**THIS COMPOSITE DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

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

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



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**SUCCESS WELL INVESTMENTS LIMITED**

*(Incorporated in the BVI with limited liability)*

**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)**

# COMPOSITE DOCUMENT RELATING TO UNCONDITIONAL MANDATORY CASH OFFER BY

中信証券國際 CITIC Securities International

# FOR AND ON BEHALF OF SUCCESS WELL INVESTMENTS LIMITED FOR ALL THE ISSUED SHARES IN TONIC INDUSTRIES HOLDINGS LIMITED (OTHER THAN THOSE SHARES ALREADY OWNED OR AGREED TO BE ACQUIRED BY SUCCESS WELL INVESTMENTS LIMITED AND PARTIES ACTING IN CONCERT WITH IT)

**Joint financial advisers to Success Well Investments Limited**

中信証券國際 CITIC Securities International

ING

**Financial adviser to Tonic Industries Holdings Limited**

**SOMERLEY LIMITED**

**Independent financial adviser to the Independent Board Committee**

第一上海 FIRST SHANGHAI GROUP

FIRST SHANGHAI CAPITAL LIMITED 第一上海融資有限公司

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Capitalised terms used in this cover page shall have the same meanings as those defined in the section headed "Definitions" in this Composite Document.

A letter from the Board is set out on pages 7 to 14 of this Composite Document.

A letter from CITIC Securities is set out on pages 15 to 25 of this Composite Document.

A letter from the Independent Board Committee containing its recommendation in respect of the Offer to the Independent Shareholders is set out on pages 26 to 27 of this Composite Document.

A letter from the independent financial adviser, First Shanghai, containing its advice to the Independent Board Committee is set out on pages 28 to 49 of this Composite Document.

The procedures for acceptance of the Offer and other related information are set out on pages I-1 to I-7 in Appendix I to this Composite Document and in the accompanying Form of Acceptance. Acceptances of the Offer should be received by the Registrar by no later than 4:00 p.m. on Friday, 22 June 2012 or such later time and/or date as the Offeror may decide and announce in accordance with the Takeovers Code.

* *For identification purposes only*

1 June 2012

# CONTENTS

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

| | *2012* |
|---|---|
| Offer opens for acceptance | Friday, 1 June |
| Latest time and date for acceptance of the Offer *(Notes 1 and 3)* | 4:00 p.m. on Friday, 22 June |
| Closing Date *(Note 1)* | Friday, 22 June |
| Joint Announcement of the results of the Offer or as to whether the Offer has been revised or extended, on the website of the Stock Exchange *(Note 1)* | by 7:00 p.m. on Friday, 22 June |
| Latest date of posting of remittance in respect of valid acceptances received on or before the latest time for acceptance of the Offer *(Note 2)* | Wednesday, 4 July |

*Notes:*

1. The latest time for acceptance of the Offer is 4:00 p.m. on Friday, 22 June 2012. The Offer, which is unconditional, will be closed on Friday, 22 June 2012 unless the Offeror revises or extends the Offer in accordance with the Takeovers Code. The Offeror will issue an announcement by 7:00 p.m. Friday, 22 June 2012 as to whether the Offer has been revised, extended or expired. In the event that the Offeror decides to extend the Offer, at least 14 days' notice by way of an announcement will be given before the Offer is closed to those Independent Shareholders who have not accepted the Offer.

2. Payment will be made as soon as possible, but in any event within 7 business days of the date of receipt by the Registrar, from the Shareholders accepting the Offer, of the valid requisite documents. Please refer to the paragraph headed "Settlement" in Appendix I to this Composite Document.

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

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

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

| | |
|---|---|
| "Acquisition" | the sale and purchase of the Sale Shares contemplated under the S&P Agreements |
| "acting in concert" | has the meaning ascribed thereto in the Takeovers Code |
| "associate" | the same meaning ascribed to it under the Takeovers Code |
| "business day" | the same meaning ascribed to it under the Takeovers Code |
| "Board" | the board of Directors |
| "BVI" | British Virgin Islands |
| "CCASS" | the Central Clearing and Settlement System established and operated by Hong Kong Securities Clearing Company Limited |
| "CITIC Securities" | CITIC Securities Corporate Finance (HK) Limited, a corporation licensed under the SFO to carry out Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities as defined in schedule 5 of the SFO, and the joint financial adviser to the Offeror in connection with the Offer |
| "Closing Day" | Friday, 22 June 2012, the closing date of the Offer, which is 21 days after the date on which the Composite Document is posted, or if the Offer is extended, any subsequent closing date of the Offer as extended and announced by the Offeror in accordance with the Takeovers Code |
| "CMPD" | 招商局地產控股股份有限公司 (China Merchants Property Development Co., Ltd.), a company incorporated in the PRC with limited liability, with shares listed on the Shenzhen Stock Exchange |
| "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 issued Shares of which are listed on the Main Board of the Stock Exchange |
| "Completion" | completion of the S&P Agreement 1 |
| "Completion Date" | the date of Completion, being 7 May 2012 |
| "Composite Document" | this composite offer and response document jointly issued by the Company and the Offeror to Shareholders in accordance with the Takeovers Code containing, among other things, details of the Offer together with the Form of Acceptance |
| "connected person(s)" | the meaning ascribed to it under the Listing Rules |
| "Directors" | directors of the Company |
| "Dr. So" | 蘇樹輝博士 (Dr. So Shu Fai), an executive Director and Chairman of the Company |
| "Encumbrances" | any mortgage, charge, pledge, lien, (otherwise than arising by statute or operation of law), equities, hypothecation or other encumbrance, priority or security interest, deferred purchase, title retention, leasing, sale-and-repurchase or sale-and-leaseback arrangement whatsoever over or in any property, assets or rights of whatsoever nature and includes any agreement for any of the same |
| "Eureka" | Eureka Investment Company Limited (瑞嘉投資實業有限公司), a company incorporated in Hong Kong with limited liability and is wholly-owned by CMPD |
| "Executive" | means the Executive Director of the Corporate Finance Division of the SFC and any of its delegates |
| "First Shanghai" | First Shanghai Capital Limited, a corporation licensed under the SFO to carry out Type 6 (advising on corporate finance) regulated activity, being the independent financial adviser to the Independent Board Committee in connection with the Offer |

| | |
|---|---|
| "Form of Acceptance" | the form of acceptance and transfer of the Shares in respect of the Offer accompanying this Composite Document |
| "Fortune Alliance" | Fortune Alliance Group Limited, a company incorporated in the BVI with limited liability |
| "Good Ease" | Good Ease Holdings Limited, a company incorporated in the BVI with limited liability and is wholly-owned by Eureka |
| "Greatest Mark" | Greatest Mark Limited, a company incorporated in Hong Kong with limited liability and the legal owner of such number of Sale Shares to be sold by Greatest Mark under the S&P Agreement 2 |
| "Group" | the Company and its subsidiaries |
| "Hong Kong" | Hong Kong Special Administrative Region of the PRC |
| "Independent Board Committee" | the independent committee of the Board comprising all the independent non-executive Directors, established to give a recommendation to the Independent Shareholders regarding the terms of the Offer and as to acceptance |
| "Independent Shareholders" | Shareholders other than the Offeror and parties acting in concert with it |
| "ING" | ING Bank N.V., a registered institution under the SFO, registered to conduct Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities, being a joint financial adviser to the Offeror in connection with the Offer |
| "Joint Announcement" | the joint announcement made by the Company and Offeror dated 27 April 2012 in respect of, among other things, the Acquisition and the Offer |
| "Last Trading Day" | 20 April 2012, being the last trading day of the Shares immediately prior to the suspension of trading in the Shares pending the release of the Joint Announcement on the Stock Exchange at 9:00 a.m. on 23 April 2012 |

| | |
|---|---|
| "Latest Practicable Date" | 30 May 2012, being the latest practicable date prior to the date of this Composite Document for ascertaining certain information contained herein |
| "Listing Rules" | the Rules Governing the Listing of Securities on the Stock Exchange |
| "Main Board" | the Stock Exchange (excluding the option market) operated by the Stock Exchange which is independent from and operated in parallel with the Growth Enterprise Market of the Stock Exchange |
| "Offer" | the unconditional mandatory cash offer being made by CITIC Securities for and on behalf of the Offeror for all the issued Shares (other than those already owned or agreed to be acquired by the Offeror and parties acting in concert with it) pursuant to Rule 26.1 of the Takeovers Code |
| "Offer Price" | the price at which the Offer will be made, being HK$0.50 per Offer Share |
| "Offer Share(s)" | issued Share(s) other than those already owned or agreed to be acquired by the Offeror and parties acting in concert with it |
| "Offeror" | Success Well Investments Limited, a company incorporated in the BVI with limited liability directly wholly-owned by Good Ease and is an indirect wholly-owned subsidiary of CMPD |
| "PRC" | the People's Republic of China which, for the purpose of this Composite Document, shall exclude Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan |
| "Registrar" | Tricor Tengis Limited, the Company's branch share registrar in Hong Kong located at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong |
| "S&P Agreement 1" | the conditional sale and purchase agreement entered into between the Offeror, Skill China and Dr. So on 24 April 2012 |
| "S&P Agreement 2" | the sale and purchase agreement entered into between the Offeror and Greatest Mark on 27 April 2012 |

| | |
|---|---|
| "S&P Agreements" | the S&P Agreement 1 and the S&P Agreement 2 |
| "Sale Shares" | the legal and beneficial interests of 749,849,586 issued Shares representing approximately 70.18% of the total issued share capital of the Company owned by the Vendors prior to Completion and the completion of the S&P Agreement 2 |
| "SFC" | the Securities and Futures Commission of Hong Kong |
| "SFO" | the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong) |
| "Share(s)" | ordinary share(s) of HK$0.01 each in the share capital of the Company |
| "Shareholders" | holders of the issued Shares |
| "Skill China" | Skill China Limited, a company incorporated in the BVI with limited liability which is 90% indirectly beneficially owned by Dr. So |
| "Stock Exchange" | The Stock Exchange of Hong Kong Limited |
| "subsidiary" | has the meaning given to it in section 2 of the Companies Ordinance |
| "Takeovers Code" | the Code on Takeovers and Mergers of Hong Kong |
| "Vendors" | collectively, Skill China and Greatest Mark |
| "HK$" | Hong Kong dollars, the lawful currency of Hong Kong |
| "%" | per cent. |

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

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 978)**

*Executive Directors:*
SO Shu Fai *(Chairman)*
MAK Bing Kau
NG Wai Hung
LAU Cheuk Lun

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

1 June 2012

*To the Shareholders*

Dear Sir or Madam,

**UNCONDITIONAL MANDATORY CASH OFFER
BY CITIC SECURITIES CORPORATE FINANCE (HK) LIMITED
FOR AND ON BEHALF OF SUCCESS WELL INVESTMENTS LIMITED
FOR ALL THE ISSUED SHARES
IN TONIC INDUSTRIES HOLDINGS LIMITED
(OTHER THAN THOSE SHARES ALREADY OWNED OR AGREED TO
BE ACQUIRED BY SUCCESS WELL INVESTMENTS LIMITED
AND PARTIES ACTING IN CONCERT WITH IT)**

## INTRODUCTION

Reference is made to the announcement of the Company dated 23 April 2012, the joint announcements made by the Company and the Offeror dated 27 April 2012 and 7 May 2012, in respect of, among other things, the Acquisition and the Offer.

* *For identification purposes only*

Immediately upon Completion, the Offeror and parties acting in concert with it were interested in 707,110,832 Shares, representing approximately 66.18% of the entire issued share capital of the Company. Accordingly, the Offeror is required to make a unconditional mandatory cash offer for all the issued Shares other than those Shares already owned by or agreed to be acquired by the Offeror and parties acting in concert with it at the time when the Offer is made pursuant to Rule 26.1(a) of the Takeovers Code.

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

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

## THE OFFER

### Principal terms of the Offer

CITIC Securities is making, for and on behalf of the Offeror, the Offer to acquire all the issued Shares other than those Shares already owned by or agreed to be acquired by the Offeror and parties acting in concert with it at the time when the Offer is made on the following terms in accordance with Rule 26.1 of the Takeovers Code:

**For each Offer Share. . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . .HK$0.50, in cash**

The Offer is unconditional in all respects.

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

**Comparison of value**

The Offer Price of HK$0.50 per Offer Share is equal to the price per Sale Share paid by the Offeror to Greatest Mark under the S&P Agreement 2. The Offer Price represents:

(a) a discount of approximately 56.90% to the closing price of HK$1.160 per Share as quoted on the Stock Exchange on the Latest Practicable Date;

(b) a discount of approximately 29.58% to the closing price of HK$0.710 per Share, as quoted on the Stock Exchange on the Last Trading Day;

(c) discount of approximately 31.32%, 29.48% and 29.97% to the average of the closing prices of approximately HK$0.728, HK$0.709 and HK$0.714 per Share respectively for the 5, 10 and 30 consecutive trading days up to and including the Last Trading Day;

(d) a premium of approximately 809.09% over the audited consolidated net asset value per Share of approximately HK$0.055 as at 31 March 2011; and

(e) a premium of approximately 1,182.05% over the unaudited consolidated net asset value per Share of the Group (which is the unaudited consolidated net asset value of the Group as at 30 September 2011 of approximately HK$41,419,000 as disclosed in the interim report of the Company for the six month ended 30 September 2011 divided by the total number of issued Shares of 1,068,468,860) of approximately HK$0.039 as at 30 September 2011.

**FURTHER INFORMATION OF THE OFFER**

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

**INFORMATION ON THE GROUP**

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

As disclosed in the announcement of the Company dated 19 April 2012, in view of the heavy overhead costs and the continuous losses of the manufacturing operation which have adversely affected the overall financial performance of the Group, the Board resolved to voluntarily wind up Total Ally Holdings Limited ("Total Ally"), an indirect wholly owned subsidiary of the Company, on 19 April 2012.

Despite the voluntary winding-up of Total Ally, as disclosed in the announcement of the Company dated 19 April 2012, the Company intends to continue and maintain its manufacturing operation by adopting a new subcontracting business model under which, the retained Group can subcontract the manufacturing works to subcontractors so as to avoid the absorption of unnecessary idle overhead costs and to carry out its manufacturing business in a more cost effective and commercially feasible manner. While the liquidators of Total Ally are expected to take six to nine months to finalise any realisation plan on the assets of Total Ally, as a transitional arrangement, a subsidiary of the retained Group has entered into a subcontracting and agency agreement with Total Ally following the commencement of the liquidation of Total Ally pursuant to which Total Ally procures its subsidiary as an agent to receive sales orders, and also as the subcontractor to manufacture electronic products, for the retained Group. Meanwhile, the Group is devoting its best efforts in seeking out and engaging other independent third party subcontractors for the outsourcing of the Group's manufacturing works. It is expected that such subcontracting business model will enable the Group to better manage its overheads and in turn, to enhance its overall profitability, which is considered beneficial to the long term growth of the Group. As at the Latest Practicable Date, the Group is in its early stage planning to approach suitable potential third party subcontractors and the management of the Company is confident in being able to locate subcontractors in the PRC based on their industry understanding.

The Group reported audited net loss before and after taxation of approximately HK$805.4 million and HK$790.4 million respectively for the financial year ended 31 March 2010. For the financial year ended 31 March 2011, the Group reported audited net profit before and after taxation of approximately HK$388.4 million. The unaudited net asset value of the Group as at 30 September 2011 was approximately HK$41.4 million.

As at the Latest Practicable Date, the Company has 1,068,468,860 Shares in issue. Save for the aforesaid Shares in issue, the Company did not have any outstanding securities, options, derivatives or warrants which are convertible or exchangeable into Shares and had not entered into any agreement for the issue of such options, derivatives, warrants or securities of the Company.

The following table sets out the shareholding structure of the Company (i) prior to Completion and the completion of the S&P Agreement 2 and before the commencement of the Offer; (ii) immediate upon Completion and the completion of the S&P Agreement 2 and before the commencement of the Offer; and (iii) as at Latest Practicable Date:

| | **Prior to Completion, completion of S&P Agreement 2 and before the commencement of the Offer** *(as extracted from the joint announcement made by the Company and the Offeror dated 7 May 2012)* | | **Immediately upon Completion and completion of S&P Agreement 2 and before the commencement of the Offer** *(as extracted from the joint announcement made by the Company and the Offeror dated 7 May 2012)* | | **As at the Latest Practicable Date** | |
|---|---|---|---|---|---|---|
| | *Number of Shares* | *Approximate Shareholding %* | *Number of Shares* | *Approximate Shareholding %* | *Number of Shares* | *Approximately Shareholding %* |
| Skill China *(Note 1)* | 739,164,898 | 69.18 | 32,054,066 | 3.00 | 32,054,066 | 3.00 |
| Greatest Mark *(Note 2)* | 61,699,398 | 5.77 | 18,960,644 | 1.77 | 8,680,644 | 0.81 |
| The Offeror and parties acting in concert with it | – | – | 749,849,586 | 70.18 | 749,849,586 | 70.18 |
| Mr. Cheng Tsang Wai *(Note 3)* | 162,600 | 0.02 | 162,600 | 0.02 | 162,600 | 0.02 |
| Mr. Wong Ki Cheung *(Note 3)* | 174,900 | 0.02 | 174,900 | 0.02 | 174,900 | 0.02 |
| Success Forever Limited *(Note 4)* | 41,849,247 | 3.92 | 41,849,247 | 3.92 | 41,849,247 | 3.92 |
| Other Shareholders | 225,417,817 | 21.10 | 225,417,817 | 21.10 | 235,697,817 | 22.06 |
| **Total** | 1,068,468,860 | 100.00 | 1,068,468,860 | 100.00 | 1,068,468,860 | 100.00 |
| **Total public Shareholders** *(Note 5)* | 287,117,215 | 26.87 | 244,378,461 | 22.87 | 244,378,461 | 22.87 |

*Notes:*

1. Following the Completion, 32,054,066 Shares are directly owned by Skill China. Skill China is wholly-owned by Fortune Alliance. Fortune Alliance is owned as to 90% by Jointprofit Limited which is wholly-owned by Dr. So.

2. Greatest Mark, which is a special purpose company established for the purpose of the creditor scheme of the Company, is controlled by Mr. Yeung Lui Ming (Edmund) and Mr. Darach E. Haughey (both being the scheme administrators).

3. Mr. Cheng Tsang Wai is the independent non-executive Director and Mr. Wong Ki Cheung is the director of certain subsidiaries of the Company.

4. Mr. Ling Siu Man, Simon, through his wholly owned company Success Forever Limited, is interested in 41,849,247 Shares. Mr. Ling is the director of two subsidiaries of Total Ally, an indirect wholly owned subsidiary of the Company. As announced by the Company on 19 April 2012, the voluntary winding-up of Total Ally was commenced on 19 April 2012 and the financial results and position of Total Ally and its subsidiaries have been deconsolidated from those of the Group following the commencement of the liquidation of Total Ally. As at the date of the joint announcement, Mr. Ling has tendered his resignation from the positions of director of the two subsidiaries of Total Ally, and his resignation shall become effective following the first closing of the Offer.

5. Interests held by public Shareholders comprising those of Greatest Mark and other Shareholders. In addition, the interests held by Mr. Ling Siu Man, Simon will also be regarded as public following the resignation of Mr. Ling Siu Man, Simon becoming effective following the first closing of the Offer.

## INFORMATION ON THE OFFEROR

Please refer to the letter from CITIC Securities contained in this Composite Document for the information on the Offeror.

## INTENTION OF THE OFFEROR REGARDING THE GROUP

Based on the Company's announcement dated 19 April 2012, the Offeror considers that the voluntary liquidation of Total Ally would provide an opportunity for the Group to have a more cost effective structure by subcontracting the manufacturing works to subcontractors in order to avoid absorbing any unnecessary idle overhead costs. In addition, it would lay a foundation for the Company to continue its existing trading and manufacturing (by way of subcontracting arrangement) of various types of consumer electronic products businesses in a more commercially feasible manner. Therefore it is the intention of the Offeror that the Group will continue with its existing principal businesses including but not limited to its trading and manufacturing business of consumer electronics products. The Offeror does not intend to introduce any major changes to the existing operations and business of the Company. The Offeror has no plan to inject any assets or business into the Group or procure the Company to acquire or dispose any assets (other than in the ordinary course of business) following the Completion. However, given the scope of the Group's existing activities, the Offeror intends to conduct a more detailed review on the operations of the Group with a view to strengthen the existing business operations of the Group and formulate a long term business strategy for the Group. Subject to the result of the review, the Offeror may explore other business opportunities involving but not limited to existing trading and manufacturing business and consider whether to make any acquisition or investment in assets and/or business or cooperate with other business partners of the Group in order to enhance its growth and future development. The Group provides the Offeror the opportunity of having an overseas listed investment arm. In view of the aforesaid, the Offeror is of the view that the Acquisition and the Offer are of long-term commercial interest to the Offeror.

The Offeror has no intention to discontinue the employment of the employees or make major changes to the employees (save for a change in the composition of the Board referred to below) or to dispose of or redeploy the assets of the Group other than those in its ordinary course of business. As at the Latest Practicable Date, the Offeror has no plan for restructuring the Group's structure. However, after detailed review of the operations of the Group, the Offeror may consider other possible options regarding the restructuring of the Group structure, including but not limited to setting up new companies for engaging new business opportunities and/or strengthening existing businesses. Moreover, the offeror shall develop the existing trading and manufacturing electronics products of the Group after detailed review on the operations of the Group and it will also depend on the prospect in the segment and whether the development of the existing businesses can increase the profitability of the Group and hence enhance the value of the Shareholders in the long term.

**MAINTAINING THE LISTING STATUS OF THE COMPANY**

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

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

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

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

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

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

## RECOMMENDATION

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

Yours faithfully,
By order of the Board
**Tonic Industries Holdings Limited**
**Dr. SO Shu Fai**
*Chairman*

中信证券 中信証券國際 CITIC Securities International

1 June 2012

*To the Independent Shareholders*

Dear Sir or Madam,

**UNCONDITIONAL MANDATORY CASH OFFER
BY CITIC SECURITIES CORPORATE FINANCE (HK) LIMITED
FOR AND ON BEHALF OF SUCCESS WELL INVESTMENTS LIMITED
FOR ALL THE ISSUED SHARES
IN TONIC INDUSTRIES HOLDINGS LIMITED
(OTHER THAN THOSE SHARES ALREADY OWNED OR AGREED TO
BE ACQUIRED BY SUCCESS WELL INVESTMENTS LIMITED
AND PARTIES ACTING IN CONCERT WITH IT)**

## INTRODUCTION

Reference is made to the announcement of the Company dated 23 April 2012, the joint announcements made by the Company and the Offeror dated 27 April 2012 and 7 May 2012, in respect of, among other things, the Acquisition and the Offer.

