan TEL seeking a judgment on an outstanding sum of RMB1,571,852 together with interest thereon in relation to the goods supplied and the cost of legal proceedings. Two factories of Dongguan TEL in Dongguan have been sequestrated.

(b) 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 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 instalment 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.

(c) Tonic Electronics Limited and 東莞塘廈鎮石潭布東輝電子廠 (Dongguan Tangxia Town Shitanpu Donghui Electronics Factory*)

(i) 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 Tonic Electronics Limited 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.

(d) 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 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 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 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.

(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 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.

(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 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.

(e) 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.

(f) 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.

* *The English name is transliteration only. Please confirm official English name if any.*

As at 31 December 2009, trade and other payables of approximately HK$96 million have been recorded for the outstanding litigations of the Group as per management accounts of the Group. Such accrual covered all claims arising from the Litigations and the litigations set out in this section (except for the litigation initiated by Thomson Hong Kong Holdings Limited against the Company, TEL and TTDL, which is considered having a defense to the claim). The parties are to attend to resolve interlocutory matters before the cases are to be fixed. The Group has also been in discussion and negotiations 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.

Save for (i) the litigation initiated by Thomson Hong Kong Holdings Limited, a former customer of the Company, against the Company (which is a member of the Retained Group), TEL and TTDL on 11 November 2008 in respect of disputes relating to, inter alia, goods returned for refund by Thomson Hong Kong Holdings Limited, claiming damages in the sum of US$4,289,664.15 (approximately HK$33,244,897.16) together with interest; and (ii) the litigations against Dongguan Xin Lian Digital Technology Co., Ltd. (東莞鑫聯數碼科技有限公司), details of which have been disclosed above, there is no other litigation proceeding filed against any members of the Retained Group as at the Latest Practicable Date. One litigation against Dongguan Xin Lian Digital Technology Co., Ltd. (東莞鑫聯數碼科技有限公司) has reached a civil mediation agreement, while the outstanding sum of the other four litigations against Dongguan Xin Lian Digital Technology Co., Ltd. (東莞鑫聯數碼科技有限公司) only amounted to approximately RMB946,000, the impact of which is considered immaterial to the Retained Group.

Saved as disclosed above, neither the Company nor any of its 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 Loan Agreement (as amended by the supplemental loan agreement dated 24 June 2010);

(e) the Share Charge;

(f) the Debenture;

(g) the subscription agreement dated 22 July 2009 (and supplemented by the supplemental agreement dated 24 July 2009) between the Company, Success Forever, 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 Existing Shares at the price of HK$0.155 per Share, which was terminated on 28 October 2009; and

(h) the sale and purchase agreement dated 16 June 2008 entered into between Tonic Electronics Limited (a wholly-owned subsidiary of the Company) 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. EXPERTS

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

Name	Qualification
ANDA CPA Limited	Certified Public Accountants
Access Capital Limited	a corporation licensed under the SFO to conduct 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

As at the Latest Practicable Date, none of ANDA CPA Limited, Access Capital Limited, Jones Lang LaSalle Sallmanns and Jianda Law Firm 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 2009 (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 Limited, Access Capital Limited, Jones Lang LaSalle Sallmanns and Jianda Law Firm has given and has not withdrawn their respective written consents to the issue of this circular 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 Unit B, 10th Floor, Summit Building, 30 Man Yue Street, Hung Hom, Kowloon, Hong Kong.

(c) The registered office of (i) the Subscriber and (ii) Sinogrand Group Limited, Jointprofit Limited, Greatkind Limited and Cheergreat Limited (together the "Subscriber's Holding Companies") is at P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands. The correspondance address of the Subscriber and the Subscriber'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 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 11 December 2009. The Company is identifying a suitable candidate to fill the vacancy of Company Secretary as at the Latest Practicable Date.

(i) The English language text of this circular shall prevail over the 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 circular until the date of the EGM:

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

(b) the memorandum and articles of association of the Subscriber;

(c) Companies Law of the Cayman Islands (as revised and amended);

(d) the annual reports of the Company for the two years ended 31 March 2009 and the interim report of the Company for the six months ended 30 September 2009;

(e) the letter from the Board, the text of which is set out in this circular;

(f) the accountants' report on the Group for the three years ended 31 March 2009 and for the nine months ended 31 December 2009, the text of which is set out in Appendix I to this circular;

(g) the accountants' report prepared by ANDA CPA Limited in respect of the unaudited pro forma financial information of the Retained Group upon Completion, the text of which is set out in Appendix II to this circular;

(h) the letter from the Independent Board Committee, the text of which is set out in this circular;

(i) the letter from Access Capital Limited, the text of which is set out in this circular;

(j) the valuation report from Jones Lang LaSalle Sallmanns, the text of which is set out in Appendix III to this circular;

(k) the material contracts referred to in the section headed "Material contracts" in this appendix;

(l) the written consents referred to in this appendix; and

(m) a copy of each circular issued pursuant to the requirements set out in Chapter 14 and/or 14A of the Listing Rules which has been issued since 31 March 2009, being the date to which the latest published audited consolidated financial statements of the Company were made up.