Immediately upon Completion, the Offeror and parties acting in concert with it were interested in 707,110,832 Shares, representing approximately 66.18% of the entire issued share capital of the Company. Accordingly, the Offeror is required to make an unconditional mandatory cash offer for all the issued Shares other than those Shares already owned by or agreed to be acquired by the Offeror and parties acting in concert with it at the time when the Offer is made pursuant to Rule 26.1(a) of the Takeovers Code.

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

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

* *For identification purposes only*

## THE OFFER

### Principal terms of the Offer

CITIC Securities is making, for and on behalf of the Offeror, the Offer to acquire all the Shares other than those Shares already owned by or agreed to be acquired by the Offeror and parties acting in concert with it on the following terms in accordance with Rule 26.1 of the Takeovers Code:

**For each Offer Share . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . HK$0.50, in cash**

The Offer is unconditional in all respects.

Upon Completion and the completion of the S&P Agreement 2 on 7 May 2012 and as at the Latest Practicable Date, the Offeror and parties acting in concert with it were interested in 749,849,586 Shares, representing approximately 70.18% of the entire issued share capital of the Company.

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

### Comparisons of value

The Offer Price of HK$0.50 per Offer Share is equal to the price per Sale Share paid by the Offeror to Greatest Mark under the S&P Agreement 2. The Offer Price represents:

(a) a discount of approximately 56.90% to the closing price of HK$1.160 per Share as quoted on the Stock Exchange on the Latest Practicable Date;

(b) a discount of approximately 29.58% to the closing price of HK$0.710 per Share, as quoted on the Stock Exchange on the Last Trading Day;

(c) discount of approximately 31.32%, 29.48% and 29.97% to the average of the closing prices of approximately HK$0.728, HK$0.709 and HK$0.714 per Share respectively for the 5, 10 and 30 consecutive trading days up to and including the Last Trading Day;

(d) a premium of approximately 809.09% over the audited consolidated net asset value per Share of approximately HK$0.055 as at 31 March 2011; and

(e) a premium of approximately 1,182.05% over the unaudited consolidated net asset value per Share of the Group (which is the unaudited consolidated net asset value of the Group as at 30 September 2011 of approximately HK$41,419,000 as disclosed in the interim report of the Company for the six month ended 30 September 2011 divided by the total number of issued Shares of 1,068,468,860) of approximately HK$0.039 as at 30 September 2011.

**Highest and lowest prices**

The highest and lowest closing prices of the Shares as quoted on the Stock Exchange during the period commencing six months preceding the commencement of the Offer period i.e. the date of the Joint Announcement and up to the Latest Practicable Date were HK$1.430 per Share (on 21 May 2012) and HK$0.630 per Share (on 20 January 2012), respectively.

**Total consideration and financial resources**

Based on the purchase price of HK$0.251 per Sale Share for 707,110,832 Shares from Skill China, 42,738,754 Shares at HK$0.50 per Sale Share from Greatest Mark and the Offer Shares of 318,619,274 at the Offer Price of HK$0.50 each, the Offer is valued at an aggregate amount of approximately HK$159.3 million, and the entire issued share capital of the Company is valued at approximately HK$358.2 million.

CITIC Securities and ING, as the joint financial advisers to the Offeror, are satisfied that sufficient resources are available to the Offeror to satisfy full acceptances of the Offer. The Offeror finances the consideration payable in respect of the full acceptance of the Offer by its internal resources.

**Effect of accepting the Offer**

By accepting the Offer, the Shareholders will sell their Shares to the Offeror free from encumbrances and together with all rights attaching to the Shares as at the date of closing of the Offer, including the rights to receive all dividends and distribution declared, made or paid on or after the Completion Date.

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

**Overseas Shareholders**

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

**Stamp duty**

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

**Settlement of the consideration**

Payment in cash in respect of acceptances of the Offer will be made as soon as possible but in any event within 7 business days (as defined in the Takeovers Code) following the receipt of the relevant documents of title to render each such acceptance complete and valid pursuant to Note 1 to Rule 30.2 of the Takeovers Code.

**DEALINGS IN SECURITIES OF THE COMPANY**

Details of the dealings in securities of the Company by the Offeror and parties acting in concert with it are set out in the section headed "Additional disclosure of interests" in Appendix III to the Composite Document.

**INFORMATION ON THE GROUP**

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

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

**INFORMATION ON THE OFFEROR**

The Offeror is an investment holding company incorporated in the BVI with limited liability on 2 February 2012 and is wholly-owned by Good Ease. Good Ease is an investment holding company incorporated in the BVI with limited liability on 2 February 2012 and is wholly-owned by Eureka. Eureka is an investment holding company incorporated in Hong Kong with limited liability on 16 August 1994 and is wholly-owned by CMPD. CMPD, the ultimate holding company of the Offeror, is listed on the Shenzhen Stock Exchange since 1993 and is primarily engaged in real estate development and operation in the PRC. It is the real estate flagship of China Merchants Group ("CMG"), which is the controlling shareholder of CMPD. CMG is a state-owned conglomerate regulated by the national State-Owned Assets Supervision and Administration Commission ("SASAC"), engaging in three core businesses, being transportation and infrastructure, financial investing and real estate development and operation. CMG is also one of 16 national state-owned enterprises approved by the national SASAC to have real estate as their core business.

As at 31 December 2011, CMPD had properties under development with gross floor area of over 10 million square meters across 18 mainland China cities and districts. As at the Latest Practicable Date, the market capitalisation of CMPD was approximately RMB39.3 billion (equivalent to approximately HK$48.3 billion). CMPD recorded audited profits attributable to shareholders of approximately RMB2.6 billion (equivalent to approximately HK$3.2 billion) for the financial year ended 31 December 2011. Its audited consolidated net asset value as at 31 December 2011 was approximately RMB24.3 billion (equivalent to approximately HK$29.9 billion). Eureka is an offshore property arm of CMPD focusing mainly on investment property related business. Eureka has completed property development projects in eight major cities in the PRC. As at 31 December 2011, Eureka recorded audited total asset of approximately HK$31.1 billion, total liabilities of approximately HK$26.9 billion and net asset value of approximately HK$4.3 billion.

The directors of the Offeror are Mr. Huang Peikun and Mr. Liu Zhuogen. The directors of CMPD are Mr. Lin Shaobin (林少斌), Mr. Yang Tianping (楊天平), Mr. He Jianya (賀建亞), Mr. Wang Hong (王宏), Mr. Hua Li (華立), Mr. Hu Yong (胡勇), Mr. Huang Peikun (黃培坤), Mr. Chai Qiang (柴強), Mr. Liu Hongyu (劉洪玉), Mr. Lo Waihung (盧偉雄) and Mr. Zhang Wei (張煒).

**INTENTION OF THE OFFEROR REGARDING THE GROUP**

Based on the Company's announcement dated 19 April 2012, the Offeror considers that the voluntary liquidation of Total Ally would provide an opportunity for the Group to have a more cost effective structure by subcontracting the manufacturing works to subcontractors in order to avoid absorbing any unnecessary idle overhead costs. In addition, it would lay a foundation for the Company to continue its existing trading and manufacturing (by way of subcontracting arrangement) of various types of consumer electronic products businesses in a more commercially feasible manner. Therefore it is the intention of the Offeror that the Group will continue with its existing principal businesses including but not limited to its trading and manufacturing business of consumer electronics products. The Offeror does not intend to introduce any major changes to the existing operations and business of the Company. The Offeror has no plan to inject any assets or business into the Group or procure the Company to acquire or dispose any assets (other than in the ordinary course of business) following the Completion. However, given the scope of the Group's existing activities, the Offeror intends to conduct a more detailed review on the operations of the Group with a view to strengthen the existing business operations of the Group and formulate a long term business strategy for the Group. Subject to the result of the review, the Offeror may explore other business opportunities involving but not limited to existing trading and manufacturing business and consider whether to make any acquisition or investment in assets and/or business or cooperate with other business partners of the Group in order to enhance its growth and future development. The Group provides the Offeror the opportunity of having an overseas listed investment arm. In view of the aforesaid, the Offeror is of the view that the Acquisition and the Offer are of long-term commercial interest to the Offeror.

The Offeror has no intention to discontinue the employment of the employees or make major changes to the employees (save for a change in the composition of the Board referred to below) or to dispose of or redeploy the assets of the Group other than those in its ordinary course of business. As at the Latest Practicable Date, the Offeror has no plan for restructuring the Group's structure. However, after detailed review of the operations of the Group, the Offeror may consider other possible options regarding the restructuring of the Group structure, including but not limited to setting up new companies for engaging new business opportunities and/or strengthening existing businesses. Moreover, the Offeror shall develop the existing trading and manufacturing electronics products of the Group after detailed review on the operations of the Group and it will also depend on the prospect in the segment and whether the development of the existing businesses can increase the profitability of the Group and hence enhance the value of the Shareholders in the long term.

## PROPOSED CHANGE TO BOARD COMPOSITION OF THE COMPANY

### Resignation of Directors and their executive roles

Each of Mr. Mak Bing Kau, Mr. Ng Wai Hung and Mr. Lau Cheuk Lun has tendered his resignation as an executive Director and each of Mr. Pang Hon Chung, Mr. Cheng Tsang Wai and Dr. Chung Hing Wah, Paul has tendered his resignation as independent non-executive Directors, all with effect from the date next following the Closing Day, which is expected to be on 23 June 2012.

In addition, (i) Dr. So Shu Fai has resigned from his executive role as the chairman of the Company; (ii) Dr. So Shu Fai, Mr. Mak Bing Kau, Mr. Ng Wai Hung and Mr. Lau Cheuk Lun have resigned as members of the executive committee of the Company; (iii) Mr. Pang Hon Chung, Mr. Cheng Tsang Wai and Dr. Chung Hing Wah, Paul have resigned as members of the audit committee of the Company; (iv) Mr. Cheng Tsang Wai, Mr. Pang Hon Chung and Dr. So Shu Fai have resigned as members of the remuneration committee of the Company; and (v) Dr. So Shu Fai, Mr. Pang Hon Chung and Dr. Chung Hing Wah, Paul have resigned as members of the nomination committee of the Company, all with effect from the date next following the Closing Day, which is expected to be on 23 June 2012.

Each of the resigning Directors has confirmed that he has resigned as a result of the Completion. All the resigning Directors have confirmed that there is no disagreement with the Board and there is no matter in relation to their resignation that needs to be brought to the attention of the Shareholders. The Board would like to express its gratitude to all the resigning Directors for their valuable contributions to the Company during their terms of service.

### Appointment of Directors

The Board announces that Mr. Huang Peikun, Mr. Liu Zhuogen and Mr. Yu Zhiliang have been appointed as executive Directors, and Ms. Liu Ning has been appointed as non-executive Director and Ms. Chen Yanping, Dr. Wong Wing Kuen, Albert and Dr. Shi Xinping have been appointed as independent non-executive Directors with effect from the date next following the date of despatch of this Composite Document, which is expected to be on 2 June 2012.

In addition, Dr. Wong Wing Kuen, Albert as chairman, Dr. Shi Xinping and Ms. Liu Ning have been appointed as members of the audit committee of the Company; Ms. Chen Yanping as chairman, Dr. Wong Wing Kuen, Albert and Mr. Huang Peikun have been appointed as members of the remuneration committee of the Company; and Mr. Huang Peikun as chairman, Dr. Shi Xinping and Ms. Chen Yanping have been appointed as members of the nomination committee of the Company, all with effect from the date next following the Closing Day, which is expected to be on 23 June 2012.

### Biographies of the newly appointed Directors

The following are the biographies of each of Mr. Huang Peikun, Mr. Liu Zhuogen, Mr. Yu Zhiliang, Ms. Liu Ning, Ms. Chen Yanping, Dr. Wong Wing Kuen, Albert and Dr. Shi Xinping.

## EXECUTIVE DIRECTORS

### Mr. Huang Peikun

Mr. Huang Peikun ("**Mr. Huang**"), aged 50, has been serving as the chief financial officer and the director of CMPD since July 2005. Mr. Huang is a chief financial officer of Shenzhen China Merchants Real Estate Co., Ltd*. (深圳招商房地產有限公司) and CMPD. He is also a director of Eureka. Prior to joining CMPD, Mr. Huang worked as a manager of the finance department and a chief accountant at Shenzhen China Merchants Petrol Chemical Co., Ltd.* (深圳招商石化有限公司), a chief accountant at Shenzhen China Merchants Real Estate Co., Ltd.* (深圳招商房地產有限公司) and a chief financial officer and a deputy general manager at China Merchants Landmark (Shenzhen) Co., Ltd.* (深圳市招商創業有限公司). Mr. Huang received a master degree in management from Zhejiang University (浙江大學) and is a Senior Accountant of the PRC.

### Mr. Liu Zhuogen

Mr. Liu Zhuogen ("**Mr. Liu**"), aged 49, has been serving as a director of Eureka since 3 September 2009. Prior to joining Eureka, he worked as a deputy general manager at Commercial Property Division of of CMPD* (招商地產商業地產中心), an engineer of the Wharf (Holdings) Limited, a project manager at Kenworth Engineering Limited (香港太元堅穩工程公司, 現稱"穩堅工程有限公司"), a sales manager at Sanko Technology Limited (香港德萊工程公司) and an engineer at Shekou Industrial Zone of China Merchants Group* (招商局蛇口工業區). Mr. Liu received a bachelor degree in engineering from the South China University of Technology (華南理工大學), a master degree in engineering from University of New South Wales, Australia, an MBA under a distance learning programme jointly offered by Deakin University and the Association of Professional Engineers, Scientists and Managers, Australia and a master degree in accounting under a distance learning programme from Curtin University of Technology, Australia.

### Mr. Yu Zhiliang

Mr. Yu Zhiliang ("**Mr. Yu**"), aged 34, has been serving as a chief financial officer of China Merchants Property (Xiamen) Co. Ltd.* (招商局地產(廈門)有限公司) since 2010. Mr. Yu worked as a director of China Merchants Properties Development Ltd.* (招商局置業有限公司) and he was a director of Wahsheung Finance Ltd.* (華商財務有限公司). He received a bachelor degree in accounting from Xiamen University (廈門大學) and studied an MBA degree in finance at the Chinese University of Hong Kong. Mr. Yu is an accountant of the PRC.

## NON-EXECUTIVE DIRECTOR

### Ms. Liu Ning

Ms. Liu Ning ("**Ms. Liu**"), aged 44, has been serving as the secretary of the board of directors of CMPD since 2008. Ms. Liu has 14 years' experience in securities industry. She was appointed as a representative for securities affairs of CMPD in 2001 and a director of secretariat of the board of CMPD in 2004. Ms. Liu is currently an independent director of three companies which are listed on Shenzhen Stock Exchange, including Tianjin

Zhonghuan Semiconductor Co., Ltd.* (天津中環半導體股份有限公司) (Stock Code: 002129), Shenzhen Jinxinnong Feed Co., Ltd.* (深圳金新農飼料股份有限公司) (Stock Code: 002548) and Shenzhen Changfang Light Emitting Diode Lighting Co., Ltd.* (深圳市長方半導體照明股份有限公司) (Stock Code: 300301).

Ms. Liu received a bachelor degree in mechanical manufacturing from Central South University of Forestry and Technology (中南林業科技大學). She completed a post-graduate course in Department of Business Administration of Business School of Nankai University (南開大學國際商學院工商管理專業研究生課程) in 2000 and subsequently obtained an MBA from Macau University of Science and Technology. Ms. Liu is a Certified Economist of the PRC.

**INDEPENDENT NON-EXECUTIVE DIRECTOR**

**Ms. Chen Yanping**

Ms. Chen Yanping ("**Ms. Chen**"), aged 54, is currently a professor of Architecture and Urban Planning School of Shenzhen University (深圳大學建築與規劃學院). From October 2007 to November 2011, she was an independent director of CMPD. Ms. Chen received both a bachelor degree and a master degree in architecture and urban planning from Tongji University (同濟大學). Ms. Chen has worked at University of California, Los Angeles as a visiting scholar. Ms. Chen is a Certified Metropolitan Planner of the PRC.

**Dr. Wong Wing Kuen, Albert**

Dr. Wong Wing Kuen, Albert ("**Dr. Wong**"), aged 61, is currently the managing director of Charise Financial Planning Limited, a private professional consulting firm in Hong Kong. He is also serving as an independent non-executive director of APAC Resources Limited, a company listed on the Stock Exchange (Stock Code: 1104), an independent non-executive director of Solargiga Energy Holdings Limited, a company listed on the Stock Exchange (Stock Code: 757) and a non-executive director of Rare Earths Global Limited, a company listed in AIM market of the London Stock Exchange.

Dr. Wong holds a Doctor of Philosophy in Business Administration degree from the Bulacan State University, Republic of the Philippines. Dr. Wong received a bachelor degree in commerce from a joint programme of Shenzhen University (深圳大學) and Clayton University, Missouri, USA. He also received both a bachelor degree and a master degree in business administration from Nottingham Trent University, UK. Dr. Wong is a fellow member of the Institute of Chartered Secretaries and Administrators, a fellow member of the Hong Kong Institute of Chartered Secretaries, a fellow member of the Taxation Institute of Hong Kong, a member of the Hong Kong Securities Institute, a fellow member of Association of International Accountants, a fellow member of Society of Registered Financial Planners, Hong Kong, a member of the Chartered Institute of Arbitrators, an associate member of the Chartered Institute of Bankers in Scotland and a full member of Macau Society of Certified Practising Accountants. Dr. Wong is a Registered Financial Planner of Hong Kong, a certified tax adviser of Hong Kong, a certified accountant of Australia and Ireland and a Registered Financial Planner (level two) of the PRC.

**Dr. Shi Xinping**

Dr. Shi Xinping ("**Dr. Shi**"), aged 54, is currently the associate professor of Department of Finance and Decision Sciences at the Hong Kong Baptist University. He is also an independent non-executive director of China Technology Development Group Corporation* (中國科技集團), a company listed on Nasdaq (Stock Code: CTDC). From July 2001 to October 2007, he was an independent director of CMPD. Dr. Shi received a bachelor degree from North-western Polytechnic University (Xi'an, the PRC) in 1982, an MBA from Lancaster University, UK in 1990 and a PhD degree from Middlesex University, UK in 1995.

As at the Latest Practicable Date, each of Mr. Huang Peikun, Ms. Liu Ning, Mr. Liu Zhuogen, Mr. Yu Zhiliang, Ms. Chen Yanping, Dr. Wong Wing Kuen, Albert and Dr. Shi Xinping confirmed that, save as disclosed above:

(a) he/she has not entered into any service contract with the Company but has entered into an appointment letter with the Company, terms of which, among others, have a term which continues until terminated by either party by serving to the other party a written notice of not less than three months notice but subject to retirement by rotation at the general meetings of the Company in accordance with the articles of association of the Company, and the amount of any remuneration to be received by him/her (if any) is to be determined by the remuneration committee of the Company by reference to his/her experience and responsibilities to be undertaken, the Company's remuneration policy and the prevailing market conditions;

(b) he/she has not held any position with the Company or any of its subsidiaries and has not been a director in any other listed company in the past three years;

(c) he/she is not related to any Directors, senior management of the Company, or substantial Shareholders or controlling Shareholders;

(d) he/she does not have any interests in the Shares within the meaning of Part XV of the SFO; and

(e) he/she is not aware of other matters that need to be brought to the attention of the Shareholders and there is no information that is required to be disclosed pursuant to Rules 13.51(2)(h) to (v) of the Listing Rules.

The Board would like to take this opportunity to welcome Mr. Huang Peikun, Ms. Liu Ning, Mr. Liu Zhuogen, Mr. Yu Zhiliang, Ms. Chen Yanping, Dr. Wong Wing Kuen, Albert and Dr. Shi Xinping to join the Company.

Dr. So Shu Fai, an executive Director, has been overseeing the business of the Group and will remain as an executive Director. The Board would like to retain all senior management members of the Group and to continue conducting the existing business of the Group.

The Company will make further announcement under Rule 13.51(2) of the Listing Rules regarding the abovementioned changes to the Board. The Company will make further announcement in compliance with the Listing Rules should there be any further change to the composition of the Board in the future.

## MAINTAINING THE LISTING STATUS OF THE COMPANY

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

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

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

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

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

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

## TAX IMPLICATIONS

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

## ACCEPTANCE AND SETTLEMENT

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

## GENERAL

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

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

## ADDITIONAL INFORMATION

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

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

Yours faithfully,
For and on behalf of
**CITIC SECURITIES CORPORATE FINANCE (HK) LIMITED**
**Edmund Chan**
*Executive Director*

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

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 978)**

1 June 2012

*To the Independent Shareholders*

Dear Sir or Madam,

## UNCONDITIONAL MANDATORY CASH OFFER BY CITIC SECURITIES CORPORATE FINANCE (HK) LIMITED FOR AND ON BEHALF OF SUCCESS WELL INVESTMENTS LIMITED FOR ALL THE ISSUED SHARES IN TONIC INDUSTRIES HOLDINGS LIMITED (OTHER THAN THOSE SHARES ALREADY OWNED OR AGREED TO BE ACQUIRED BY SUCCESS WELL INVESTMENTS LIMITED AND PARTIES ACTING IN CONCERT WITH IT)

### INTRODUCTION

We refer to the composite offer and response document (the "Composite Document") dated 1 June 2012 jointly issued by the Company and the Offeror, of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Composite Document unless the context otherwise requires.

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

First Shanghai has been appointed as the independent financial adviser to the Independent Board Committee to advise us in respect of the terms of the Offer. Details of its advice and principal factors taken into consideration in arriving at its recommendation are set out in the letter from First Shanghai on pages 28 to 49 of the Composite Document.

### RECOMMENDATION

We have taken into account the terms of the Offer and the advice and recommendation of First Shanghai and the principal factors and reasons taken into consideration by it in arriving at its opinion.

* *For identification purposes only*

We consider the terms of the Offer are fair and reasonable so far as the Independent Shareholders are concerned and we recommend the Independent Shareholders, in particular those who hold a large volume of Shares and may find it difficult to dispose of a large volume of Shares in the open market without exerting downward pressure on the price of the Shares due to the thin trading volume of the Shares, to accept the Offer. Nonetheless, in view of the recent fluctuation in the trading price of the Shares, where the prevailing market price may be higher than the Offer Price (the closing price of the Shares as at the Latest Practicable Date of HK$1.160 represents a premium of approximately 132% over the Offer Price), we would like to remind the Independent Shareholders who would like to realise part or all of their investments in the Company to closely monitor the market price of the Shares during the period of the Offer and may, instead of accepting the Offer, consider selling their Shares in the open market should the proceeds, net of all transaction costs, of such sale exceed the amount receivable under the Offer.

The Offeror does not have any plan to inject any assets or business into the Group or procure the Company to acquire or dispose any assets (other than in the ordinary course of business) following the Completion. The Offeror intends to conduct a more detailed review on the operations of the Group with a view to strengthen the existing business operation of the Group and formulate a long-term strategy for the Group. Subject to the result of the review, the Offeror may explore other business opportunities involving but not limited to existing trading and manufacturing business and consider whether to make any acquisition or investment in assets and/or business or cooperate with other business partners of the Group in order to enhance its growth and future development. The Independent Shareholders who are confident of the future prospects of the Group following the Offer after considering the sections headed "Information on the Offeror" and "Intention of the Offeror regarding the Group" in the letter from CITIC Securities and other information contained in the Composite Document should consider retaining some or all of their Shares.

In any case, the Independent Shareholders are strongly advised that the decision to realise or to hold their investment is subject to individual circumstances and investment objectives. If in doubt, the Independent Shareholders should consult their own professional advisers for professional advice. Furthermore, the Independent Shareholders who wish to accept the Offer are recommended to carefully read the procedures for accepting the Offer as detailed in the Composite Document.

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

**Mr. Cheng Tsang Wai** **Mr. Pang Hon Chung** **Dr. Chung Hing Wah, Paul**
*Independent Non-executive Directors*

*The following is the text of a letter of advice to the Independent Board Committee from First Shanghai in respect of the Offer for the purpose of incorporation in this document.*

第一上海
FIRST SHANGHAI GROUP
FIRST SHANGHAI CAPITAL LIMITED
第一上海融資有限公司

**FIRST SHANGHAI CAPITAL LIMITED**
19th Floor, Wing On House
71 Des Voeux Road Central
Hong Kong

1 June 2012

*To the Independent Board Committee*

Dear Sir or Madam,

**UNCONDITIONAL MANDATORY CASH OFFER BY CITIC SECURITIES CORPORATE FINANCE (HK) LIMITED FOR AND ON BEHALF OF SUCCESS WELL INVESTMENTS LIMITED FOR ALL THE ISSUED SHARES IN TONIC INDUSTRIES HOLDINGS LIMITED (OTHER THAN THOSE SHARES ALREADY OWNED OR AGREED TO BE ACQUIRED BY SUCCESS WELL INVESTMENTS LIMITED AND PARTIES ACTING IN CONCERT WITH IT)**

## INTRODUCTION

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee, which in turn provides recommendation to the Independent Shareholders, in respect of the Offer. Details of the Offer are set out in the document jointly issued by the Offeror and the Company dated 1 June 2012 (the "**Composite Document**") of which this letter forms a part. Unless the context otherwise requires, capitalised terms used in this letter shall have the same meanings as those defined in the Composite Document.

As detailed in the joint announcement made by the Company and the Offeror dated 27 April 2012 (the "**First Announcement**"), the Offeror entered into the S&P Agreement 1 on 24 April 2012 and the S&P Agreement 2 on 27 April 2012 to procure the purchase an aggregate of 749,849,586 Shares, representing approximately 70% of the entire issued share capital of the Company and, upon Completion, the Offeror would be required to make an unconditional mandatory cash offer for all the issued Shares, other than those Shares already owned or agreed to be acquired by the Offeror and parties acting in concert with it. According to the joint announcement made by the Company and the Offeror dated 7 May 2012, the S&P Agreements were completed on 7 May 2012.

The Independent Board Committee, comprising all three independent non-executive Directors, namely Mr. Pang Hon Chung, Mr. Cheng Tsang Wai and Dr. Chung Hing Wah, Paul, has been established to advise the Independent Shareholders in respect of the Offer. The Independent Board Committee has approved our appointment as the independent financial adviser to advise the Independent Board Committee in respect of the Offer.

To the best of our knowledge, (i) as at the Latest Practicable Date, our fellow subsidiary First Shanghai Securities Limited ("**FSSL**") holds 229 B-shares in CMPD, representing approximately 0.00001% of the total number of shares of CMPD; (ii) FSSL, during its ordinary and usual course of business, provided brokerage services to two companies which are controlled by an associated company of the Offeror. The total net commission received from the above two clients during the past two years from the date of our engagement represented only approximately 0.03% of the revenue of our parent company First Shanghai Investments Limited ("**FSIL**") for the year ended 31 December 2011; and (iii) FSSL, during its ordinary and usual course of business, acted as one of the co-lead managers for the global offering of CITIC Securities Company Limited, the parent company of CITIC Securities, in September 2011 for an aggregate fee which represented only approximately 0.05% of the total revenue of FSIL for the year ended 31 December 2011. Having considered the insignificance of the shareholding in item (i) above and the insignificance of the fees in items (ii) and (iii) above, we consider the above transactions would not affect our position to give objective advice to the Independent Board Committee in respect of the Offer.

In formulating our opinion with regard to the Offer, we have relied on the information and facts supplied, opinions expressed and representations made to us by the management of the Group (including those contained or referred to in the First Announcement and the Composite Document). We have assumed that the information and facts supplied, opinions expressed and representations made to us by the management of the Group, and for which they are wholly responsible, were true, accurate and complete at the time they were made and continue to be true, accurate and complete in all material aspects until the date of the Composite Document. We consider that the information we have received is sufficient for us to reach an informed view and we have no reason to believe that any material information have been withheld, nor doubt the truth, accuracy or completeness of the information provided. We have also relied on certain information available to the public and we have assumed such information to be accurate and reliable, and we have not independently verified the accuracy of such information. We have not, however, conducted any independent investigation into the business and affairs of the Group or the Offeror or the associates of any of them, nor have we carried out any independent verification of the information supplied. We have also not considered the tax, regulatory and other legal implications on the Independent Shareholders in respect of their acceptance or non-acceptance of the Offer, respectively, since these depend on their individual circumstances. In particular, the Independent Shareholders who are overseas residents or subject to overseas taxation or Hong Kong taxation on securities dealings should consider their own tax position and, if in any doubt, should consult their own professional advisers. Should there be any subsequent major changes which occur during the period of the Offer that would affect or alter our opinion, we will notify the Independent Board Committee and the Independent Shareholders as soon as practicable.

## PRINCIPAL TERMS OF THE OFFER

CITIC Securities is making, for and on behalf of the Offeror, the Offer in accordance with Rule 26.1 of the Takeovers Code on the following terms:

**For each Offer Share . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . HK$0.50 in cash**

The Offer Price is equal to the price per Sale Share payable by the Offeror under the S&P Agreement 2, which is higher than that under the S&P Agreement 1 of HK$0.251 per Sale Share. The Offer Price would be payable in cash to the Shareholders in respect of acceptances of the Offer as soon as possible but in any event within seven business days (as defined in the Takeovers Code) following the receipt of the relevant documents of title to render each such acceptance complete and valid.

Further details of the terms of the Offer, including the procedures for acceptance, are set out in the Composite Document and the Independent Shareholders are urged to read the Composite Document in full.

## PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion with regard to the terms of the Offer, we have taken into consideration the following principal factors and reasons:

### 1. Business and financial information on the Group

The Company is an investment holding company incorporated in the Cayman Islands and the Shares have been listed on the Main Board of the Stock Exchange since October 1997. The Group is principally engaged in the manufacturing of electronic consumer products and the trading of electrical consumer products.

*(i) Historical financial performance of the Group*

The following table summarises the income statement of the Group for each of the years ended 31 March 2009, 2010 and 2011 and the six months ended 30 September 2010 and 2011, details of which are set out in Appendix II to the Composite Document:

| | For the year ended 31 March | | | For the six months ended 30 September | |
|---|---|---|---|---|---|
| | 2009 | 2010 | 2011 | 2010 | 2011 |
| | *(HK$ million)* | *(HK$ million)* | *(HK$ million)* | *(HK$ million)* | *(HK$ million)* |
| | (Audited) | (Audited) | (Audited) | (Unaudited) | (Unaudited) |
| **Turnover** | 2,056 | 486 | 77 | 18 | 101 |
| *Percentage of turnover from continuing operations:* | | | | | |
| – Asia Pacific countries including Greater China, Philippines and Dubai | 23% | 59% | 100% | | |
| – Americas | 60% | 26% | 0% | | |
| – Europe | 14% | 14% | 0% | | |
| – Others | 3% | 1% | 0% | | |
| **Gross (loss)/profit** | (9) | (36) | 2 | 0 | (2) |
| **(Loss)/Profit before tax** | (152) | (805) | 388 | 130 | (24) |
| **(Loss)/Profit attributable to Shareholders** | (175) | (790) | 388 | 130 | (24) |
| **(Loss) attributable to Shareholders after the exclusion of the Non-cash Gains (as defined below)** | (175) | (790) | (73) | (111) | (24) |

*(a) For the year ended 31 March 2009*

Turnover for the year ended 31 March 2009 amounted to approximately HK$2,056 million, representing an annual decrease of approximately 3%, and approximately 60% and 23% of the turnover from continuing operations was generated from the Americas and the Asia Pacific countries, respectively. Gross loss and loss before tax amounted to approximately HK$9 million and HK$152 million for the year ended 31 March 2009, respectively. As stated in the annual report of the Company for the year ended 31 March 2009, the poor financial performance of the operation of the Group for the year ended 31 March 2009 was attributable to, amongst others, the increase in raw material and staff costs in the PRC, the appreciation of Renminbi and the increase in financial costs due to the tightened credit policy of banks. Furthermore, the Group ceased its home appliance products business to focus on its electronic products and components business, where the

Group had to compensate laid off workers and write off plant and inventories, which led to a loss from discontinued operation of approximately HK$22 million for the year ended 31 March 2009. As a result, the Group recorded loss attributable to Shareholders of approximately HK$175 million for the year ended 31 March 2009.

*(b) For the year ended 31 March 2010*

Following the discontinuation of the home appliance products business in the prior year, the consumer electronic products and components business was the only business segment of the Group. According to the annual report of the Company for the year ended 31 March 2010 (the "**2010 Annual Report**"), the Group would continue to develop high-end set top boxes with a focus on domestic market. Turnover for the year ended 31 March 2010 amounted to approximately HK$486 million, representing an annual decrease of approximately 76%, and approximately 59% and 26% of the turnover of the Group was generated from the Greater China and the Americas, respectively. As mentioned in the 2010 Annual Report, the decline in turnover during the year was attributable to, amongst others, the scaling down of its operations and the deterioration of its export sales to markets in Europe and Americas, which plunged by approximately 89%. Despite the management of the Group has taken steps to impose cost saving measures, gross loss worsened from approximately HK$9 million for the year ended 31 March 2009 to approximately HK$36 million for the year ended 31 March 2010.

According to the 2010 Annual Report, the Group has experienced drastic decline in turnover, customers' purchase orders, production scale and customer confidence. With a view to further reduce costs and to mitigate the loss-making position of the Group, the Group has suspended and closed down manufacturing plants in the PRC. Furthermore, according to the 2010 Annual Report, due to the substantial limitations to the production scale of the Group and pressures on cash flow, financial institutions have ceased their financial support to the Group and demanded repayment of borrowings. Due to, amongst others, the immense pressure on the cash flow of the Group, the Group had delayed salary payments to certain workers and staff of the Group and certain assets of the Group, including equipment, machines and inventories, were sequestrated and auctioned to settle part of the salary and compensation payable to workers and staff. Loss attributable to Shareholders for the year ended 31 March 2010 deteriorated to approximately HK$790 million due to, amongst others, the provision for impairment of assets of approximately HK$225 million and the provision against inventories and loss on auctions of sequestrated inventories of approximately HK$427 million.

*(c) For the year ended 31 March 2011*

In December 2010, the Company completed the group reorganisation (including the deconsolidation of a liquidating subsidiary, namely Tonic Electronics Limited ("**TEL**")), the capital reorganisation and the creditor scheme (collectively, the "**Restructuring**"), details of which are set out in the circular of the Company dated 28 June 2010. The Restructuring resulted in the spinning off of various loss-making subsidiaries and significant debt elimination with a view to improve the financial position of the Group. For the year ended 31 March 2011, turnover amounted to approximately HK$77 million, representing an annual decline of approximately 84%, which was attributable to, amongst others, the downscaling of operations and the deterioration in overseas market conditions. For the year ended 31 March 2011, approximately 60% and 30% of the turnover of the Group was generated from the Greater China and Philippines, respectively.

The Group turned around to record gross profit of approximately HK$2 million, representing gross profit margin of approximately 3%, and profit attributable to Shareholders of approximately HK$388 million for the year ended 31 March 2011. However, the profit attributable to Shareholders was arrived at after crediting one-off non-cash gains from the deconsolidation of TEL of approximately HK$244 million and the debt restructuring as a result of the creditor scheme of approximately HK$217 million from the Restructuring (the "**Non-cash Gains**"). After the deduction of the one-off Non-cash Gains from the Restructuring without any other adjustments, the Group in fact recorded loss attributable to Shareholders of approximately HK$73 million for the year ended 31 March 2011.

*(d) For the six months ended 30 September 2011*

Turnover for the six months ended 30 September 2011 amounted to approximately HK$101 million, representing a period on period increase of approximately 461%, and we are advised by the management of the Group that the improvement in turnover was mainly attributable to the improvement in the electrical product trading business of the Group. Despite the improvement in turnover, the Group worsened from recording gross profit of approximately HK$353,000 for the six months ended 30 September 2010 to recording gross loss of approximately HK$2 million for the six months ended 30 September 2011. For the six months ended 30 September 2010, profit attributable to Shareholders amounted to approximately HK$130 million, however it was arrived at after crediting the one-off non-cash gain on the deconsolidation of TEL of approximately HK$241 million. According to the interim report of the Company for the six months ended 30 September 2011, the very slow economic recovery from the global financial crisis continued to affect the operations of the Group, where the Group has to accept even narrower margins in order to stay in business, and the Group resulted in recording loss attributable to Shareholders of approximately HK$24 million for the six months ended 30 September 2011.

*(ii) Historical financial position of the Group*

The following table summarises the statement of financial position of the Group as at 31 March 2010 and 2011 and 30 September 2011, details of which are set out in full in Appendix II to the Composite Document:

| | **As at 31 March 2010** *(HK$ million)* (Restated) | **As at 31 March 2011** *(HK$ million)* (Audited) | **As at 30 September 2011** *(HK$ million)* (Unaudited) |
|---|---|---|---|
| Non-current assets | 401 | 227 | 227 |
| Current assets | 35 | 150 | 59 |
| **Total assets** | **436** | **377** | **286** |
| Non-current liabilities | 31 | 97 | 149 |
| Current liabilities | 828 | 221 | 96 |
| **Total liabilities** | **859** | **318** | **245** |
| **Net current liabilities** | **793** | **71** | **37** |
| Net (liabilities)/assets attributable to Shareholders | (423) | 59 | 41 |
| Minority interests | – | – | – |
| **Net (liabilities)/assets** | **(423)** | **59** | **41** |

*(a) As at 31 March 2011*

The Restructuring was completed in December 2010 and the Group turned around from recording net liabilities of approximately HK$423 million as at 31 March 2010 to recording net assets of approximately HK$59 million as at 31 March 2011.

Non-current assets, which comprised only property, plant and equipment, decreased from approximately HK$401 million as at 31 March 2010 to approximately HK$227 million as at 31 March 2011, which was mainly due to the deconsolidation of scheme subsidiaries of approximately HK$180 million in the Restructuring. Current assets increased from approximately HK$35 million as at 31 March 2010 to approximately HK$150 million as at 31 March 2011, which primarily comprised due from a scheme subsidiary of approximately HK$122 million from the Restructuring. Non-current liabilities increased from approximately HK$31 million as at 31 March 2010 to approximately HK$97 million as at 31 March 2011, which mainly comprised non-current borrowings of approximately HK$82 million. Current liabilities decreased from approximately HK$828 million as at 31 March 2010 to approximately HK$221 million as at 31 March 2011, which was primarily attributable to the significant reduction in current borrowings, accounts payables and accruals and other payables mainly as a result of the Restructuring. Nonetheless, the Group still recorded net current liabilities of approximately HK$71 million as at 31 March 2011, which indicated the existence of an uncertainty in relation to the ability of the Group to continue as a going concern.

*(b) As at 30 September 2011*

Non-current assets, which comprised only property, plant and equipment, remained at approximately HK$227 million as at 31 March 2011. Current assets decreased from approximately HK$150 million as at 31 March 2011 to approximately HK$59 million as at 30 September 2011, which was mainly attributable to the full recovery of the due from a scheme subsidiary of approximately HK$122 million. Non-current liabilities rose from approximately HK$97 million as at 31 March 2011 to approximately HK$149 million as at 30 September 2011, which was primarily due to the increase of non-current borrowings from approximately HK$82 million as at 31 March 2011 to approximately HK$133 million as at 30 September 2011. On the other hand, current liabilities reduced from approximately HK$221 million as at 31 March 2011 to approximately HK$96 million as at 30 September 2011, which was primarily due to the decrease in current borrowings from approximately HK$187 million as at 31 March 2011 to approximately HK$70 million as at 30 September 2011. Despite the Group maintained its net assets position, the Group still recorded net current liabilities of approximately HK$37 million as at 30 September 2011, which indicated the existence of an uncertainty in relation to the ability of the Group to continue as a going concern.

The Company did not distribute any dividend for each of the years ended 31 March 2009, 2010 and 2011 and the six months ended 30 September 2011.

As detailed in Appendix II to the Composite Document, save for (i) the qualified opinions in the accountant's report for each of the three years ended 31 March 2009 and for the nine months ended 31 December 2009 issued by ANDA CPA Limited (the "**Auditors**") in the circular of the Company dated 28 June 2010; and (ii) the qualified audit opinion on the annual audited consolidated financial statements for the year ended 31 March 2010 issued by the Auditors, no other qualified opinion had been given by the Auditors for the three years ended 31 March 2011. However, the Independent Shareholders should note that the Auditors emphasized on the ability of the Group to continue as a going concern given the Group recorded net current liabilities of approximately HK$71 million as at 31 March 2011.

**2. Prospects of the Group**

As detailed in the previous section, the turnover of the Group has been deteriorating and the Group either recorded gross loss or had very low gross profit margin for each of the years ended 31 March 2009, 2010 and 2011. The Group in fact recorded substantial loss attributable to Shareholders for each of the years ended 31 March 2009, 2010 and 2011 after the exclusion of the one-off Non-cash Gains from the Restructuring for the year ended 31 March 2011. Although the Restructuring was completed in December 2010, the Group continued to record gross loss and loss attributable to Shareholders for the six months ended 30 September 2011. We consider the historical financial performance as one of the major factors to assess the Offer, in particular, the Group has been recording net current liabilities. Therefore, we wish to draw the attention of the Independent Shareholders that, given the poor financial performance track record, the ability of the Group to improve its future profitability is uncertain. Furthermore, despite the Restructuring was completed in December 2010, the Group continued to record net current liabilities as at 31 March 2011 and 30 September 2011, which, together with the poor historical financial performance and the uncertainty in the future profitability of the Group, indicates the existence of an uncertainty in relation to the ability of the Group to continue as a going concern.

We are advised by the management of the Group that set-top box was the largest product category sold by the Group and was the only product manufactured by the Group for the year ended 31 March 2011 and the six months ended 30 September 2011. We are further advised by the management of the Group that the manufacturing business of the Group had fixed assets, expertise, business relationships and relevant experiences specialised in set-top box, therefore the Group did not expand into the manufacturing of other products that the Group is less familiar and with less readily available resources. The manufacturing operation of the Group had been carried out mainly through a wholly-owned subsidiary of Total Ally Holdings Limited ("**Total Ally**", together with its subsidiary, the "**Total**

**Ally Group**"), which in turn is a wholly-owned subsidiary of the Company. However, as disclosed in the announcement of the Company dated 19 April 2012 (the "**Liquidation Announcement**") regarding the voluntary winding-up of Total Ally (the "**Liquidation**"), due to the low utilisation rate of the production capacity as a result of the insufficient orders for set-top box, where we are advised by the management of the Group that the manufacturing operation did not obtain enough orders to adequately cover various overhead costs, substantial idle overhead costs were incurred during the six months ended 30 September 2011. Moreover, compounded by the continuously rising costs of labour and raw materials, the manufacturing business of the Group has been suffering considerable losses. In view of the abovementioned adverse conditions which have worsened the overall financial performance of the Group, the Board resolved to conduct the Liquidation on 19 April 2012 and liquidators have been appointed for the Liquidation. Despite the Liquidation, we are advised by the management of the Group that the Group would adopt a new business model for its set-top box operation, where the Group would pay subcontractors to perform all the manufacturing works of set-top boxes. As stated in the Liquidation Announcement, the subcontracting business model would enable the retained Group to better manage its overheads and in turn, to enhance its overall profitability, which is considered beneficial to the long term growth of the Group and, as a transitional arrangement, the retained Group would enter into a subcontracting and agency agreement with Total Ally following the commencement of the Liquidation, where we are advised by the management of the Group that the Total Ally Group would provide set-top box manufacturing services to the Group during the Liquidation is in process while the liquidators are in control of the Total Ally Group, but it is uncertain as to whether the Total Ally Group can continue to provide set-top box manufacturing services after the completion of the realisation of the assets of Total Ally by the liquidators, where the liquidators are expected to take around six to nine months to finalise the realisation plan on the assets of Total Ally as stated in the Liquidation Announcement. We are further advised by the management of the Group that the Group is currently devoting its efforts and is optimistic in seeking and engaging other independent third party subcontractors to perform the manufacturing works of set-top boxes, where the Group is still in an early stage planning to approach suitable potential independent third party subcontractors and the management of the Group is confident in being able to locate subcontractors in the PRC based on their industry understanding. However, the Independent Shareholders should note that, given the Liquidation would effect a substantial change to the business model of the set-top box operation of the Group, therefore we consider the ability of the Group to adapt to the change to significantly improve its profitability is uncertain and the prospects of the Group is also uncertain should the Group fail to enhance its sales, engage independent third party subcontractors to perform the manufacturing works of set-top boxes and better manage its costs after the Liquidation.