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)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the "**EGM**") of Tonic Industries Holdings Limited (the "**Company**") will be held at Room 607, The Boys' & Girls' Clubs Association of Hong Kong, 3 Lockhart Road, Wanchai, Hong Kong on 26 July 2010 at 10:30 a.m. for the purpose of considering and, if thought fit, passing the following resolutions:

SPECIAL RESOLUTION

Capital Reorganisation

1. "**THAT**, subject to the passing of resolutions no. 2 and 3 set out in the notice convening this meeting and the Listing Committee of The Stock Exchange of Hong Kong Limited approving the listing of, and granting the permission to deal in, the new shares of the Company with a par value of HK$0.01 each in issue arising from and pursuant to this resolution and the payment by the Subscriber of the subscription price for the Subscription Shares as referred to in resolution no.3 set out in the notice convening this meeting,

    (a) the par value of each issued share of the Company be reduced from HK$0.10 to HK$0.001 by the cancellation of HK$0.099 of the paid-up capital on each issued share of the Company (the "**Capital Reduction**");

    (b) each authorised but unissued share with a par value of HK$0.10 in the share capital of the Company be sub-divided into 100 shares with a par value of HK$0.001 each;

    (c) every ten issued and unissued shares with a par value of HK$0.001 each in the share capital of the Company be consolidated into one share with a par value of HK$0.01 each;

    (d) any one or more of the directors of the Company be and is/are hereby authorised to do all such acts and things and execute all such documents or make such arrangement as he/they consider necessary, desirable or expedient for the purpose of, or in connection with, the implementation of and giving effect to the foregoing."

* *For identification purpose only*

ORDINARY RESOLUTIONS

Group Reorganisation

2. "**THAT**, subject to the passing of resolution no.3 set out in the notice convening this meeting,

   (a) transfer of all the equity interests in the Scheme Subsidiaries (as defined in paragraph (f) of this resolution) by the Company or its subsidiaries (as the case may be) to a company wholly-owned by the Administrators (as defined in paragraph (f) of this resolution), and execution by the Company and other relevant subsidiaries of the Company of all necessary transfer documentation as may be reasonably requested by the Administrators to effect such transfer, be and are hereby approved;

   (b) assignment of all and any indebtedness, actual or contingent, owing to the Scheme Subsidiaries (as defined in paragraph (f) of this resolution) by any of the Retained Subsidiaries to the Company, and execution by the Company and other relevant subsidiaries of the Company of all necessary documentation to effect such assignment, be and are hereby approved;

   (c) assignment of all and any indebtedness, actual or contingent, owing to the Company and the Retained Subsidiaries (as defined in paragraph (f) of this resolution) by any of the Scheme Subsidiaries to a company wholly-owned by the Administrators (as defined in paragraph (f) of this resolution), and execution by the Company and other relevant subsidiaries of the Company of all necessary documentation to effect such assignment, be and are hereby approved;

   (d) any one or more of the directors of the Company be and is/are hereby authorised to do all such acts and things and execute all such documents or make such arrangement as he/they consider necessary, desirable or expedient for the purpose of, or in connection with, the implementation of and giving effect to the foregoing; and

   (e) for the purpose of this resolution:

   "Administrators" means the administrators appointed pursuant to the scheme of arrangement of the Company to be approved by the High Court of Hong Kong pursuant to Section 166 of the Companies Ordinance (Cap 32) of the Laws of Hong Kong, and to be approved by the Grand Court of the Cayman Islands pursuant to Section 86 of the Companies Law (2009 Revision) of the Cayman Islands;

   "**Retained Subsidiaries**" means Tonic Electronic (B.V.I.) Limited, Tonic Marketing Limited, Dongguan Xin Lian Digital Technology Co., Ltd. (東莞鑫聯數碼科技有限公司), Grand Golden Profit Limited (創金利有限公司), 東莞悦金數碼科有限公司 (Dongguan Yuejin Digital Technology Company Limited), Tonic DVB Marketing Limited, Champion Apex Limited (華先有限公司) and Guan Hua Gang Trading (Shenzhen) Co. Ltd. (冠華港貿易（深圳）有限公司).

   "**Scheme Subsidiaries**" means the subsidiaries of the Company other than the Retained Subsidiaries."