Given that set-top box is the major product of the Group, we have reviewed relevant industry information on the website of Infonetics Research, Inc ("**Infonetics**"), which is an international market research and consulting firm specialised in the global communications market founded in 1990 and headquartered in the United States with clients include equipment vendors, communications silicon vendors and investment banks. Based on the article titled "*Pace overtakes Motorola in pay-TV set-top box (STB) market in 2Q11; STB market to peak in 2011*" dated 7 September 2011 published on the website of Infonetics, we understand that Infonetics expected the overall set-top box market to peak in 2011, followed by overall annual declines in the single digits through 2015 and beyond, despite healthy growth in internet protocol ("**IP**") and hybrid IP set-top boxes, which are two categories of set-top boxes that can show television content from internet source, as the set-top box upgrade cycle ebbing in North America and Europe markets and with more consumers watching television online. However, we are advised by the management of the Group that the Group is not involved in the sales of IP and hybrid IP set-top boxes. Moreover, we also note that the proportion of revenue of the Group generated from the Americas significantly declined in the past few years as discussed in the above section headed "Historical financial performance of the Group". Based on the article titled "*Video infrastructure market tops $800 million in 2011; set-top boxes get cheaper*" dated 18 April 2012 published on the website of Infonetics, we understand that worldwide set-top box unit shipments recorded an annual increase of approximately 14% in 2011, however revenue was nearly flat in the year with an annual increase of less than 1%, reflecting the intensified competition in the more mature markets and the growth of lower-cost set-top boxes in emerging markets, particularly in the PRC. Given the unfavourable performance and the difficulties facing by the set-top box industry, the ability of the Group to improve its profitability is uncertain. Nonetheless, the Independent Shareholders should note that the operating results of the Group may not closely follow the historical or expected overall general industry trend given that the actual performance of the Group is subject to various individual circumstances which include but not limited to the pricing and quality of the products of the Group.

Moreover, CMPD, the ultimate holding company of the Offeror, is primarily engaged in real estate development and operation in the PRC, whereas the Group is principally engaged in the manufacturing of electronic consumer products and the trading of electrical consumer products. Given that CMPD and the Group are engaged in completely different industries, it is not certain whether CMPD has the relevant industry expertise and business connections to extensively and effectively support the existing business development of the Group in near future.

Furthermore, the Company did not distribute any dividend in the past few years and, taking into account the abovementioned adverse financial conditions of the Group, the probability for the Company to distribute dividend in near future is uncertain.

**3. Background of the Offeror and its intentions regarding the Group**

***(i) Background of the Offeror***

The Offeror is an investment holding company incorporated in the BVI with limited liability on 2 February 2012 and is wholly-owned by Good Ease. Good Ease is an investment holding company incorporated in the BVI with limited liability on 2 February 2012 and is wholly-owned by Eureka. Eureka is an investment holding company incorporated in Hong Kong with limited liability on 16 August 1994 and is wholly-owned by CMPD. CMPD, the ultimate holding company of the Offeror, is listed on the Shenzhen Stock Exchange since 1993 and is primarily engaged in real estate development and operation in the PRC.

***(ii) Intentions regarding the Group***

As set out in the letter from CITIC Securities in the Composite Document, the Offeror intends to maintain the listing of the Shares on the Stock Exchange upon the close of the Offer.

Save for Dr. So Shu Fai, all the existing executive Directors and the independent non-executive Directors have tendered their resignations with effect from the date next following the Closing Day. Three new executive Directors, one new non-executive Director and three new independent non-executive Directors have been appointed with effect from the date next following the date of despatch of the Composite Document. Details of the change in composition of the Board, including the biographies of the newly appointed Directors, are set out in the letter from CITIC Securities in the Composite Document. Save for the change in the composition of the Board, the Offeror has no intention to discontinue the employment of the employees or make major changes to the employees of the Group.

The Offeror considers that the voluntary liquidation of Total Ally would provide an opportunity for the Group to have a more cost effective structure by subcontracting the manufacturing works to subcontractors in order to avoid absorbing any unnecessary idle overhead costs. In addition, it would lay a foundation for the Company to continue its existing trading and manufacturing (by way of subcontracting arrangement) of various types of consumer electronic products businesses in a more commercially feasible manner. The Offeror intends that the Group will continue with its existing principal businesses including but not limited to its trading and manufacturing business of consumer electronics products. The Offeror does not intend to introduce any major change to the existing operations and business of the Company and has no intention to dispose of or redeploy the assets of the Group other than those in its ordinary course of business. The Offeror has no plan to inject any assets or business into the Group or procure the Company to acquire or dispose any assets (other than in the ordinary course of business) following the Completion. However, given the scope of the existing activities of the Group, the Offeror intends to conduct a more detailed review on the operations of the Group with a view to strengthen the existing business operations of the Group and formulate a long term business strategy for the Group. Subject to the result of the review, the Offeror may explore other business opportunities involving but not limited to existing trading and manufacturing business and consider whether to make any acquisition or investment in assets and/or business or cooperate with other business partners of the Group in order to enhance its growth and future development. The Offeror may consider other possible options regarding the restructuring of the Group structure, including but not limited to setting up new companies for engaging new business opportunities and/or strengthening existing businesses. Moreover, the Offeror shall develop the existing trading and manufacturing electronics products of the Group after detailed review on the operations of the Group and it will also depend on the prospect in the segment and whether the development of the existing businesses can increase the profitability of the Group and hence enhance the value of the Shareholders in the long term.

**4. Evaluation of the Offer Price**

CITIC Securities is making, for and on behalf of the Offeror, the Offer at the Offer Price of HK$0.50 in cash for each Offer Share. The Offer Price is the same as the price per Sale Share payable by the Offeror under the S&P Agreement 2, which is higher than that under the S&P Agreement 1 of HK$0.251 per Sale Share. The Offer Price would be payable in cash to the Shareholders in respect of acceptances of the Offer as soon as possible but in any event within seven business days (as defined in the Takeovers Code) following the receipt of the relevant documents of title to render each such acceptance complete and valid.

***(i) Historical price performance of the Shares***

Having reviewed the historical closing prices of the Shares, we noted that the Offer Price of HK$0.5 per Share represents:

(a) a discount of approximately 57% to the closing price as quoted on the Stock Exchange as at the Latest Practicable Date of HK$1.160 per Share;

(b) a discount of approximately 30% to the closing price as quoted on the Stock Exchange on the Last Trading Day of HK$0.710 per Share;

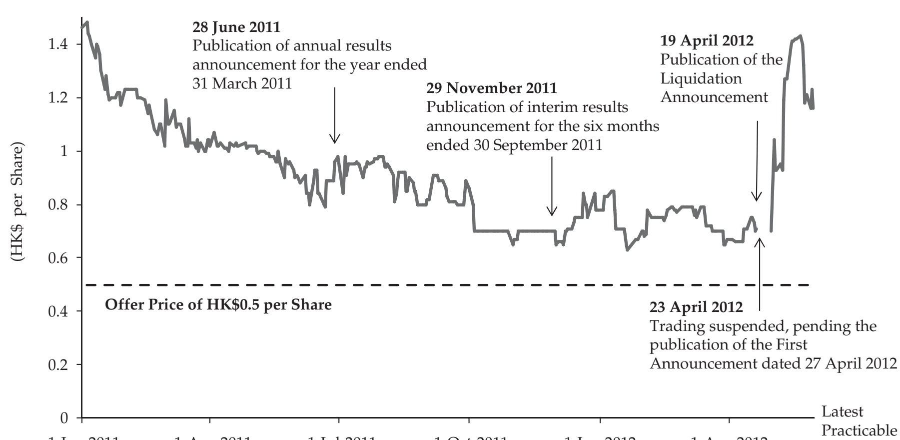
(c) a discount of approximately 31% to the average of the closing prices as quoted on the Stock Exchange for the last 5 consecutive trading days up to and including the Last Trading Day of approximately HK$0.728 per Share;

(d) a discount of approximately 30% to the average of the closing prices as quoted on the Stock Exchange for the last 30 consecutive trading days up to and including the Last Trading Day of approximately HK$0.714 per Share;

(e) a premium of approximately 812% over the latest published audited net assets attributable to Shareholders per Share of the Group, being audited net assets attributable to Shareholders of approximately HK$58,515,000 as at 31 March 2011 divided by 1,068,468,860 Shares as at the Latest Practicable Date, of approximately HK$0.0548 per Share; and

(f) a premium of approximately 1,189% over the latest published unaudited net assets attributable to Shareholders per Share of the Group, being unaudited net assets attributable to Shareholders of approximately HK$41,419,000 as at 30 September 2011 divided by 1,068,468,860 Shares as at the Latest Practicable Date, of approximately HK$0.0388 per Share.

The chart below depicts the closing prices of the Shares from 1 January 2011, being the month following the completion of the Restructuring, up to and including the Latest Practicable Date (the "**Review Period**"). The Review Period was selected for review because the Restructuring effected a substantial change to the structure and financial position of the Group and we consider the period after the Restructuring better reflects the existing structure and financial position of the Group.




*Source: Bloomberg and the website of the Stock Exchange*

In early January 2011, the closing prices of the Shares were mainly within the range of HK$1.40 and HK$1.48. However, the closing prices gradually declined and reached HK$0.79 on 21 June 2011. The closing price gradually recovered to HK$0.96 on 28 June 2011, being the date of publication of the annual results announcement of the Group for the year ended 31 March 2011, but the closing price again entered a declining trend and reached HK$0.70 on 29 November 2011, being the date of publication of the interim result announcement of the Group for the six months ended 30 September 2011. Since then, the closing prices were mainly within the range of HK$0.60 to HK$0.80. The closing price on 19 April 2012, being the date of the publication of the announcement in relation to the Liquidation, was HK$0.70 and on 20 April 2012, being the Last Trading Day, the closing price was HK$0.71. The trading of the Shares was then suspended and, following the publication of the First Announcement, subsequently resumed on 30 April 2012. The closing price of the Shares surged from HK$0.70 on 30 April 2012 to HK$1.04 on 2 May 2012 and subsequently rose to HK$1.43 on 21 May 2012 but eventually decreased to HK$1.16 on the Latest Practicable Date.

We note that the Offer Price of HK$0.50 per Share has been lower than the closing prices of the Shares during the Review Period. Nonetheless, we also note that, during the Review Period, the closing price of the Shares demonstrated an overall decreasing trend before the publication of the First Announcement, where the highest and lowest closing price of the Shares of HK$1.48 and HK$0.63 were recorded on 4 January 2011 and 20 January 2012, respectively. Furthermore, we note that the closing price on 3 January 2011, being the first trading day of the Review Period, of HK$1.46 as compared with the closing price on the Last Trading Day of HK$0.71, represented a substantial decline of approximately 51%. For additional information, we note that the closing price on 20 April 2011, being the date a year prior to the Last Trading Day, of HK$1.02 as compared with the closing price on the Last Trading Day of HK$0.71, also represented a decline of approximately 30%. We believe that the recent surge of the price of the Shares was mainly attributable to the market reaction to the publication of the First Announcement and the Independent Shareholders should note that the sustainability of the current price level is uncertain.

*(ii) Liquidity of the Shares*

The following table sets out the total trading volume per month and the average daily trading volume per month of the Shares during the Review Period:

| | **Total monthly trading volume of the Shares** *(million Shares)* | **Average daily trading volume of the Shares during the month** *(million Shares)* | **% of average daily trading volume of the Shares to average total issued Shares** | **% of average daily trading volume of the Shares to average public float** |
|---|---|---|---|---|
| **2011** | | | | |
| January | 110.28 | 5.25 | 0.49% | 2.09% |
| February | 1.25 | 0.07 | 0.01% | 0.03% |
| March | 4.01 | 0.17 | 0.02% | 0.07% |
| April | 2.69 | 0.15 | 0.01% | 0.06% |
| May | 2.14 | 0.11 | 0.01% | 0.04% |
| June | 1.87 | 0.09 | 0.01% | 0.03% |
| July | 0.86 | 0.04 | 0.00% | 0.01% |
| August | 0.66 | 0.03 | 0.00% | 0.01% |
| September | 0.44 | 0.02 | 0.00% | 0.01% |
| October | 0.15 | 0.01 | 0.00% | 0.00% |
| November | 0.14 | 0.01 | 0.00% | 0.00% |
| December | 0.59 | 0.03 | 0.00% | 0.01% |
| **2012** | | | | |
| January | 1.47 | 0.08 | 0.01% | 0.03% |
| February | 0.18 | 0.01 | 0.00% | 0.00% |
| March | 0.24 | 0.01 | 0.00% | 0.00% |
| April | 3.60 | 0.28 | 0.03% | 0.10% |
| May (up to the Latest Practicable Date) | 129.66 | 6.17 | 0.58% | 2.15% |

*Source: Bloomberg*

We note from the above table that the trading volume of the Shares has been extremely thin in general during the Review Period, where the percentages of average daily trading volume of the Shares to the average total issued Shares and average public float during the Review Period were mainly below 0.05%. For instance, during the period between 14 November 2011 and 30 November 2011, there was no trading of the Shares for 13 consecutive trading days. A relatively higher total monthly trading volume of approximately 110 million Shares was recorded in January 2011, however, it was primarily due to the trading volume of approximately 107 million Shares on 3 January 2011, which we believe was attributable to the completion of the placing down of approximately 107 million Shares to restore public float as detailed in the announcement of the Company dated 31 December 2010. Trading volume in April 2012 and May 2012 also rose after the publication of the First Announcement, which we believe was mainly attributable to the market reaction to the Offer and the Independent Shareholders should note that the sustainability of the recent growth in trading volume is uncertain. Hence, the Independent Shareholders may find it difficult to dispose of a large volume of Shares in the open market without exerting downward pressure on the price of the Shares. Accordingly, the market trading price of the Shares may not necessarily reflect the proceed that the Independent Shareholders can receive by the disposal of their Shares in the open market and the Offer provides a viable alternative exit for the Independent Shareholders, particularly for those who hold a large volume of Shares, to realise their investments in the Company.

***(iii) Market comparison***

The Company did not distribute any dividend for each of the years ended 31 March 2009, 2010 and 2011 and the six months ended 30 September 2011. Therefore, the review of the dividend yield of the Group is not applicable.

For the latest full financial year, the Group recorded profit attributable to Shareholders of approximately HK$388 million for the year ended 31 March 2011. However, the profit was arrived at after crediting the one-off Non-cash Gains from the Restructuring. After the deduction of these Non-cash Gains without any other adjustments, the Group in fact recorded loss attributable to Shareholders of approximately HK$73 million for the year ended 31 March 2011. Moreover, with reference to the latest published interim results, the Group recorded loss attributable to Shareholders of approximately HK$24 million. Therefore, we consider the review of the price to earnings ratio of the Group is not meaningful.

As covered in the above two paragraphs, the commonly used dividend yield and price to earnings approaches are not applicable in assessing the Offer Price, we have therefore adopted the price to book value ratio (the "**P/B Ratio**") approach, which is also one of the commonly adopted approaches to provide information for the assessment of offer prices. Despite the valuation of the Group may not be entirely based on the value of the assets of the Group, we believe the value of the net assets of the Group reflects the financial position of the Group which we consider as one of the factors for our assessment of the value of the Group, therefore we believe the review of the P/B Ratio can provide information as one of the factors to assess the fairness and reasonableness of the Offer Price. Furthermore, despite the Liquidation has commenced, we note from Appendix II to the Composite Document that the Liquidation would lead to a reduction in the net assets of the Group, which would hence inflate the P/B Ratio of the Group as represented by the Offer Price, therefore we consider our P/B Ratio analysis based on the net assets of the Group as at 30 September 2011, being the latest published net assets attributable to Shareholders per Share of the Group, where the P/B Ratio of the Group as represented by the Offer Price has not yet been inflated and is already above the range of the P/B Ratios of the Comparable Companies as analysed below, is appropriate. We have identified an exhaustive, fair and representative list of comparable companies (the "**Comparable Companies**"), which are companies (i) listed on the Main Board of the Stock Exchange; (ii) with positive net assets attributable to shareholders in the latest published financial statement given that companies with net liabilities attributable to shareholders will result in a negative P/B Ratio which is not considered meaningful in our analysis; and (iii) principally engaged in businesses similar to those of the Group, being set-top boxes related business or the trading of electrical products. The Independent Shareholders should note that the business and financial aspects and prospects of the Comparable Companies may not be exactly the same as those of the Group. Set out in the following table is the P/B Ratio of the Comparable Companies based on information obtained from the website of the Stock Exchange.

| Company name (stock code) | Principal business | Ending date of the latest reported financial period[(1)] | Net assets[(2)] | Market capitalisation[(3)] | P/B Ratio[(4)] |
|---|---|---|---|---|---|
| | | | *(HK$ million)* | *(HK$ million)* | *(times)* |
| Computime Group Limited (320 HK) | Research and development, design, manufacture, trading and distribution of building and home control products and appliance control products | 30 September 2011 | 1,013 | 369 | 0.36 |
| Sandmartin International Holdings Limited (482 HK) | Trading and manufacturing of media entertainment platform related products (including set-top boxes) and other multimedia products | 31 December 2011 | 942 | 874 | 0.93 |
| TC Orient Lighting Holdings Limited (515 HK) | Manufacturing and trading of printed circuit boards and LED lighting | 31 December 2011 | 900 | 522 | 0.58 |
| Alltronics Holdings Limited (833 HK) | Manufacturing and trading of electronic products, plastic moulds, plastic and other components for electronic products | 31 December 2011 | 224 | 468 | 2.09 |
| Datronix Holdings Limited (889 HK) | Manufacturing and trading of electronic components | 31 December 2011 | 600 | 694 | 1.16 |
| Mobicon Group Limited (1213 HK) | Trading and distribution of electronic parts, components and equipment products and mobile accessories | 30 September 2011 | 166 | 122 | 0.73 |
| | | | | | Maximum: 2.09 |
| | | | | | Mean: 0.98 |
| | | | | | Median: 0.83 |
| | | | | | Minimum: 0.36 |
| **The Group (as represented by the Offer Price)** | Manufacturing of electronic consumer products and the trading of electrical consumer products. | 30 September 2011 | 41 | 534[(5)] | 12.89[(6)] |

*Source: the website of the Stock Exchange*

*Notes:*

(1) The ending date of the reported financial period based on the latest published financial statement.

(2) The amount of net assets is based on the consolidated net assets attributable to shareholders as disclosed in the latest published financial statement.

(3) The market capitalisation is derived from multiplying the share price as at the Latest Practicable Date by the total number of shares as disclosed in the latest published monthly return or other document published by the company on the website of the Stock Exchange that include information on the latest total number of shares.

(4) The P/B Ratio is derived from dividing the market capitalisation by the net assets.

(5) The market capitalisation of the Group as represented by the Offer Price is derived from multiplying the Offer Price of HK$0.5 per Share by 1,068,468,860 Shares as at the Latest Practicable Date.

(6) The P/B Ratio of the Group as represented by the Offer Price is derived from dividing the Offer Price of HK$0.5 per Share by the latest published net assets attributable to Shareholders per Share of the Group, being unaudited net assets attributable to Shareholders of approximately HK$41,419,000 as at 30 September 2011 divided by 1,068,468,860 Shares as at the Latest Practicable Date, of approximately HK$0.0388 per Share.

Based on the above table, we note that the P/B Ratio of the Group as represented by the Offer Price of approximately 12.89 times is substantially higher than the range of those of the Comparable Companies, which means that the Offer Price represents a higher premium over the value of the net assets of the Group as compared with the premiums represented by the market price over the value of the net assets of the Comparable Companies.

## DISCUSSION AND ADVICE

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

- despite the recent historical market price of the Shares represents premium over the Offer Price, during the Review Period, the closing price of the Shares demonstrated an overall decreasing trend before the publication of the First Announcement, where the closing price on 3 January 2011, being the first trading day of the Review Period, of HK$1.46 as compared with the closing price on the Last Trading Day of HK$0.71, represented a substantial decline of approximately 51%. Moreover, the P/B Ratio of the Group as represented by the Offer Price of approximately 12.89 times is substantially higher than the range of those of the Comparable Companies, which means that the Offer Price represents a higher premium over the value of the net assets of the Group as compared with the premiums represented by the market price over the value of the net assets of the Comparable Companies;

- the turnover of the Group has been deteriorating and the Group either recorded gross loss or had very low gross profit margin for each of the years ended 31 March 2009, 2010 and 2011. The Group in fact recorded substantial loss attributable to Shareholders for each of the years ended 31 March 2009, 2010 and 2011 after the exclusion of the one-off Non-cash Gains from the Restructuring for the year ended 31 March 2011. Although the Restructuring was completed in December 2010, the Group continued to record gross loss and loss attributable to Shareholders for the six months ended 30 September 2011. Given the poor financial performance track record, the ability of the Group to improve its future profitability is uncertain;

- the Board resolved to conduct the Liquidation, which would effect a substantial change to the business model of the set-top box operation of the Group. Moreover, given the intensified competition in the more mature markets and the growth of lower-cost set-top boxes in emerging markets, particularly in the PRC, the ability of the Group to significantly improve its profitability is uncertain should the Group fail to enhance its sales, engage independent third party subcontractors to perform the manufacturing works of set-top boxes and better manage its costs;

– despite the Restructuring was completed in December 2010, the Group continued to record net current liabilities as at 31 March 2011 and 30 September 2011, which, together with the poor historical financial performance and the uncertainty in the future profitability of the Group, indicates the existence of an uncertainty in relation to the ability of the Group to continue as a going concern;

– the Company did not distribute any dividend in the past few years and, taking into account the abovementioned adverse financial conditions of the Group, the probability for the Company to distribute dividend in near future is uncertain; and

– the trading volume of the Shares has been extremely thin in general during the Review Period and the Independent Shareholders may find it difficult to dispose of a large volume of Shares in the open market without exerting downward pressure on the price of the Shares. Accordingly, the market trading price of the Shares may not necessarily reflect the proceed that the Independent Shareholders can receive by the disposal of their Shares in the open market and the Offer provides a viable alternative exit for the Independent Shareholders, particularly for those who hold a large volume of Shares, to realise their investments in the Company,

**we consider the terms of the Offer are fair and reasonable so far as the Independent Shareholders are concerned and we recommend the Independent Shareholders, in particular those who hold a large volume of Shares and may find it difficult to dispose of a large volume of Shares in the open market without exerting downward pressure on the price of the Shares due to the thin trading volume of the Shares, to accept the Offer. Nonetheless, in view of the recent fluctuation in the trading price of the Shares, where the prevailing market price may be higher than the Offer Price (the closing price of the Shares as at the Latest Practicable Date of HK$1.16 represents a premium of approximately 132% over the Offer Price), we would like to remind the Independent Shareholders who would like to realise part or all of their investments in the Company to closely monitor the market price of the Shares during the period of the Offer and may, instead of accepting the Offer, consider selling their Shares in the open market should the proceeds, net of all transaction costs, of such sale exceed the amount receivable under the Offer.**

The Offeror does not have any plan to inject any assets or business into the Group or procure the Company to acquire or dispose any assets (other than in the ordinary course of business) following the Completion. The Offeror intends to conduct a more detailed review on the operations of the Group with a view to strengthen the existing business operations of the Group and formulate a long term business strategy for the Group. Subject to the result of the review, the Offeror may explore other business opportunities involving but not limited to existing trading and manufacturing business and consider whether to make any acquisition or investment in assets and/or business or cooperate with other business partners of the Group in order to enhance its growth and future development. The Independent Shareholders who are confident of the future prospects of the Group following the Offer after considering the sections headed "Information on the Offeror" and "Intention of the Offeror regarding the Group" in the letter from CITIC Securities and other information contained in the Composite Document should consider retaining some or all of their Shares.

In any case, the Independent Shareholders are strongly advised that the decision to realise or to hold their investment is subject to individual circumstances and investment objectives. If in doubt, the Independent Shareholders should consult their own professional advisers for professional advice. Furthermore, the Independent Shareholders who wish to accept the Offer are recommended to carefully read the procedures for accepting the Offer as detailed in the Composite Document.

Yours faithfully,
For and on behalf of
**First Shanghai Capital Limited**

**Eric Lee**
*Managing Director*

**Fanny Lee**
*Managing Director*

## 1. PROCEDURES FOR ACCEPTANCE

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**2. ACCEPTANCE PERIOD AND REVISIONS**

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

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

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

**3. ANNOUNCEMENTS**

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

The announcement must state the following:

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

(ii) the total number of Shares and rights over Shares held, controlled or directed by the Offeror and parties acting in concert with it before the offer period (as defined under the Takeovers Code); and

(iii) the total number of Shares and rights over Shares acquired or agreed to be acquired during the offer period by the Offeror and parties acting in concert with it.

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

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

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

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

**4. RIGHT OF WITHDRAWAL**

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

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

**5. SETTLEMENT**

(a) Provided that the Form(s) of Acceptance and/or the relevant share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) are in complete and good order in all respects and have been received by the Registrar by no later than 4:00 p.m. on the Closing Day for the acceptance of the Offer, a cheque for the amount representing the cash consideration due to each accepting Independent Shareholder in respect of the Shares tendered by him/her or his/her agent(s) under the Offer, less seller's ad valorem stamp duty payable by him/her in the case for tendered Shares, will be despatched to each accepting Independent Shareholder by ordinary post at his/her own risk as soon as possible but in any event within 7 business days from the date of receipt of duly completed acceptances by the Registrar and in accordance with the Takeovers Code.

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

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

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

## 6. OVERSEAS SHAREHOLDERS

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

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

## 7. GENERAL

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

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

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

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

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

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

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

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

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

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

## 1. THREE-YEAR SUMMARY OF FINANCIAL INFORMATION

a. The following is a summary of the audited financial results of the Group for each of three years ended 31 March 2011 and the unaudited financial results of the Group for the six months ended 30 September 2011 as extracted from the published annual reports and interim report of the Company.

| | For the year ended 31 March | | | For the six months ended 30 September |
|---|---|---|---|---|
| | **2011** | **2010** | **2009** | **2011** |
| | **(Audited)** | **(Audited)** | **(Audited)** | **(Unaudited)** |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Turnover | 77,394 | 486,237 | 2,055,805 | 101,475 |
| Profit/(loss) before taxation | 388,444 | (805,396) | (152,458) | (23,728) |
| Income tax | – | 14,982 | (140) | – |
| Profit/(loss) for the year/period from continuing operation | 388,444 | (790,414) | (152,598) | (23,728) |
| (Loss) for the year/period from discontinued operation | – | – | (22,289) | – |
| Profit/(loss) attributable to equity holders of the Company | 388,444 | (790,414) | (174,887) | (23,728) |
| Basic and diluted earnings/(loss) per share (HK cents per share) | 93 | (747) | (16.5) | (2.2) |

*Notes:*

1. The Group did not have any extraordinary or exceptional items or profits/loss to minority interest, and has not declared any dividends for each of the three financial years ended 31 March 2011 and for the six months ended 30 September 2011.

2. Save for (i) the qualified opinions in the accountant's report for each of the three financial years ended 31 March 2009 and for the nine months ended 31 December 2009 issued by ANDA CPA Limited in the circular of the Company dated 28 June 2010 (the "Circular"); and (ii) the qualified audit opinion on the annual audited consolidated financial statements for the financial year ended 31 March 2010 issued by ANDA CPA Limited, no other qualified opinion had been given by ANDA CPA Limited, the auditors of the Company for the three years ended 31 March 2011. However, Shareholders' attention is drawn to the sub-section headed "Emphasis of Matter — Going Concern Basis" in the auditor's report on the financial information of the Group for the financial year ended 31 March 2011.

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

*The accountants report (the "Accountants' Report") on the financial information of the Group for each of the three financial years ended 31 March 2009 and for the nine months ended 31 December 2009 contained in the circular of the Company dated 28 June 2010 (the "Circular") is reproduced below. The Accountants' Report contained qualifications and disclaimers as set out below. Capitalised terms and references used in this section shall have the same meanings as those defined in the Circular.*

The Board of Directors
Tonic Industries Holdings Limited

Dear Sirs,

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

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

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

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

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

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

**BASIS OF OPINION**

**1. Scope limitation – inventories**

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

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

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

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

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

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

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

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

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

## REVIEW CONCLUSION IN RESPECT OF THE 2008 COMPARATIVE FINANCIAL INFORMATION

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

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

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

Hong Kong, 28 June 2010

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

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

**TO THE SHAREHOLDERS OF TONIC INDUSTRIES HOLDINGS LIMITED**
*(Incorporated in the Cayman Islands with limited liability)*

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

**DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS**

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

**AUDITOR'S RESPONSIBILITY**

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

## BASIS FOR DISCLAIMER OF OPINION

### 1. Scope limitation – opening inventories

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

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

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

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

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

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

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

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

Hong Kong, 27 July 2010

## 4. AUDITED FINANCIAL INFORMATION

*The auditor's report on the financial information of the Group for the financial year ended 31 March 2011 (the "2011 Auditors' Report") contained in the annual report 2011 of the Company is reproduced below. The 2011 Auditors' Report did not contain any qualifications and disclaimers. However, Shareholders' attention is drawn to the sub-section headed "Emphasis of Matter — Going Concern Basis" in the 2011 Auditors' Report as set out below. Capitalised terms and reference used in this section shall have the same meanings as those defined in the annual report 2011 of the Company.*

## A. AUDITORS' REPORT

### TO THE SHAREHOLDERS OF TONIC INDUSTRIES HOLDINGS LIMITED

*(Incorporated in the Cayman Islands with limited liability)*

We have audited the consolidated financial statements of Tonic Industries Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 40 to 126, which comprise the consolidated and Company statements of financial position as at 31 March 2011, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

### DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company (the "Directors") are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the Directors determine is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### AUDITOR'S RESPONSIBILITY

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the consolidated financial statements.

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

**OPINION**

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group and the Company as at 31 March 2011, and of the Group's results and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**EMPHASIS OF MATTER – GOING CONCERN BASIS**

Without qualifying our opinion, we draw attention to note 2 to the consolidated financial statements which indicates the Group's current liabilities exceeded its current assets by approximately HK$71,287,000 as at 31 March 2011. As further detailed in note 2 to the consolidated financial statements, the Group has identified measures to improve its financial position and certain of which have been implemented. The Group's ability to continue as a going concern is dependent on the successful implementation of these measures.

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

Hong Kong, 28 June 2011

## B. FINANCIAL INFORMATION

### CONSOLIDATED INCOME STATEMENT

*For the year ended 31 March 2011*

| | Notes | 2011 HK$'000 | 2010 HK$'000 |
|---|---|---|---|
| **Turnover** | 8 | 77,394 | 486,237 |
| Cost of sales | | (75,007) | (522,321) |
| **Gross profit/(loss)** | | 2,387 | (36,084) |
| Other income | 9 | 4,590 | 5,675 |
| Selling and distribution expenses | | (897) | (1,430) |
| Administrative expenses | | (40,315) | (100,420) |
| Gains on equity investments at fair value through profit or loss | | – | 1,094 |
| Provision for impairment of assets | | (2,281) | (224,832) |
| Provision against inventories | | (2,516) | (270,945) |
| Loss on auctions of sequestrated inventories | | – | (156,000) |
| Gain on deconsolidation of a liquidating subsidiary | 10 | 243,503 | – |
| Gain on debt restructuring | 11 | 217,108 | – |
| **Profit/(loss) from operations** | | 421,579 | (782,942) |
| Finance costs | 12 | (33,135) | (22,454) |
| **Profit/(loss) before tax** | | 388,444 | (805,396) |
| Income tax | 13 | – | 14,982 |
| **Profit/(loss) for the year attributable to equity holders of the Company** | 14 | 388,444 | (790,414) |
| **Earnings/(loss) per share** | 17 | | |
| Basic (HK cents per share) | | 93 | (747) |

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

*For the year ended 31 March 2011*

| | *Notes* | **2011** *HK$'000* | **2010** *HK$'000* |
|---|---|---|---|
| **Profit/(loss) for the year attributable to equity holders of the Company** | *14, 18* | 388,444 | (790,414) |
| Translation differences of foreign operations | | 992 | 283 |
| Translation differences reclassified to profit or loss upon deconsolidation of scheme subsidiaries | | (18,931) | – |
| Surplus/(deficit) on property revaluation | | 35,561 | (27,384) |
| Deferred tax on property revaluation: | | | |
| – (Surplus)/deficit on revaluation | | (8,890) | 6,901 |
| – Release on disposal | | – | 624 |
| Other comprehensive income/(loss) for the year, net of tax | | 8,732 | (19,576) |
| **Total comprehensive income/(loss) for the year attributable to equity holders of the Company** | | 397,176 | (809,990) |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*As at 31 March 2011*

| | Notes | At 31 March 2011 HK$'000 | At 31 March 2010 HK$'000 (restated) | At 1 April 2009 HK$'000 (restated) |
|---|---|---|---|---|
| **Non-current assets** | | | | |
| Property, plant and equipment | 19 | 227,411 | 400,807 | 703,300 |
| Intangible assets | | – | – | 10,345 |
| Deposits for acquisition of items of property, plant and equipment | | – | – | 53 |
| | | 227,411 | 400,807 | 713,698 |
| **Current assets** | | | | |
| Inventories | 21 | 7,172 | 1,466 | 353,832 |
| Accounts receivables | 22 | 9,801 | 831 | 68,495 |
| Factored accounts receivables | | – | – | 53,394 |
| Prepayments, deposits and other receivables | 23 | 2,054 | 935 | 16,418 |
| Equity investments at fair value through profit or loss | | – | – | 2,592 |
| Derivative financial instruments | | – | – | 382 |
| Due from a scheme subsidiary | 24 | 122,055 | – | – |
| Current tax assets | | – | 1,919 | – |
| Cash and bank balances | 25 | 8,927 | 30,176 | 36,758 |
| | | 150,009 | 35,327 | 531,871 |
| **Current liabilities** | | | | |
| Accounts payables | 26 | 2,245 | 319,210 | 342,022 |
| Accruals and other payables | 27 | 31,038 | 82,249 | 43,548 |
| Borrowings | 28 | 186,755 | 408,707 | 330,746 |
| Finance lease payables | 29 | – | 3,387 | 6,681 |
| Due to directors | 24 | 1,000 | 629 | – |
| Current tax liabilities | | 258 | 13,785 | 21,265 |
| | | 221,296 | 827,967 | 744,262 |

| | Notes | At 31 March 2011 HK$'000 | At 31 March 2010 HK$'000 (restated) | At 1 April 2009 HK$'000 (restated) |
|---|---|---|---|---|
| **Net current liabilities** | | (71,287) | (792,640) | (212,391) |
| **Total assets less current liabilities** | | 156,124 | (391,833) | 501,307 |
| **Non-current liabilities** | | | | |
| Borrowings | *28* | 81,765 | – | 61,144 |
| Deferred tax liabilities | *31* | 15,844 | 31,477 | 53,483 |
| | | 97,609 | 31,477 | 114,627 |
| **NET ASSETS/ (LIABILITIES)** | | 58,515 | (423,310) | 386,680 |
| **Capital and reserves** | | | | |
| Share capital | *32* | 10,685 | 105,789 | 105,789 |
| Reserves | *34(a)* | 47,830 | (529,099) | 280,891 |
| **TOTAL EQUITY** | | 58,515 | (423,310) | 386,680 |

**STATEMENT OF FINANCIAL POSITION**

*As at 31 March 2011*

| | Notes | 2011 HK$'000 | 2010 HK$'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Investments in subsidiaries | 20 | 10 | – |
| **Current assets** | | | |
| Prepayments, deposits and other receivables | | 100 | – |
| | | 100 | – |
| **Current liabilities** | | | |
| Accruals and other payables | | 1,516 | 579 |
| Financial guarantee liabilities | 30 | – | 157,795 |
| Due to subsidiaries | 20 | 4,572 | 411 |
| | | 6,088 | 158,785 |
| **Net current liabilities** | | (5,988) | (158,785) |
| **NET LIABILITIES** | | (5,978) | (158,785) |
| **Capital and reserves** | | | |
| Share capital | 32 | 10,685 | 105,789 |
| Reserves | 34(b) | (16,663) | (264,574) |
| **TOTAL EQUITY** | | (5,978) | (158,785) |

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

*For the year ended 31 March 2011*

| | Attributable to equity holders of the Company | | | | | | |
|---|---|---|---|---|---|---|---|
| | Share capital | Share premium account | Contributed reserve | Property revaluation reserve | Foreign currency translation reserve | Retained profits/ (accumulated losses) | Total |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| At 1 April 2009 | 105,789 | 71,388 | 280 | 97,711 | 7,180 | 104,332 | 386,680 |
| Total comprehensive loss for the year | – | – | – | (19,859) | 283 | (790,414) | (809,990) |
| Reclassification upon disposal of properties | – | – | – | (3,784) | – | 3,784 | – |
| At 31 March 2010 and 1 April 2010 | 105,789 | 71,388 | 280 | 74,068 | 7,463 | (682,298) | (423,310) |
| Total comprehensive income for the year | – | – | – | 26,671 | (17,939) | 388,444 | 397,176 |
| Reclassification upon deconsolidation of subsidiaries | – | – | – | (57,316) | – | 57,316 | – |
| Capital reorganisation: | | | | | | | |
| – capital reduction | (104,731) | – | 104,731 | – | – | – | – |
| – issue of shares | 9,627 | 75,022 | – | – | – | – | 84,649 |
| – share premium cancellation | – | (71,388) | 71,388 | – | – | – | – |
| – set-off accumulated losses against contributed reserve | – | – | (176,399) | – | – | 176,399 | – |
| At 31 March 2011 | 10,685 | 75,022 | – | 43,423 | (10,476) | (60,139) | 58,515 |

## CONSOLIDATED STATEMENT OF CASH FLOWS

*For the year ended 31 March 2011*

| | Notes | 2011 HK$'000 | 2010 HK$'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Profit/(loss) before tax: | | 388,444 | (805,396) |
| Adjustments for: | | | |
| Finance costs | | 33,135 | 22,454 |
| Bank interest income | | (5) | (71) |
| Dividend income from listed investment | | – | (167) |
| Loss on disposal of items of property, plant and equipment | | – | 43,083 |
| Gains on equity investment at fair value through profit or loss, net | | – | (1,094) |
| Gains on derivative financial instruments, net | | – | (464) |
| Depreciation | | 17,886 | 41,216 |
| Provision against inventories | | 2,516 | 270,945 |
| Loss on auctions of sequestrated inventories | | – | 156,000 |
| Amortisation of software development costs and trademarks | | – | 55 |
| Amortisation of deferred development costs | | – | 5,577 |
| Provision for impairment of assets | | 2,281 | 224,832 |
| Gain on deconsolidation of a liquidating subsidiary | *10* | (243,503) | – |
| Gain on debt restructuring | *11* | (217,108) | – |
| Operating loss before working capital changes | | (16,354) | (43,030) |
| Change in inventories | | (8,222) | (74,579) |
| Change in accounts receivables | | (8,970) | 34,954 |
| Change in factored accounts receivable | | – | 33,703 |
| Change in prepayments, deposits and other receivables | | (1,434) | 4,684 |
| Change in accounts payables | | 384 | (21,966) |
| Change in accruals and other payables | | (15,211) | 38,699 |

| | Notes | 2011 HK$'000 | 2010 HK$'000 |
|---|---|---|---|
| Cash used in operations | | (49,807) | (27,535) |
| Interest received | | 5 | 71 |
| Interest paid | | (11,252) | (22,337) |
| Interest element on finance lease rental payment | | (111) | (117) |
| Hong Kong profits tax paid | | – | (8,611) |
| Oversea taxes paid | | (75) | (298) |
| **Net cash used in operating activities** | | (61,240) | (58,827) |
| **Cash flows from investing activities** | | | |
| Dividends received from listed investment | | – | 167 |
| Net cash inflow on deconsolidation of a liquidating subsidiary | *10* | 7,968 | – |
| Purchase of items of property, plant and equipment | | (2,081) | (23,687) |
| Proceeds from disposal of items of property, plant and equipment | | – | 57,791 |
| Proceeds from disposal of an equity investment at fair value through profit or loss | | – | 3,686 |
| **Net cash generated from investing activities** | | 5,887 | 37,957 |
| **Cash flows from financing activities** | | | |
| Net cash inflow on debt restructuring | *11* | 18,574 | – |
| Decrease in trust receipt loans | | – | (3,708) |
| New bank and other borrowings | | 9,480 | 81,091 |
| Loans from the ultimate holding company | | 24,700 | – |
| Repayment of bank and other borrowings | | – | (63,175) |
| Capital element of finance lease rental payment | | – | (3,294) |
| Advances from directors | | 371 | 629 |
| **Net cash generated from financing activities** | | 53,125 | 11,543 |

| | Notes | 2011 HK$'000 | 2010 HK$'000 |
|---|---|---|---|
| **Net decrease in cash and cash equivalents** | | (2,228) | (9,327) |
| Cash and cash equivalents at beginning of year | | 16,998 | 26,143 |
| Effect of changes in foreign exchange rate | | (5,843) | 182 |
| **Cash and cash equivalents at end of year** | | 8,927 | 16,998 |
| **Analysis of cash and cash equivalents** | | | |
| Cash and bank balances | | 8,927 | 30,176 |
| Bank overdrafts – secured | | – | (13,178) |
| | | 8,927 | 16,998 |

## NOTES TO THE FINANCIAL STATEMENTS

### 1. GENERAL INFORMATION

The Company is incorporated in the Cayman Islands as a limited liability company and its shares are listed on the Main Board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange"). After the capital and group reorganisation (the "Restructuring") that took place on 3 December 2010 (the "Effective Date"), the directors of the Company (the "Directors") consider that the Company's holding company and ultimate holding company is Skill China Limited ("Skill China"), a limited liability company incorporated in the British Virgin Islands. The addresses of the registered office and principal place of the Company are disclosed in the corporate information included in the annual report.

The Company is an investment holding company and the principal activities of its subsidiaries are set out in note 20.

### 2. BASIS OF PREPARATION

At the end of the reporting period, the Group had consolidated net current liabilities of approximately HK$71,287,000 (2010: HK$792,640,000). This condition therefore indicates the existence of a material uncertainty in relation to the Group's ability to continue as a going concern. In view of such circumstance, the Directors have given careful consideration to the future liquidity and performance of the Group and its available sources of finance in assessing whether the Group will have sufficient financial resources to continue as a going concern.

On the Effective Date, the Company announced that the Restructuring set out in the circular of the Company issued on 28 June 2010 (the "Circular") and approved by the shareholders of the Company at a special general meeting on 26 July 2010, had been completed, including principal elements as summarised below. Unless otherwise specified, capitalised terms used herein shall have the same meanings as in the Circular.

(a) The Capital Reorganisation comprising the Capital Reduction, Share Sub-division and Share Consolidation. Before the Capital Reorganisation, the authorised share capital of the Company is HK$300,000,000 divided into 3,000,000,000 Existing Shares of HK$0.10 each, and the issued share capital of the Company is HK$105,788,996.20 divided into 1,057,889,962 Shares. Immediately after completion of the Capital Reorganisation, the authorised share capital of the Company will be HK$300,000,000, divided into 30,000,000,000 New Shares of HK$0.01 each and the issued share capital of the Company will be reduced to HK$1,057,889.96 divided into 105,788,996 New Shares of HK$0.01 each. The Shares will rank pari passu in all respects with each other.

(b) Subscription of 909,785,366 Subscription Shares with a par value of HK$0.01 each at the Subscription Price of approximately HK$0.0879 per Subscription Share resulting in the cash consideration of HK$80 million, and issuance of 52,894,498 Remuneration Shares with a par value of HK$0.01 each at a price of approximately HK$0.0879 per Remuneration Share in settlement of part of professional fees in relation to the Restructuring.