Subscription Agreement

3. "**THAT**,

(a) the entering into of and the terms and conditions of the following agreements be and are hereby approved, ratified and confirmed:

(i) 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), Skill China Limited (the **"Subscriber"**) (as subscriber) and Dr. So Shu Fai (as guarantor) in relation to the subscription of 909,785,366 new shares of the Company with a par value of HK$0.01 each (the **"Subscription Shares"**) by the Subscriber (the "Subscription Agreement"), a copy of which marked "A" has been produced to the EGM and signed by the chairman of the EGM for the purpose of identification;

(ii) the escrow agreement dated 15 January 2010 entered into among the escrow agent, the Company and the Subscriber in relation to the escrow of the earnest money paid by the Subscriber (the "**Escrow Agreement**"), a copy of which marked "B" has been produced to the EGM and signed by the chairman of the EGM for the purpose of identification; and

(iii) the supplemental deed in relation to the Escrow Agreement dated 26 February 2010 entered into among the escrow agent, the Company and the Subscriber in relation to the amendments to the Escrow Agreement, a copy of which marked "C" has been produced to the EGM and signed by the chairman of the EGM for the purpose of identification;

(iv) the loan agreement dated 15 January 2010 (as amended by the supplemental loan agreement dated 24 June 2010) entered into between Grand Golden Profit Limited (as borrower) and the Subscriber (as lender) in relation to the advance of a loan facility in the principal amount of HK$40,000,000 made available to the Company and its subsidiaries before the completion of the Group Reorganisation, a copy of which is marked "D" has been produced to the EGM and signed by the chairman of the EGM for the purpose of identification;

(v) the deed of debenture creating fixed and floating charges over the assets of Grand Golden Profit Limited, executed by Grand Golden Profit Limited in favour of the Subscriber on 15 January 2010, a copy of which is marked "E" has been produced to the EGM and signed by the chairman of the EGM for the purpose of identification;

(vi) the charge over shares dated 15 January 2010 executed by the Company as chargor in favour of the Subscriber as chargee in relation to the charge over 100% of the shareholdings in Grand Golden Profit Limited, a copy of which marked is "F" has been produced to the EGM and signed by the chairman of the EGM for the purpose of identification;

(b) all the transactions contemplated under the agreements referred to in paragraph (a) of this resolution including but not limited to the issue and allotment of the Subscription Shares by the Company to the Subscriber be and are hereby approved, confirmed and ratified; and

(c) any one or more of the directors of the Company be and is/are hereby authorised to do all such acts and things and execute all such documents or make such arrangement as he/they consider necessary, desirable or expedient for the purpose of, or in connection with, giving effect to the agreements referred to in paragraph (a) of this resolution and the transactions contemplated therein."

Whitewash Waiver

4. "**THAT**, subject to the granting of the Whitewash Waiver (as defined below) by the Executive Director of the Corporate Finance Division of the Securities and Futures Commission of Hong Kong (or any delegate of the Executive Director) and any conditions that may be imposed thereon, the waiver of the obligation on the part of the Subscriber and parties acting in concert with it to make a mandatory general offer to shareholders of the Company for all the issued shares of the Company not already owned or agreed to be acquired by them which might otherwise arise as a result of the Subscriber subscribing for the Subscription Shares under the Subscription Agreement pursuant to Note 1 on Dispensations from Rule 26 of the Hong Kong Code on Takeovers and Mergers (the "**Whitewash Waiver**") be and is hereby approved, and that any one or more of the directors of the Company be and is/are hereby authorised to do all such acts and things and execute all such documents as he/they consider necessary, desirable or expedient for the purpose of, or in connection with, the implementation of and giving effect to any of the matters relating to, or incidental to, the Whitewash Waiver."

Issue of the Tranche 2 Remuneration Shares and the DTCFL's Remuneration Shares

5. "**THAT**,

(a) the issue of up to 0.50% of the share capital of the Company as enlarged by the allotment and issue of the Subscription Shares and the Remuneration Shares to Somerley Limited for the settlement of part of the professional fees charged by Somerley Limited ("**Tranche 2 Remuneration Shares**"), be and is hereby approved;

(b) the issue of up to 2.48% of the share capital of the Company as enlarged by the allotment and issue of the Subscription Shares and the Remuneration Shares for the settlement of the professional fees charged by Deloitte & Touche Corporate Finance Limited ("**DTCFL's Remuneration Shares**"), be and is hereby approved;

(c) the Board be and is hereby granted the Specific Mandate with full authority to allot, issue and deal in the Remuneration Shares (or any parts thereof) in the share capital of the Company, subject to the following terms:

(1) Number of Remuneration Shares to be issued under the Specific Mandate: the aggregate number of Remuneration Shares to be issued and allotted shall not be more than 31,736,699 (representing 5,289,450 Tranche 2 Remuneration Shares and 26,447,249 DTCFL's Remuneration Shares);

(2) Pricing: the Tranche 2 Remuneration Shares and DTCFL's Remuneration Shares will be issued at a price of approximately HK$0.0879 per Remuneration Share;

(3) Ranking of the Tranche 2 Remuneration Shares and DTCFL's Remuneration Shares issued under the Specific Mandate: should the Board, upon obtaining the Specific Mandate, proceed to exercise the proposed Specific Mandate to issue the Tranche 2 Remuneration Shares and DTCFL's Remuneration Shares, the Company will apply to the Hong Kong Stock Exchange and other relevant authorities in relation to the exercise of the Specific Mandate and for the listing of and permission to deal in all the Tranche 2 Remuneration Shares and DTCFL's Remuneration Shares to be issued on the Hong Kong Stock Exchange. The Tranche 2 Remuneration Shares and DTCFL's Remuneration Shares will be fully paid and will rank pari passu in all respects with the ordinary shares of the Company in issue at the time of issue and allotment of the Remuneration Shares;

(4) Authorisation to the Board: the Board and the Directors be authorised to take any action and execute any document as it thinks necessary and fit to effect and implement the allotment, issuance and dealing in the Tranche 2 Remuneration Shares and DTCFL's Remuneration Shares under the Specific Mandate, including but not limited to: (i) handling the matters arising from the application for an approval of the Hong Kong Stock Exchange for the listing of, and permission to deal in the Tranche 2 Remuneration Shares and DTCFL's Remuneration Shares on the Hong Kong Stock Exchange; (ii) increasing the registered capital of the Company; (iii) dealing with relevant registration and filing

procedures with the relevant authorities and registries as necessary; and (iv) to the extent allowed by the applicable laws and regulations, to do such other acts, take such steps which in their opinion, may be necessary, desirable or expedient in relation to the exercise of, and to give effect to, the Specific Mandate.

(d) for the purpose of this resolution:

"**Remuneration Shares**" mean any ordinary shares of the Company issued to Somerley Limited or Deloitte & Touche Corporate Finance Limited as settlement of part or all of their professional fees (including Tranche 1 Remuneration Shares, Tranche 2 Remuneration Shares and the DTCFL's Remuneration Shares); and

"**Tranche 1 Remuneration Shares**" mean the 21,157,799 ordinary shares of the Company, representing 1.98% of the issued share capital of the Company as enlarged by the issue of the Subscription Shares and the Remuneration Shares, to be issued to Somerley Limited as settlement of part of their professional fees.

By order of the Board
LING Siu Man
Chairman and Managing Director

Hong Kong 28 June 2010

Principal place of business in Hong Kong:
Unit B, 10/F Summit Building
30 Man Yue Street
Hunghom
Kowloon, Hong Kong

Notes:

(1) A form of proxy for use at the EGM is enclosed herewith.

(2) The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney duly authorised in writing or, if the appointor is a corporation, either under its seal or under the hand of an officer, attorney or other person authorised to sign the same.

(3) In the case of joint holders of a share if more than one of such joint holders be present at any meeting the one of the said persons so present being the most or, as the case may be, the more senior shall alone be entitled to vote in respect of the relevant joint holding and for this purpose seniority shall be determined by the order in which the names stand in the register of members in respect of the joint holding.

(4) The instrument appointing a proxy and (if required by the board of directors of the Company) the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power or authority, shall be delivered to the Company's branch share registrar in Hong Kong, Tricor Tengis Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not less than forty-eight (48) hours before the time appointed for holding the meeting or adjourned meeting at which the person named in the instrument proposes to vote or, in the case of a poll taken subsequently to the date of a meeting or adjourned meeting, not less than forty-eight (48) hours before the time appointed for the taking of the poll and in default the instrument of proxy shall not be treated as valid. Delivery of an instrument appointing a proxy shall not preclude a member from attending and voting in person at the meeting convened and in such event, the instrument appointing a proxy shall be deemed to be revoked.

(5) Any member entitled to attend and vote at a meeting of the Company shall be entitled to appoint another person (who must be an individual) as his proxy to attend and vote instead of him. A member may appoint any number of proxies to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a member. The instrument appointing a proxy to vote at a general meeting shall be deemed to confer authority to demand or join in demanding a poll and to vote on any amendment of a resolution put to the meeting for which it is given as the proxy thinks fits.

(6) The Chinese translation of this notice (including the contents of the proposed resolutions set out herein) is for reference only. In case of inconsistency, the English version shall prevail.