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

(d) Pursuant to the Creditor Scheme, from the Effective Date, the scheme Claims (as defined in the joint announcement of the Company and the board of directors of Skill China Limited dated 27 January 2010) was released and discharged, and the proceeds from future disposal of assets or business of the Scheme Subsidiaries, together with a sum of HK$80 million, being the consideration of the Subscription Shares and 63,473,398 Option Shares allocated from 909,785,366 Subscription Shares as mentioned in note (b) above were made available to the Administrators to settle and discharge the Claims under the Creditor Scheme.

The consolidated financial statements have been prepared on a going concern basis. In the opinion of the Directors, the Group should be able to continue as a going concern in the coming year taking into consideration the specific measures to improve its financial position which include, but not limited to, the following:

(a) On the successful implementation of the Restructuring, the Group has been released and discharged from all the scheme Claims, thereby improving the liquidity position of the Group at the end of the reporting period;

(b) The ultimate holding company has agreed to provide adequate funds for the Group to meet its liabilities as they fall due; and

(c) The Directors are looking for various business opportunities to broaden its business scope and sources of income through investment or business ventures to improve the profitability of the Group.

Based on the aforesaid factors, the Directors are satisfied that the Group will have sufficient financial resources to meet its financial obligations as they fall due for the foreseeable future, the validity of which depends upon the financial support from the ultimate holding company at a level sufficient to finance the working capital requirements of the Group. Accordingly, the Directors are of the opinion that it is appropriate to prepare these financial statements on a going concern basis. Should the Group be unable to continue as a going concern, adjustments would have to be made to these financial statements to adjust the value of the Group's assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and liabilities as current assets and liabilities, respectively.

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

In the current year, the Group has adopted all the new and revised Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") that are relevant to its operations and effective for its accounting year beginning on 1 April 2010. HKFRSs comprise Hong Kong Financial Reporting Standards; Hong Kong Accounting Standards ("HKAS"); and Interpretations. The adoption of these new and revised HKFRSs did not result in significant changes to the Group's accounting policies, presentation of the Group's financial statements and amounts reported for the current year and prior years except as stated below:

**Classification of Land Leases**

Amendments to HKAS 17 "Leases" deleted the guidance in HKAS 17 that when the land has an indefinite economic life, the land element is normally classified as an operating lease unless title is expected to pass to the lessee by the end of the lease term.

The Group reclassifies a land lease as a finance lease if the lease transfers substantially all the risks and rewards incidental to ownership to the Group e.g. at the inception of the lease the present value of the minimum lease payments amounts to at least substantially all of the fair value of the land.

Amendments to HKAS 17 has been applied retrospectively and resulted in changes in the consolidated amounts reported in these financial statements as follows:

| | **At 31 March 2011** | **At 31 March 2010** | **At 1 April 2009** |
|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* |
| Increase in property, plant and equipment | 17,535 | 35,032 | 42,000 |
| Decrease in prepaid land lease payments | (17,535) | (35,032) | (42,000) |

The retrospective application of the amendments to HKAS 17 has resulted in the restatement of items in the consolidated statements of financial position as at 31 March 2010 and 1 April 2009. The related explanatory notes affected by the amendments have been re-presented in these financial statements to comply with the new requirements.

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

**4. SIGNIFICANT ACCOUNTING POLICIES**

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

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of buildings, which are carried at their fair values. These financial statements are presented in Hong Kong dollars ("HK$") and all values are rounded to the nearest thousand except when otherwise indicated.

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

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

**Consolidation**

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

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

The gain or loss on the disposal of a subsidiary that results in a loss of control represents the difference between (i) the fair value of the consideration of the sale plus the fair value of any investment retained in that subsidiary and (ii) the Company's share of the net assets of that subsidiary plus any remaining goodwill relating to that subsidiary and 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.

Changes in the Company's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions (i.e. transactions with owners in their capacity as owners). The carrying amounts of the controlling and non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the Company.

In the Company's statement of financial position the investments in subsidiaries are stated at cost less allowance for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

**Foreign currency translation**

(a) *Functional and presentation currency*

Items included in these 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 valuers, 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 recognised in profit or loss during the period in which they are incurred.

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

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

| | |
|---|---|
| Leasehold lands | Over the lease terms |
| Leasehold buildings | 4% on the straight-line basis |
| Leasehold improvements | 10% to 25% on the reducing balance basis |
| Furniture and fixtures | 10% to 25% on the reducing balance basis |
| Equipment and tools | 10% to 25% on the reducing balance basis |
| Motor vehicles | 30% on the reducing balance basis |
| Moulds | 25% on the straight-line basis |

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

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

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

**Leases**

*The Group as lessee*

(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.

*The Group as lessor*

(a) Operating leases

Leases that do not substantially transfer to the lessees all the risks and rewards of ownership of assets are accounted for as operating leases. Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

**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 the cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

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

**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 carrying amount of the receivables and the present value of estimated future cash flows, discounted at the effective interest rate computed at initial recognition. The amount of the allowance is recognised in profit or loss.

Impairment losses are reversed in subsequent periods and recognised in profit or loss when an increase in the recoverable amount of the receivables 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.

**Borrowings**

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

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

**Financial guarantee contract liabilities**

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

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

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

**Trade and other payables**

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

**Equity instruments**

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

**Revenue recognition**

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

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

(b) Processing services fee is recognised when the services are rendered.

(c) Interest income is recognised on a time-proportion basis using the effective interest method.

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

(e) Rental income is recognised on a straight-line basis over the lease term.

**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 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.

**Share-based payments**

The Group issues equity-settled share-based payments to certain directors and 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.

Equity-settled share-based payments to the financial advisors are measured at the fair value of the services rendered or if the fair value of the services rendered cannot be reliably measured, at the fair value of the equity instruments granted. The fair value is measured at the date the Group receives the services and is recognised as an expense.

**Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets 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 asset, the amount of borrowing costs eligible for capitalisation is determined by applying a capitalisation rate to the expenditures on that asset. 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 asset.

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

**Taxation**

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

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

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

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 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.

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 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.

**Event 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 statements. Events after the reporting period that are not adjusting events are disclosed in the notes to the financial statements when material.

## 5. CRITICAL JUDGEMENTS AND KEY ESTIMATES

**Critical judgements in applying accounting policies**

In the process of applying the accounting policies, the Directors have made the following judgements that have the most significant effect on the amounts recognised in the financial statements apart from those involving estimations, which are dealt with below.

*(a)* *Going concern basis*

These financial statements have been prepared on a going concern basis, the validity of which depends upon the financial support from the ultimate holding company at a level sufficient to finance the working capital requirements of the Group. Details are explained in note 2 to these financial statements.

(b) *Distinction between investment properties and owner-occupied properties*

The Group determines whether a property qualifies as an investment property. In making its judgement, the Group considers whether the property generates cash flows largely independently of the other assets held by the Group. Owner-occupied properties generate cash flows that are attributable not only to property but also to other assets used in the production or supply process.

Some properties comprise a portion that is held to earn rentals and another portion that is held for use in the production of goods. If these portions can be sold separately (or leased out separately under a finance lease), the Group accounts for the portions separately. If the portions cannot be sold separately, the property is accounted for as investment property only if an insignificant portion is held for use in the production of goods. Judgement is applied in determining whether ancillary services are so significant that a property does not qualify as an investment property. The Group considers each property separately in making its judgement.

(c) *Legal titles of certain lands and buildings*

As stated in note 19 to these financial statements, the legal titles of certain lands and buildings have not transferred to the Group as at 31 March 2011. Despite the fact that the Group has not obtained the relevant certificates of legal titles, the Directors determine to recognise those lands and buildings under property, plant and equipment, on the grounds that they expect the transfer of legal titles in future should have no major difficulties and the Group is in substance controlling those lands and buildings.

**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: (i) whether an event has occurred that may affect the asset value or such event affecting the asset value has not been in existence; (ii) 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 (iii) 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: (i) by reference to independent valuations; (ii) 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; (iii) 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 (iv) 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 these financial statements.

(f) *Income taxes*

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

(g) *Provision for litigation*

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

## 6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The major financial instruments of the Group include accounts and other receivables, cash and bank balances, accounts and other payables, borrowings and finance lease payables. The activities of the Group expose it to a variety of financial risks: interest rate risk, foreign currency risk, credit risk and liquidity risk. The Directors reviewed and agreed on the policies for managing each of these risks and they are summarised below.

### (a) Interest rate risk

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

At end of the reporting period, if interest rates had been increased or decreased by 100 basis points (2010: 100 basis points) and all other variables were held constant, the profit (2010: loss) before tax of the Group would decrease or increase by approximately HK$1,126,000 (2010: increase or decrease by HK$2,893,000) mainly as a result of higher or lower interest rates on floating rate borrowings.

### (b) Foreign currency risk

The Group's entities mainly operate in Hong Kong and the People Republics of China (the "PRC") and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to assets and liabilities that are denominated in a currency that is not the entity's functional currency. 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.

At the end of the reporting period, if Renminbi ("RMB") strengthened or weakened by 5% against US dollars, with all other variables held constant, profit (2010: loss) before tax for the year would have been approximately HK$54,000 lower or higher (2010: HK$4,301,000 higher or lower), mainly as a result of foreign exchange losses or gains on translation of prepayments, deposits and receivables and in relation to the operation in the Mainland China.

### (c) Credit risk

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

At the end of the reporting period, the Group had certain concentration of credit risk as approximately 63% (2010: 100%) and 100% (2010: 100%) of the Group's trade receivables were due from the Group's largest trade debtor and the five largest trade debtors, respectively. The credit risk of the Group's other financial assets, which comprise amount due from a scheme subsidiary, cash and bank balances 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 receivables are disclosed in note 22 to these financial statements.

**(d) Liquidity risk**

The Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term. The maturity profile of the Group's financial liabilities at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

| | On demand | Less than 3 months | 3 to less than 12 months | Between 1 and 2 years | Total un-discounted cash flows |
|---|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| **At 31 March 2011** | | | | | |
| Accounts payables | 327 | 1,748 | 170 | – | 2,245 |
| Financial liabilities included in accruals and other payables | 12,047 | – | – | – | 12,047 |
| Borrowings | 159,431 | – | 40,000 | 81,765 | 281,196 |
| Due to directors | 1,000 | – | – | – | 1,000 |
| | 172,805 | 1,748 | 40,170 | 81,765 | 296,488 |
| At 31 March 2010 | | | | | |
| Accounts payables | 134 | 225 | 318,851 | – | 319,210 |
| Financial liabilities included in accruals and other payables | 21,203 | – | – | – | 21,203 |
| Borrowings and finance lease payables | 161,798 | 1,998 | 248,318 | – | 412,114 |
| Due to directors | 629 | – | – | – | 629 |
| | 183,764 | 2,223 | 567,169 | – | 753,156 |

## 7. SEGMENT INFORMATION

The Group's revenue and result for the year ended 31 March 2011 were mainly derived from its operating segment of manufacture, processing and sale of electronic consumer products and related 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 these financial statements. Segment profits or losses do not include dividend income, interest income, gain on deconsolidation of a liquidating subsidiary, gain on debt restructuring, finance costs, income tax and unallocated corporate income and expenses. Segment assets do not include due from a scheme subsidiary, tax assets, cash and bank balances and other unallocated corporate assets. Segment liabilities do not include borrowings, amounts due to directors, tax liabilities and unallocated corporate liabilities. Segment non-current assets do not include financial instruments and tax assets.

Information about the manufacture, processing and sale of electronic consumer products and related components segment profit or loss, assets and liabilities:

| | 2011 | 2010 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| **Year ended 31 March** | | |
| Revenue from external customers | 77,394 | 486,237 |
| Segment losses | 39,037 | 783,180 |
| Interest revenue | 5 | 71 |
| Interest expense | 33,135 | 22,454 |
| Other material items of income: | | |
| – Gains on equity investments at fair value through profit or loss | – | 1,094 |
| Depreciation and amortisation | 17,886 | 46,848 |
| Income tax | – | 14,982 |
| Other material non-cash item: | | |
| – Provision against inventories | 2,516 | 270,945 |
| – Loss on auctions of sequestrated inventories | – | 156,000 |
| Additions to segment non-current assets | 2,081 | 23,687 |
| **At 31 March** | | |
| Segment assets | 246,338 | 404,039 |
| Segment liabilities | 31,767 | 401,450 |

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

| | 2011 | 2010 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| **Revenue** | | |
| Total turnover of the reportable segment disclosed as consolidated turnover | 77,394 | 486,237 |
| **Profit or loss** | | |
| Total loss of reportable segments | (39,037) | (783,180) |
| Gain on deconsolidation of a liquidating subsidiary | 243,503 | – |
| Gain on debt restructuring | 217,108 | – |
| Corporate and unallocated profit and loss | (33,130) | (7,234) |
| Consolidated profit/(loss) | 388,444 | (790,414) |

| | 2011<br>*HK$'000* | 2010<br>*HK$'000* |
|---|---|---|
| **Assets** | | |
| Total assets of reportable segments | 246,338 | 404,039 |
| Due from a scheme subsidiary | 122,055 | – |
| Current tax assets | – | 1,919 |
| Cash and bank balances | 8,927 | 30,176 |
| Corporate and unallocated assets | 100 | – |
| Consolidated total assets | 377,420 | 436,134 |
| **Liabilities** | | |
| Total liabilities of reportable segments | 31,767 | 401,450 |
| Borrowings | 268,520 | 408,707 |
| Finance lease payables | – | 3,387 |
| Current tax liabilities | 258 | 13,785 |
| Deferred tax liabilities | 15,844 | 31,477 |
| Corporate and unallocated liabilities | 2,516 | 638 |
| Consolidated total liabilities | 318,905 | 859,444 |

Geographical information:

| | **Revenue** | |
|---|---|---|
| | **2011**<br>*HK$'000* | **2010**<br>*HK$'000* |
| Greater China | 46,299 | 287,693 |
| Americas | – | 128,545 |
| Dubai | 7,839 | – |
| Europe | – | 67,663 |
| Philippines | 23,256 | – |
| Others | – | 2,336 |
| Consolidated total | 77,394 | 486,237 |

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

## 8. TURNOVER

The Group's turnover which represents manufacture, sales of goods to customers and revenue from processing service fees are as follows:

| | **2011**<br>*HK$'000* | **2010**<br>*HK$'000* |
|---|---|---|
| Manufacture and sales of electronic consumer products and related components | 76,383 | 486,237 |
| Service fees from processing of electronic consumer products and related components | 1,011 | – |
| | 77,394 | 486,237 |

## 9. OTHER INCOME

The Group's other income is analysed as follows:

| | 2011 | 2010 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Bank interest income | 5 | 71 |
| Dividend income from listed investments | – | 167 |
| Rental income | 284 | – |
| Bad debts recovered | 3,756 | – |
| Sundry income | 545 | 5,437 |
| | 4,590 | 5,675 |

## 10. GAIN ON DECONSOLIDATION OF A LIQUIDATING SUBSIDIARY

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

| | |
|---|---|
| | *HK$'000* |
| Net liabilities of the subsidiary deconsolidated on 30 June 2010 were as follows: | |
| Property, plant and equipment | 26,626 |
| Prepayments, deposits and other receivables | 87 |
| Current tax assets | 1,919 |
| Cash and bank balances | 131 |
| Accounts payables | (153,377) |
| Accruals and other payables | (22,578) |
| Amounts due to the Group | (140,184) |
| Borrowings | (92,197) |
| Deferred tax liabilities | (4,114) |
| Net liabilities of the deconsolidated subsidiary | (383,687) |
| Impairment of amounts due from the deconsolidated subsidiary | 140,184 |
| Gain on deconsolidation of the liquidating subsidiary | (243,503) |

Net cash inflow on deconsolidation of a liquidating subsidiary is set out below:

| | |
|---|---|
| | *HK$'000* |
| Cash and cash equivalent balances deconsolidated: | |
| Cash and bank balances | (131) |
| Bank overdrafts | 8,099 |
| | 7,968 |

## 11. GAIN ON DEBT RESTRUCTURING

The Restructuring was completed on the Effective Date. In order to reorganise the Group and to facilitate the implementation of the Creditor Scheme, the Scheme Subsidiaries were transferred to the Administrators of the Creditor Scheme. The Group has ceased to control the Scheme Subsidiaries after the transfer. The particulars of subsidiaries transferred to the Administrators are set out in note 20. On the Effective Date, the results, assets and liabilities, and cash flows of the Scheme Subsidiaries were derecognised from the Group.

| | *Notes* | *HK$'000* |
|---|---|---|
| Net liabilities of Scheme Subsidiaries derecognised on the Effective Date were as follows: | | |
| Property, plant and equipment | | 180,161 |
| Prepayments, deposits and other receivables | | 17 |
| Cash and bank balances | | 724 |
| Accounts payables | | (163,971) |
| Accruals and other payables | | (49,111) |
| Borrowings | | (94,428) |
| Current tax liabilities | | (13,452) |
| Deferred tax liabilities | | (20,711) |
| Net liabilities of Scheme Subsidiaries derecognised | | (160,771) |
| Less: Release of the related foreign currency translation reserves | | (18,931) |
| Proceeds from the issuance of shares transferred to the Administrators | *(a)* | 80,000 |
| Debt restructuring costs in form of remuneration shares issued to the financial advisors | *(b)* | 4,649 |
| Amounts recoverable from a scheme subsidiary | *(c)* | (122,055) |
| Gain on debt restructuring | | (217,108) |

Net cash inflow on debt restructuring is set out below:

| | *HK$'000* |
|---|---|
| Cash and cash equivalent balances derecognised: | |
| Cash and bank balances | (724) |
| Bank overdrafts | 19,298 |
| | 18,574 |

(a) On the Effective Date, 909,785,366 Subscription Shares with a par value of HK$0.01 each at a price of approximately HK$0.0879 per Subscription Share were issued and allotted to a new investor, Skill China Limited, for the cash consideration of HK$80 million. Based on the Creditor Scheme, all proceeds from the issuance of the Subscription Shares was made available to the Administrators to settle and discharge the Claims under the Creditor Scheme.

(b) On the Effective Date, 52,894,498 Remuneration Shares with a par value of HK$0.01 each at a price of approximately HK$0.0879 per Remuneration Share were issued and allotted to two financial advisors in settlement of professional fees of approximately HK$4,649,000 attributable to the Company in relation to the Restructuring. As the fair value of these professional advisory services in relation to the Restructuring cannot be estimated reliably, such services received by the Group were measured by reference to the fair value of the share issued in settlement of the relevant processional fees, in form of the equity-settled share-based payments, measured at the Effective Date the counterparties render services.

(c) During the year, an indirect wholly-owned subsidiary of the Company, Xin Lian Digital Technology Company Limited, borrowed bank and other loans (collectively the "Xin Lian Loans") with the aggregate principal amounts of approximately RMB103,000,000 (equivalent to approximately HK$122,055,000) at the end of the reporting period in repayment of the equivalent amounts of bank and other loans of a scheme subsidiary (the "Scheme Subsidiary"), Dongguan Tonic Electronics Limited. The Xin Lian Loans were pledged by the leasehold land and buildings (the "pledged properties") held by the Scheme Subsidiary with an estimated market value of approximately RMB145,000,000 (approximately HK$171,825,000) and equipment and tools of an indirect wholly-owned subsidiary of the Company with the aggregate carrying amounts of approximately HK$14,199,000 at the end of the reporting period. Under the Xin Lian Loans arrangement, it is expected that the repayment of the Xin Lian Loans will be satisfied by the proceeds from the subsequent disposal of the pledged properties to recover the corresponding amounts due from the Scheme Subsidiary.

## 12. FINANCE COSTS

| | **2011** | **2010** |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Interest on borrowings wholly repayable within five years: | | |
| Bank and other borrowings | 32,224 | 22,337 |
| Loans from the ultimate holding company | 800 | – |
| Finance leases | 111 | 117 |
| | 33,135 | 22,454 |

## 13. INCOME TAX

| | **2011** | **2010** |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Current – Hong Kong: | | |
| Overprovision in prior year | – | (904) |
| Current – Mainland China: | | |
| Charge for the year | – | 410 |
| Deferred tax *(note 31)* | – | (14,488) |
| | – | (14,982) |

Neither Hong Kong Profits Tax nor the PRC Enterprise Income Tax has been provided, since the Group has no assessable profit for the year. During the prior year, tax charge on profits assessable in the PRC was calculated at the rates of tax prevailing in the PRC, based on existing legislation, interpretation and practices in respect thereof.

The IRD had initiated tax queries to an indirect wholly-owned subsidiary of the Company for the years of assessment from 2005/2006 to 2008/2009. The management is of the opinion that, in all the relevant years, adequate Hong Kong tax provisions were made on the Hong Kong sourced income. Since the tax queries are still at a fact-finding stage, the outcome of the tax queries cannot be readily ascertained. Should the Group be unable to provide sufficient documentation information in response to the tax queries from the IRD and in case where the tax charged by the IRD are different from the estimated amounts, the Group would have to pay an additional Hong Kong Profits Tax for the years of assessment 2005/2006 to 2008/2009.

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

| | 2011 | 2010 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Profit/(loss) before tax | 388,444 | (805,396) |
| Tax at the domestic income tax rate of 16.5% (2010: 16.5%) | 64,093 | (132,891) |
| Effect of different tax rates of subsidiaries | (12,069) | (26,406) |
| Adjustments in respect of current tax of previous year | – | (904) |
| Income not subject to tax | (94,124) | (226) |
| Expenses not deductible for tax | 37,587 | 103,977 |
| Tax losses utilised from previous periods | (912) | (300) |
| Tax losses not recognised | 5,425 | 41,492 |
| Others | – | 276 |
| Tax at the Group's effective rate | – | (14,982) |

**14. PROFIT/(LOSS) FOR THE YEAR**

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

| | 2011 | 2010 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Cost of inventories sold | 75,007 | 522,321 |
| Provision against inventories | 2,516 | 270,945 |
| Loss on auctions of sequestrated inventories# | – | 156,000 |
| Gains on derivative financial instruments, net | – | (464) |
| Depreciation on property, plant and equipment | 17,886 | 41,216 |
| Amortisation of software development costs* | – | 55 |
| Research and development costs: | | |
| Amortisation of deferred development costs* | – | 5,577 |
| Current year expenditure | – | 123 |
| | – | 5,700 |
| Minimum lease payments under operating leases on land and buildings | 639 | 524 |
| Auditors' remuneration | 713 | 570 |
| Employee benefits expense (including directors' remuneration – *note 15*): | | |
| Wages, salaries and allowances | 16,550 | 79,828 |
| Pension scheme contributions | 253 | 819 |
| | 16,803 | 80,647 |
| Provision for impairment of assets: | | |
| Impairment of items of property, plant and equipment | 2,070 | 156,268 |
| Impairment of deposits for acquisition of items of property, plant and equipment | – | 53 |
| Impairment of intangible assets | – | 4,713 |
| Impairment of accounts receivables | – | 32,710 |
| Impairment of factored accounts receivables | – | 19,691 |
| Impairment of deposits and other receivables | 211 | 10,799 |
| Impairment of prepaid land lease payments | – | 598 |
| | 2,281 | 224,832 |
| Loss on disposal of items of property, plant and equipment | – | 43,083 |

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

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

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

## 15. DIRECTORS' AND FIVE HIGHEST PAID INDIVIDUAL EMOLUMENTS

| 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: | | | | |
| Dr. So Shu Fai (i) | – | 92 | 4 | 96 |
| Mr. Mak Bing Kau (i) | – | 61 | 3 | 64 |
| Mr. Ng Wai Hung (i) | – | 61 | 3 | 64 |
| Mr. Lau Cheuk Lun (i) | – | 165 | 4 | 169 |
| Mr. Ling Siu Man, Simon (ii) | – | 1,149 | 19 | 1,168 |
| Mr. Wong Ki Cheung (ii) | – | 1,166 | 12 | 1,178 |
| Ms. Li Fung Ching, Catherine (ii) | – | 1,166 | 12 | 1,178 |
| Independent non-executive directors: | | | | |
| Mr. Pang Hon Chung | 107 | – | – | 107 |
| Mr. Cheng Tsang Wai | 106 | – | – | 106 |
| Mr. Chung Hing Wah, Paul | 88 | – | – | 88 |
| Total for the year ended 31 March 2011 | 301 | 3,860 | 57 | 4,218 |

(i): Appointed as a director on 11 December 2010

(ii): Resigned as a director on 1 January 2011

| 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: | | | | |
| Mr. Ling Siu Man, Simon | – | 2,997 | 120 | 3,117 |
| Mr. Wong Ki Cheung | – | 1,588 | 79 | 1,667 |
| Ms. Li Fung Ching, Catherine | – | 1,588 | 79 | 1,667 |
| Mr. Lam Kwai Wah (Resigned on 12 January 2010) | – | 1,110 | 6 | 1,116 |
| Independent non-executive directors: | | | | |
| Mr. Pang Hon Chung | 86 | – | – | 86 |
| Mr. Cheng Tsang Wai | 85 | – | – | 85 |
| Mr. Chung Hing Wah, Paul | 70 | – | – | 70 |
| Total for the year ended 31 March 2010 | 241 | 7,283 | 284 | 7,808 |

The Group's five highest paid individuals during the year included three ex-directors (2010: four directors). Details of the emoluments of the Directors are reflected in the analysis presented above. The emoluments of three ex-directors and the remaining two (2010: one) individuals for the year are set out below:

| | 2011 | 2010 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Salaries and allowances, and pension scheme contributions, as the Director disclosed above | 3,524 | – |
| Salaries and allowances, as employee | 2,134 | 706 |
| Pension scheme contributions, as employee | 27 | 8 |
| | 5,685 | 714 |

There was no arrangement under which a director waived or agreed to waive any remuneration during the two years ended 31 March 2011 and 2010.

The emoluments of the highest paid individuals (other than the Directors as disclosed above) are fell within the following bands:

| | Number of individuals | |
|---|---|---|
| | 2011 | 2010 |
| HK$ Nil – HK$1,000,000 | 2 | 1 |
| HK$1,500,001 – HK$2,000,000 | 3 | – |
| | 5 | 1 |

## 16. DIVIDEND

No dividend has been proposed or declared by the Company during the two years ended 31 March 2011 and 2010.

## 17. EARNINGS/(LOSS) PER SHARE

### (a) Basic earnings/(loss) per share

The calculation of the earnings/(loss) per share is based on the profit attributable to equity holders of the Company of approximately HK$388,444,000 (2010: a loss of approximately HK$790,414,000) and the weighted average number of ordinary shares of 419,649,007 (2010: 105,788,996, as restated) in issue during the year calculated as adjusted to reflect the share consolidation during the year.

### (b) Diluted earnings/(loss) per share

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

## 18. PROFIT/(LOSS) FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The consolidated profit/(loss) attributable to equity holders of the Company included a profit of approximately HK$68,158,000 (2010: a loss of approximately HK$428,402,000) for the year, which has been dealt with in the financial statements of the Company.

## 19. PROPERTY, PLANT AND EQUIPMENT

**Group**

| | Leasehold lands | Leasehold buildings | Furniture, fixtures and leasehold improvement | Equipment and tools | Motor vehicles | Total |
|---|---|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| **31 March 2011** | | | | | | |
| At 1 April 2010, net of accumulated depreciation and impairments, as restated | 35,032 | 291,830 | 22,400 | 51,049 | 496 | 400,807 |
| Additions | – | – | 1,009 | 1,072 | – | 2,081 |
| Surplus on revaluation | – | 35,561 | – | – | – | 35,561 |
| Depreciation provided during the year | (629) | (11,095) | (2,092) | (4,057) | (13) | (17,886) |
| Deconsolidation of a liquidating subsidiary | (6,537) | (4,742) | (1,846) | (13,166) | (335) | (26,626) |
| Deconsolidation of scheme subsidiaries | (11,813) | (168,348) | – | – | – | (180,161) |
| Impairments | – | – | – | (1,922) | (148) | (2,070) |
| Exchange differences | 1,482 | 11,776 | 896 | 1,551 | – | 15,705 |
| At 31 March 2011, net of accumulated depreciation and impairments | 17,535 | 154,982 | 20,367 | 34,527 | – | 227,411 |
| At 31 March 2011 | | | | | | |
| Cost or valuation | 19,687 | 154,982 | 38,403 | 65,413 | – | 278,485 |
| Accumulated depreciation and impairments | (2,152) | – | (18,036) | (30,886) | – | (51,074) |
| Net carrying amount | 17,535 | 154,982 | 20,367 | 34,527 | – | 227,411 |
| Analysis of cost or valuation | | | | | | |
| At cost | 19,687 | – | 38,403 | 65,413 | – | 123,503 |
| At valuation | – | 154,982 | – | – | – | 154,982 |
| | 19,687 | 154,982 | 38,403 | 65,413 | – | 278,485 |

**Group**

| | Leasehold lands HK$'000 | Leasehold buildings HK$'000 | Construction in progress HK$'000 | Furniture, fixtures and leasehold improvement HK$'000 | Equipment and tools HK$'000 | Motor vehicles HK$'000 | Moulds HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|---|
| **31 March 2010** | | | | | | | | |
| At 1 April 2009, net of accumulated depreciation and impairments, as restated | 42,000 | 332,832 | 92,027 | 69,350 | 149,413 | 862 | 16,816 | 703,300 |
| Additions | – | – | – | 11,828 | 400 | – | 11,459 | 23,687 |
| Disposals | (5,622) | (3,840) | – | (11,769) | (78,477) | (15) | (1,150) | (100,873) |
| Impairments | (598) | – | (89,397) | (39,778) | (7,120) | (228) | (19,745) | (156,866) |
| Deficit on revaluation | – | (27,384) | – | – | – | – | – | (27,384) |
| Depreciation provided during the year | (764) | (12,520) | – | (7,259) | (13,170) | (123) | (7,380) | (41,216) |
| Transfers | – | 2,654 | (2,654) | – | – | – | – | – |
| Exchange differences | 16 | 88 | 24 | 28 | 3 | – | – | 159 |
| At 31 March 2010, net of accumulated depreciation and impairments, as restated | 35,032 | 291,830 | – | 22,400 | 51,049 | 496 | – | 400,807 |
| **At 31 March 2010** | | | | | | | | |
| Cost or valuation | 44,291 | 291,830 | – | 52,287 | 92,584 | 6,152 | – | 487,144 |
| Accumulated depreciation and impairments | (9,259) | – | – | (29,887) | (41,535) | (5,656) | – | (86,337) |
| Net carrying amount, as restated | 35,032 | 291,830 | – | 22,400 | 51,049 | 496 | – | 400,807 |
| Analysis of cost or valuation, as restated | | | | | | | | |
| At cost | 44,291 | – | – | 52,287 | 92,584 | 6,152 | – | 195,314 |
| At valuation | – | 291,830 | – | – | – | – | – | 291,830 |
| | 44,291 | 291,830 | – | 52,287 | 92,584 | 6,152 | – | 487,144 |

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

During the current year, upon completion of the Restructuring, the Directors considered that it is more appropriate to determine the recoverable amounts of the PPE on the basis of the higher of its estimated fair value less cost to sell and values in use. Impairment losses recognised in respect of the PPE in the year amounted to approximately HK$2,081,000 that has been recognised in profit or loss. These losses were attributable to greater than anticipated obsolescence.

During the prior year, the Group had 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 global financial turmoil. With a view to further reduce costs and to mitigate the loss-making position of the Group, the Group had suspended and closed down its remaining operations of the manufacturing plants in Qi Shi Town and Tangxia Town, Dongguan, PRC. In light of the changes in economic conditions, the Directors considered that certain items of the PPE of the Group, with the carrying amounts of HK$156,268,000, were impaired, and the resultant impairment losses with the equivalent amounts were recognised and charged to the consolidated income statement for the year ended 31 March 2010.

Due to the adverse impact of the down-sizing of the operations and the resultant immense pressure on the cash flow of the Group, the Group had delayed salary payments to certain of its workers and staff during the year ended 31 March 2010. In November 2009, actions had been taken by 東莞市塘廈鎮石潭埔社區居民委員會 ("Dongguan Tangxia Town Shitanpu Community Residents' Committee"*) and 東莞市塘廈鎮石潭埔勞動服務站 ("Dongguan Tangxia Town Shitanpu Labour Service Station"*) to sequestrate certain of the Group's assets (collectively "Sequestrated Assets") located in the factory in Tangxia ("Tangxia Factory") with the carrying amounts of approximately HK$21,048,000 for equipment and machines (which was included in the aggregate amounts of PPE disposals as disclosed above for the year) and approximately HK$160,196,000 for inventories respectively.

The auctions of those 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 utilised as partial settlement of the salary and compensation payables to the respective workers and staff working in the Tangxia Factory. The resultant losses of approximately HK$161,172,000, in aggregate, on auctions of Sequestrated Assets, approximately HK$5,172,000 for equipment and machines, and approximately HK$156,000,000 for inventories respectively, representing the difference between the net proceeds and the net carrying amounts of the Sequestrated Assets, were recognised and charged to in the consolidated income statement for the year ended 31 March 2010.

At the end of last reporting period, having regard to the changes in the market conditions and the existing use of the Group's leasehold lands, the Directors carried out a review on the recoverable amount of the Group's carrying amounts of leasehold lands at 31 March 2010. The recoverable amount of the leasehold lands had been determined on the basis of its estimated fair value less cost to sell. The review led to the recognition of an impairment loss of approximately HK$598,000 that was recognised and charged to consolidated income statement for the year ended 31 March 2010.

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

| | **2011** | **2010** |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Held under medium term leases | | |
| – Hong Kong | – | 11,370 |
| – Mainland China | 172,517 | 315,492 |
| | 172,517 | 326,862 |

In determining the fair value of buildings, the valuers have utilised a method of valuation which involves certain estimates. The Directors have exercised their judgements and are satisfied that the method of valuation is reflective of the current market conditions. The Group's buildings were revalued at 31 March 2011 and 2010 by the independent professional valuers, Jones Lang LaSalle Sallmanns Limited, on an open market basis at approximately HK$154,982,000 (2010: HK$291,830,000), assuming all relevant title certificates which have been obtained and the buildings could be freely transferred. At the end of the reporting period, a revaluation surplus of approximately HK$35,561,000 (2010: a deficit of approximately HK$27,384,000) resulting from the above valuations have been dealt with as movement in the property revaluation reserve.

At the end of the reporting period, had the whole class of the Group's buildings been carried at cost less accumulated depreciation, their carrying amounts would have been included in the financial statements at the carrying amount of approximately HK$95,887,000 (2010: HK$206,097,000).

At the end of the reporting period, the Group was in the process of obtaining the land use right and building ownership certificates in respect of the Group's certain lands and buildings located in the Mainland China with the carrying amounts of approximately HK$17,535,000 (2010: HK$16,700,000) and HK154,982,000 (2010: HK$183,999,000), respectively.

At the end of the reporting period, certain of the Group's leasehold lands and buildings with the carrying amounts of approximately HK$17,535,000 (2010: HK$35,032,000) and HK$154,982,000 (2010: HK$226,631,000), respectively, were pledged to secure for certain bank and other borrowings of Group as further detailed in note 28 to these financial statements.

At the end of the reporting period, equipment and tools with the carrying amounts of approximately HK$14,199,000 (2010: HK$nil) were pledged to an independent third party to secure for other borrowing as further detailed in note 28 to these financial statements.

Included in the carrying amounts of equipment and tools at the end of the reporting period were assets held under finance leases with a carrying amount of approximately HK$nil (2010: HK$19,359,000 ).

* *The English name is for identification purpose only*

**20. INVESTMENTS IN SUBSIDIARIES**

| | **Company** | |
|---|---|---|
| | **2011** | **2010** |
| | *HK$'000* | *HK$'000* |
| Unlisted investments, at cost | 58,822 | 58,812 |
| Less: Impairments | (58,812) | (58,812) |
| | 10 | – |

The balances with subsidiaries were unsecured, interest-free and had no fixed term of repayment.

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 2011 %** | **2010 %** | **Principal activities** |
|---|---|---|---|---|---|
| **Directly held:** | | | | | |
| Champion Apex Limited | Hong Kong | HK$10,000 | 100 | 100 | Trading of electronic consumer products and related components |
| Grand Golden Profit Limited | Hong Kong | HK$10,000 | 100 | 100 | Inactive |

| Name | Place of incorporation/ registration and operation | Nominal value of issued/ registered/ paid-up capital | Percentage of equity attributable to the Group 2011 % | Percentage of equity attributable to the Group 2010 % | Principal activities |
|---|---|---|---|---|---|
| Tonic Electronics (B.V.I.) Limited | British Virgin Islands ("BVI") | HK$1 | 100 | 100 | Investment holding |
| **Indirectly held:** | | | | | |
| 東莞鑫聯數碼科技有限公司# (Dongguan Xin Lian Digital Technology Co., Ltd.**) | PRC | RMB56,730,488 | 100 | 100 | Manufacture, processing, and sale of electronic consumer products and related components |
| 東莞悦金數碼科技有限公司#* (Dongguan Yuejin Digital Technology Co., Ltd.**) | PRC | US$700,000 | 100 | – | Dormant |
| 冠華港貿易(深圳)有限公司#* (Guan Hua Gang Trading (Shenzhen) Co., Ltd.**) | PRC | RMB506,462 | 100 | – | Dormant |
| Tonic DVB Marketing Limited | BVI/PRC | US$0.01 | 100 | 100 | Dormant |
| Tonic Marketing Limited | BVI | US$0.01 | 100 | 100 | Investment holding |
| **Particulars of Scheme Subsidiaries are as follows:** | | | | | |
| Agility Investments Limited | BVI | US$1 | – | 100 | Inactive |
| Tonic Technology Limited | Hong Kong | HK$10,000 | – | 100 | In liquidation |
| 東莞金萊電子有限公司# (Dongguan Gold Beam Electronics Co., Ltd.**) | PRC | HK$24,527,340 | – | 100 | Inactive |
| 東莞東力電子有限公司# (Dongguan Tonic Electronic Co., Ltd.**) | PRC | HK$90,299,051 | – | 100 | Inactive |
| 東莞市錦聯科技製品有限公司# (Dongguan Jin Lian Technology Products Ltd.**) | PRC | RMB500,000 | – | 100 | Inactive |
| Gold Beam Developments Limited | Hong Kong | HK$2 | – | 100 | In liquidation |
| Panatone Licensing Limited | BVI | US$1 | – | 100 | Inactive |

| Name | Place of incorporation/ registration and operation | Nominal value of issued/ registered/ paid-up capital | Percentage of equity attributable to the Group 2011 % | 2010 % | Principal activities |
|---|---|---|---|---|---|
| Tonic Centerus Wind Energy (Holdings) Limited | BVI | US$200 | – | 100 | Inactive |
| Tonic Digital Products Limited | Hong Kong | HK$100 | – | 100 | In liquidation |
| Tonic Electronics Limited | Hong Kong | Ordinary HK$200 Non-voting deferred HK$300,000## | – | 100 | In liquidation |
| Tonic Enterprises Limited | BVI | US$1 | – | 100 | Inactive |
| Tonic International Limited | BVI/PRC | HK$0.01 | – | 100 | Inactive |
| Tonic International Investment Limited | BVI | US$1 | – | 100 | Investment holding |
| Tonic Investment (B.V.I.) Limited | BVI | HK$0.01 | – | 100 | Investment holding |
| 東力科技（深圳）有限公司# (Tonic Technology (Shenzhen) Ltd.**) | PRC | RMB15,400,000 | – | 100 | Inactive |
| Tonic Trading Development Limited | Hong Kong | HK$100 | – | 100 | In liquidation |
| Tonic Venture Capital Limited | Hong Kong | HK$1,000,000 | – | 100 | Investment holding |
| TA Limited | Hong Kong | HK$10,000 | – | 100 | Inactive |
| Technotrend Trading Limited | Hong Kong | HK$10,000 | – | 100 | Inactive |

\# *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.*

* *Companies incorporated during the year*

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

## 21. INVENTORIES

| | Group 2011 HK$'000 | Group 2010 HK$'000 |
|---|---|---|
| Raw materials | 429 | 1,466 |
| Work in progress | 6,743 | – |
| | 7,172 | 1,466 |

## 22. ACCOUNTS RECEIVABLES

| | Group 2011 HK$'000 | Group 2010 HK$'000 |
|---|---|---|
| Accounts receivables | 9,801 | 33,541 |
| Less: Impairments *(note 14)* | – | (32,710) |
| | 9,801 | 831 |

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. At the end of the reporting period, the Group had certain concentration of credit risk as approximately 63% (2010: 100%) and 100% (2010: 100%) of the Group's trade receivables were due from the Group's largest trade debtor and the five largest trade debtors, respectively.

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

| | Group 2011 HK$'000 | Group 2010 HK$'000 |
|---|---|---|
| 30 days or less | 5,261 | 831 |
| 31 to 60 days | 4,540 | – |
| | 9,801 | 831 |

The movements in the Group's provision for impairment of accounts receivables are as follows:

| | HK$'000 |
|---|---|
| Balance at beginning of the year | 32,710 |
| Deconsolidation of a liquidating subsidiary | (5,823) |
| Deconsolidation of Scheme Subsidiaries | (26,887) |
| Balance at end of the year | – |

Included in the provision for impairment of accounts receivables at 31 March 2010 were individually impaired accounts receivables of approximately HK$32,710,000 with an equivalent gross carrying amount at the end of last reporting period. The individually impaired accounts receivables related to customers that were in default of payment. The Group did not hold any collateral or other credit enhancements over these balances.

At the end of the reporting period, the Group's accounts receivables that were neither past due nor impaired which relate to a variety of diversified customers for whom there was no recent history of default.

**23. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES**

| | Group | |
|---|---|---|
| | **2011** | **2010** |
| | *HK$'000* | *HK$'000* |
| Prepayments | 621 | 7,119 |
| Deposits and other receivables | 1,644 | 4,615 |
| | 2,265 | 11,734 |
| Less: Impairments *(note 14)* | (211) | (10,799) |
| | 2,054 | 935 |

Included in the impairment recognised in respect of prepayments, deposits and other receivables are individually impaired deposits and other receivables of approximately HK$211,000 (2010: HK$10,799,000) with an equivalent gross carrying amount at the end of the reporting period. The individually impaired other receivables relate to counterparties that were in default of payment. The Group does not hold any collateral or other credit enhancements over these balances.

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

**24. DUE FROM A SCHEME SUBSIDIARY/DUE TO DIRECTORS**

The amounts due from a scheme subsidiary and due to directors were unsecured, interest free and had no fixed term of repayment. Further details of the amounts due from the scheme subsidiary are explained in note 11(c) to these financial statements.

**25. CASH AND BANK BALANCES**

At the end of the reporting period, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to approximately HK$846,000 (2010: HK$3,072,000). The RMB is not freely convertible into other currencies, however, under the 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.

**26. ACCOUNTS PAYABLES**

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

| | Group | |
|---|---|---|
| | **2011** | **2010** |
| | *HK$'000* | *HK$'000* |
| 30 days or less | 327 | 134 |
| 31 to 60 days | 1,473 | – |
| 61 to 90 days | 275 | 225 |
| Over 90 days | 170 | 318,851 |
| | 2,245 | 319,210 |

**27. ACCRUALS AND OTHER PAYABLES**

| | Group | |
|---|---|---|
| | **2011** | **2010** |
| | *HK$'000* | *HK$'000* |
| Other payables | 12,047 | 21,203 |
| Accruals | 18,991 | 61,046 |
| | 31,038 | 82,249 |

At the end of the reporting period, included above are loan interest and other payables to the ultimate holding company amounted to approximately HK$958,000 and HK$1,469,000, respectively.

**28. BORROWINGS**

| | Group | |
|---|---|---|
| | **2011** | **2010** |
| | *HK$'000* | *HK$'000* |
| Bank loans | 112,575 | 272,747 |
| Bank overdrafts | – | 13,178 |
| Loans from the ultimate holding company | 64,700 | – |
| Other loans | 91,245 | 122,782 |
| | 268,520 | 408,707 |
| Secured | 131,245 | 277,915 |
| Unsecured | 137,275 | 130,792 |
| | 268,520 | 408,707 |
| Carrying amounts repayable: | | |
| Within one year or on demand, disclosed as current liabilities | 186,755 | 408,707 |
| More than one year, but not exceeding two year, disclosed as non-current liabilities | 81,765 | – |
| | 268,520 | 408,707 |

Bank loans and overdrafts of approximately HK$112,575,000 (2010: HK$285,925,000) are arranged at floating rates at the range from 6.9% to 13% per annum. Interest-bearing other borrowings are arranged at fixed interest rates at the range from 2% to 36% per annum.

At 31 March 2011, the Group's bank borrowings of approximately HK$112,575,000 were secured by the mortgages over the leasehold lands and buildings of a Scheme Subsidiary which had the estimated market value of approximately RMB145,000,000 (equivalent to approximately HK$171,825,000) at the end of the reporting period.

At 31 March 2010, the Group's bank borrowings of approximately HK$159,669,000 were secured by a corporate guarantee granted by the Company, cross-corporate guarantees granted by certain subsidiaries and the Company, all monies debenture executed by certain subsidiaries of the Company, and the mortgages over certain of the Group's leasehold lands and buildings which had the aggregate carrying amounts of approximately HK$126,082,000.

At the end of the reporting period, the Group's other loans of approximately HK$91,245,000 (2010: HK$78,246,000) were secured by the mortgages over the Group's leasehold land and buildings which had the aggregate carrying amounts of approximately HK$172,518,000 (2010: HK$135,581,000) and equipment and tools with the carrying amounts of approximately HK$14,199,000 (2010: HK$nil). The loans from the ultimate holding company of HK$40,000,000 (2010: HK$40,000,000 included in other loans) were secured by a share charge over the entire issued capital of a wholly-owned subsidiary of Company.

## 29. FINANCE LEASE PAYABLE

The Group leases certain of its plant and machinery for its operations for the year ended 31 March 2010. Those leases were classified as finance leases and had a remaining lease term of one year. At 31 March 2010, the present value of minimum lease payment of the Group was approximately HK$3,387,000 and the total future minimum lease payments under finance leases were as follows:

| | **Minimum lease payments 2010** *HK$'000* |
|---|---|
| Total minimum finance lease payments payable within one year | 3,407 |
| Future finance charges | (20) |
| Total net finance lease payables classified as current liabilities | 3,387 |

## 30. FINANCIAL GUARANTEE LIABILITIES

At the end of the last reporting period, the Company had given corporate guarantees to certain banks to secure for general banking facilities granted to its subsidiaries, and approximately HK$169,165,000 of those were utilised by the subsidiaries as at that date. During the prior year, the Group had breached certain terms and defaulted on the repayment of certain bank borrowings. It was probable that the Company would be liable to the claims under any of those guarantees. Accordingly, a provision for financial guarantee liabilities of approximately HK$157,795,000 had been made against the probable uncovered exposures to be borne by the Company under the guarantees at the end of last reporting period. At 31 March 2011, the Company did not have any uncovered exposures in respect of financial guarantees granted.

## 31. DEFERRED TAX LIABILITIES

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

| | **Group** | | | |
|---|---|---|---|---|
| | **Accelerated tax depreciation** *HK$'000* | **Development costs** *HK$'000* | **Revaluation of properties** *HK$'000* | **Total** *HK$'000* |
| At 1 April 2009 | 16,732 | 1,495 | 35,256 | 53,483 |
| Credited to income statement for the year | (12,993) | (1,495) | – | (14,488) |
| Credited to other comprehensive income: | | | | |
| – Release on disposal | – | – | (624) | (624) |
| – Deficit on revaluation | – | – | (6,901) | (6,901) |
| Exchange differences | – | – | 7 | 7 |
| At 31 March 2010 and 1 April 2010 | 3,739 | – | 27,738 | 31,477 |
| Deconsolidation of a liquidating subsidiary | (3,726) | – | (388) | (4,114) |
| Deconsolidation of Scheme Subsidiaries | (13) | – | (20,698) | (20,711) |
| Deferred tax debited to other comprehensive income: surplus on revaluation | – | – | 8,890 | 8,890 |
| Exchange differences | – | – | 302 | 302 |
| At 31 March 2011 | – | – | 15,844 | 15,844 |

At the end of the reporting period, the Group had tax losses arising in Hong Kong of approximately HK$301,000 (2010: HK$286,922,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. The allowable losses of the Company's subsidiaries incorporated in Hong Kong are yet to be agreed by the IRD. At the end of the reporting period, the Group also had tax losses arising in the Mainland China of approximately HK$21,895,000 (2010: HK$98,551,000) that will expire in one to five years for offsetting against future taxable profit. Deferred tax assets have not been recognised in respect of these losses as the Directors consider not probable that these subsidiaries will have sufficient future taxable profits against which those tax losses can be utilised.

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

No deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings of the Group's subsidiary established in the Mainland China, as the subsidiary did not have any distributable earnings at the end of the reporting period.

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

## 32. SHARE CAPITAL

| | | | 2011 | | | 2010 | |
|---|---|---|---|---|---|---|---|
| | | No. of shares | Per share | Amount | No. of shares | Per share | Amount |
| | *Notes* | | *HK$* | *HK$'000* | | *HK$* | *HK$'000* |
| Ordinary shares of HK$0.1 each at 1 April 2010 and HK$0.01 each at 31 March 2011 | | | | | | | |
| **Authorised:** | | | | | | | |
| At beginning of year | | 3,000,000,000 | 0.10 | 300,000 | 3,000,000,000 | 0.10 | 300,000 |
| Share Subdivision | *(b)* | 297,000,000,000 | – | – | – | – | – |
| Share Consolidation | *(c)* | (270,000,000,000) | – | – | – | – | – |
| At 31 March | | 30,000,000,000 | 0.01 | 300,000 | 3,000,000,000 | 0.10 | 300,000 |
| **Issued and fully paid:** | | | | | | | |
| At beginning of year | | 1,057,889,962 | 0.10 | 105,789 | 1,057,889,962 | 0.10 | 105,789 |
| Capital Reduction | *(a)* | – | – | (104,731) | – | – | – |
| Share Consolidation | *(c)* | (952,100,966) | – | – | – | – | – |
| Share after Capital Reorganisation | | 105,788,996 | 0.01 | 1,058 | 1,057,889,962 | 0.10 | 105,789 |
| Issue of New Shares | *(d)* | 962,679,864 | 0.01 | 9,627 | – | – | – |
| At 31 March | | 1,068,468,860 | 0.01 | 10,685 | 1,057,889,962 | 0.10 | 105,789 |

*Notes:*

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

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

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

(d) The Company entered into the subscription agreement with the Subscriber, Skill China Limited, on 15 January 2010 (as amended by the supplemental subscription agreement dated 24 June 2010). According to the subscription agreement, the subscriber agrees to subscribe for an aggregate of 909,785,366 Subscription Shares with a par value of HK$0.01 each in the share capital of the Company at the Subscription Price of approximately HK$0.0879 per Subscription Share resulting in the cash consideration of HK$80 million. These shares were issued and allotted to the Subscriber on the Effective Date, and 63,473,398 Subscriptions Shares of which were transferred to the Schemeco on the same day as Option Shares for the purpose of the Creditor Scheme.

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

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

**Capital management**

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

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. Except for the compliance of certain bank covenants for maintaining the Group's bank facilities, the Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the two years ended 31 March 2011 and 2010.

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

| | Group | |
|---|---|---|
| | **2011** | **2010** |
| | *HK$'000* | *HK$'000* |
| Bank and other borrowings | 268,520 | 412,094 |
| Less: Cash and bank balances | (8,927) | (30,176) |
| Net debts | 259,593 | 381,918 |
| Capital | 58,515 | (423,310) |
| Gearing ratio | 444% | N/A# |

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

The gearing ratio as at 31 March 2011 exceeded 100%. In view of such circumstance, the Directors have given careful consideration to the future liquidity and performance of the Group and its available sources of finance in assessing whether the Group will have sufficient financial resources to continue as a going concern. Further details are explained in note 2 to these financial statements.

## 33. SHARE OPTION SCHEME

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

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

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

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

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

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

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

| | Number of share options | |
|---|---|---|
| | **2011** | **2010** |
| | *('000)* | *('000)* |
| Outstanding at beginning of year | 25,455 | 47,130 |
| Lapsed during the year | (25,455) | (21,675) |
| Outstanding at end of year* | – | 25,455 |

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

At the end of the reporting period, the Company had no (2010: 25,455,000) outstanding share options under the Option Scheme. At 31 March 2010, the exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 25,455,000 additional shares totalling HK$2,545,500 and share premium of HK$9,342,000, before issue expenses. At 31 March 2010, 25,455,000 share options outstanding under the Option Scheme represented approximately 2.4% of the shares of the Company in issue at that date.

## 34. RESERVES

### (a) Group

The amounts of the Group's reserves and movements therein are presented in the consolidated statement of comprehensive income and consolidated statement of changes in equity.

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.

**(b) Company**

| | Notes | Share capital HK$'000 | Share premium account HK$'000 | Contributed reserve HK$'000 | (Accumulated losses)/ retained profits HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|
| At 1 April 2009 | | 105,789 | 71,388 | 58,794 | 33,646 | 269,617 |
| Total comprehensive loss for the year | | – | – | – | (428,402) | (428,402) |
| At 31 March 2010 and 1 April 2010 | | 105,789 | 71,388 | 58,794 | (394,756) | (158,785) |
| Total comprehensive income for the year | | – | – | – | 68,158 | 68,158 |
| Capital reorganisation: | | | | | | |
| – capital reduction | *34(c)(ii)* | (104,731) | – | 104,731 | – | – |
| – issue of shares | *32* | 9,627 | 75,022 | – | – | 84,649 |
| – share premium cancellation | *34(c)(i)* | – | (71,388) | 71,388 | – | – |
| – set-off accumulated losses against contributed reserve | *34(c)(ii)* | – | – | (176,399) | 176,399 | – |
| At 31 March 2011 | | 10,685 | 75,022 | 58,514 | (150,199) | (5,978) |

**(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.

During the year ended 31 March 2011, the amount of approximately HK$71,388,000 standing to the credit of the share premium account of the Company as at 31 March 2010 was cancelled ("Share Premium Cancellation") pursuant to a resolution of the Company. The credit arising from the Share Premium Cancellation was transferred to the contributed reserve account of the Company.

*(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.

During the year ended 31 March 2011, upon the completion of the Capital Reduction of the Company, the issued share capital of the Company was reduced from approximately HK$105,789,000 to approximately HK$1,058,000. The Capital

Reduction resulted in the decrease of the issued share capital of the Company by approximately HK$104,731,000. Such amount was credited to the contributed reserve account of the Company. The credits arising from the Share Premium Cancellation and Capital Reduction in aggregate amounts of approximately HK$176,119,000 were transferred to the contributed reserve account of the Company. The Directors were authorised to utilise the amounts of approximately HK$176,399,000 to set off against the accumulated losses of the Company.

*(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 these financial statements.

*(iv) Foreign currency translation reserve*

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

**35. MAJOR NON-CASH TRANSACTIONS**

The Group entered into the following non-cash investing and financing activities which are not reflected in the consolidated statement of cash flows:

(a) On the Effective Date, 909,785,366 Subscription Shares with a par value of HK$0.01 were issued and allotted to a new investor, Skill China Limited, for the cash consideration of HK$80 million (approximately HK$0.0879 per Subscription Share). Based on the Creditor Scheme, all proceeds from the issuance of the Subscription Shares was made available to the Administrators to settle and discharge the Claims under the Creditor Scheme.

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

**36. OPERATING LEASE ARRANGEMENTS**

**(a) As lessor**

The Group leases certain of its properties under operating lease arrangement, with leases negotiated for terms ranging from 1 to 8 years. The terms of leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions. At 31 March 2011, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

| | *HK$'000* |
|---|---|
| Within one year | 2,487 |
| In the second to fifth years, inclusive | 9,641 |
| After five years | 1,536 |
| | 13,664 |

**(b) As lessee**

The Group leases certain of its buildings under operating lease arrangements, with leases negotiated for a term ranging from one to two years. At 31 March 2011, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

| | *HK$'000* |
|---|---|
| Within one year | 1,116 |
| In the second to fifth year inclusive | 181 |
| | 1,297 |

**(c)** At 31 March 2010, the Group neither had minimum leases receivable nor payments under any of non-cancellable operating lease arrangement.

## 37. CAPITAL COMMITMENTS

At the end of the reporting period, the Group had the capital commitments contracted but not provided for in the financial statements in respect of unpaid portion of capital contributions to an indirect wholly-owned subsidiary of the Company amounting to approximately HK$584,000 (2010: HK$nil).

## 38. RELATED PARTY TRANSACTIONS

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

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

| | **2011** *HK$'000* | **2010** *HK$'000* |
|---|---|---|
| Short term employee benefits | 5,319 | 7,524 |
| Post-employment benefits | 67 | 284 |
| Total compensation paid to key management personnel | 5,386 | 7,808 |

Further details of directors' emoluments are included in note 15 to these financial statements.

(b) Details of the Group's amounts due to the Directors are included in note 24 to these financial statements.

(c) As disclosed in notes 27 and 28 to these financial statements, at the end of the reporting period, the Group had outstanding loan interest and other payable of approximately HK$958,000 and HK$1,469,000, respectively, and loans from the Company's ultimate holding company of approximately HK$64,700,000. Included in loans from the ultimate holding company, HK$40,000,000 (2010: HK$40,000,000 included in other loans) is secured by a share charge over the entire issued capital of a wholly-owned subsidiary of the Company and repayable within one year, and the rest of them are unsecured and without fixed terms of repayment. The secured loans from the ultimate holding company are interest-bearing at 2% per annum. During the year, the Group paid loan interest of approximately HK$800,000 to the ultimate holding company.

**39. COMPARATIVE FIGURES**

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

**40. APPROVAL OF FINANCIAL STATEMENTS**

These financial statements were approved and authorised for issue by the Board of Directors on 28 June 2011.

## 5. UNAUDITED FINANCIAL INFORMATION OF THE GROUP FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2011

The following information has been extracted from the interim report of the Company for the six months ended 30 September 2011:

### UNAUDITED CONDENSED CONSOLIDATED INCOME STATEMENT

*For the six months ended 30 September 2011*

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

## UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

*For the six months ended 30 September 2011*

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

## UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*As at 30 September 2011*

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

## UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

*For the six months ended 30 September 2011*

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

## UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

*For the six months ended 30 September 2011*

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

## NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

*For the six months ended 30 September 2011*

### 1. GENERAL INFORMATION

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

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

### 2. BASIS OF PREPARATION

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

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

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

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

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

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

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

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

## 4. SEGMENT INFORMATION

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

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

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

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

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

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

## 5. TURNOVER

The Group's turnover is analysed as follows:

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

## 6. GAIN ON DECONSOLIDATION OF A SUBSIDIARY

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

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

**7. PROVISION FOR FINANCIAL GUARANTEE LIABILITIES RELATING TO THE BORROWINGS OF A DECONSOLIDATED SUBSIDIARY**

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

**8. FINANCE COSTS**

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

**9. INCOME TAX**

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

**10. (LOSS)/PROFIT FOR THE PERIOD**

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

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

## 11. (LOSS)/EARNINGS PER SHARE

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

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

## 12. DIVIDEND

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

## 13. ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT

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

## 14. ACCOUNTS RECEIVABLES

The Group's trading terms with its customers are mainly on credit. The credit period is generally 30 days extending up to 90 days for major customers. The Group seeks to maintain strict control over its outstanding receivables in order to minimise credit risk. Overdue balances are reviewed regularly by senior management.

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

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

## 15. DUE FROM A SCHEME SUBSIDIARY

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

## 16. ACCOUNTS PAYABLES

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

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

## 17. BORROWINGS

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

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

## 18. SHARE CAPITAL

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

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

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

*Notes:*

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

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

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

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

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

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

**19. APPROVAL OF INTERIM FINANCIAL STATEMENTS**

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

## 6. INDEBTEDNESS

As at the close of business on 31 March 2012, being the latest practicable date for the purpose of ascertaining information contained in the indebtedness statement prior to the printing of this Composite Document, the total outstanding borrowings and payables of the Group approximately amounted to HK$232 million, and details of which are set out below:

| | *HK$ million* |
|---|---|
| *Secured borrowings:* | |
| Due to the ultimate holding company | 40 |
| Other borrowings | 85 |
| | 125 |
| *Unsecured borrowings and payables:* | |
| Due to the ultimate holding company | 30 |
| Due to a non-controlling shareholder of the Company | 49 |
| Due to a director | 2 |
| Trade and other payables | 26 |
| | 107 |
| Total secured and unsecured borrowings and payables | 232 |

The secured borrowings of the Group, in aggregate, of approximately HK$125 million were secured by:

(i) the mortgages over certain leasehold lands and buildings of the Group with the carrying amounts of approximately HK$18 million and HK$162 million respectively;

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

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

As at the close of business on 31 March 2012, the Group had no material contingent liabilities and commitments.

Save as aforesaid or as otherwise disclosed in this section, and apart from intra-group liabilities, the Group did not have outstanding at the close of business on 31 March 2012 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 31 March 2012.

The Directors confirm there were no material changes in the Group's indebtedness position and contingent liabilities since 31 March 2012.

## 7. MATERIAL CHANGE

Save as (i) disclosed in the interim report of the Company for the six months period ended 30 September 2011, in particular, the significant increase in turnover since 1 April 2011, and the unaudited gross loss and net loss for the six months period; and (ii) the effects of the deconsolidation of the financial results and position of Total Ally Holdings Limited and its subsidiaries from those of the Group following the commencement of the voluntary winding-up of Total Ally Holdings Limited on 19 April 2012 (details of the voluntary winding-up of Total Ally Holdings Limited were set out in the announcement of the Company dated 19 April 2012), in particular, the reduction in net asset value 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 March 2011 (the date to which the latest audited consolidated financial statements of the Group were made up) up to and including the Latest Practicable Date.

## 1. RESPONSIBILITY STATEMENTS

The Directors jointly and severally accept full responsibility for the accuracy of the information contained in this Composite Document (other than information relating to the Offeror 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 Composite Document (other than opinions expressed by the Offeror 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 Composite Document, the omission of which would make any statement in this Composite Document misleading.

The directors of the Offeror jointly and severally accept full responsibility for the accuracy of the information contained in this Composite Document (other than information relating to the Group and parties acting in concert with it) and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this Composite Document (other than opinions expressed by the Group and 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 Composite Document, the omission of which would make any statement in this Composite Document misleading.

## 2. SHARE CAPITAL

The authorised and issued share capital of the Company of HK$0.01 each as at 31 March 2011 (being the latest financial year end of the Company) and the Latest Practicable Date were as follows:

| | | |
|---|---|---|
| *Authorised:* | | *HK$* |
| 30,000,000,000 | Shares | 300,000,000 |
| *Issued and fully paid:* | | |
| 1,068,468,860 | Shares | 10,684,688.60 |

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

The Company has not issued any Shares since 31 March 2011, being the date of the latest published audited accounts of the Group.

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

## 3. DISCLOSURE OF INTERESTS

### (a) Interests of Directors

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

*Long Positions in ordinary shares of the Company*

| Name of director | Nature of interest | Number of ordinary shares held | Percentage of the Company's issued share capital |
|---|---|---|---|
| Dr. So | Corporate *(Note)* | 32,054,066 | 3.00 |
| Cheng Tsang Wai | Personal | 162,600 | 0.02 |

*Note*: These shares were held by Skill China which is 90% indirectly beneficially owned by Dr. So.

Save as disclosed in this paragraph 3(a), 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 period commenced from the six months prior to 27 April 2012 (being the date of Joint Announcement and ended on and including the Latest Practicable Date) (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 2011 (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, 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 |
|---|---|---|---|---|---|
| The Offeror | *1* | Beneficial interest | 749,849,586 Shares | – | 70.18% |

*Note:*

1. The Offeror is wholly-owned by Good Ease which in turn is wholly-owned by Eureka. Eureka is wholly-owned by CMPD. CMPD is directly held as to 40.38% by China Merchants Shekou Industrial Zone Co. Ltd.* which in turn is 100% held by China Merchants Group Co., Ltd.

* *For identification purposes only*

Save as disclosed in this paragraph 4, 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 save for the S&P Agreement 1, 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. Each of Dr. So and Mr. Cheng Tsang Wai does not intend, in respect of their own beneficial shareholdings in the Company, to accept the Offer.

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

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

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

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

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

(g) Somerley Limited ("Somerley") is acting as the financial adviser to the Company with respect to the Offer. As at the Latest Practicable Date, Somerley was interested in 5,843,249 Shares, representing approximately 0.55% of the issued share capital of the Company. Somerley Asset Management Limited ("SAML"), a fellow subsidiary of Somerley, is the investment manager of an open-ended fund holding 58,000 Shares, representing approximately 0.0054% of the issued share capital of the Company as at the Latest Practicable Date. Each of Somerley and SAML is regarded as a party acting in concert with the Company pursuant to the Takeovers Code.

During the Relevant Period, Somerley and SAML have made the dealings as follows:

| Name | Date | Type of transaction | Number of Shares involved | Transaction price per Share *(HK$)* |
|---|---|---|---|---|
| Somerley | 30 April 2012 | Sell | 30,000 | 0.89 |
| | | Sell | 10,000 | 0.88 |
| | | Sell | 10,000 | 0.91 |
| | | Sell | 50,000 | 0.90 |
| | | Sell | 220,000 | 0.80 |
| | 2 May 2012 | Sell | 200,000 | 0.75 |
| | | Sell | 50,000 | 0.79 |
| | | Sell | 50,000 | 0.82 |
| | | Sell | 50,000 | 0.83 |
| | | Sell | 50,000 | 0.85 |
| | | Sell | 100,000 | 0.88 |
| | | Sell | 100,000 | 0.92 |
| | | Sell | 200,000 | 0.93 |
| | | Sell | 150,000 | 0.98 |
| | | Sell | 250,000 | 0.99 |
| | | Sell | 100,000 | 0.95 |
| | | Sell | 100,000 | 0.96 |
| | | Sell | 100,000 | 1.00 |
| | | Sell | 90,000 | 1.03 |
| | | Sell | 110,000 | 1.04 |
| | | Sell | 100,000 | 1.06 |
| | | Sell | 100,000 | 1.08 |
| | | Sell | 178,000 | 1.09 |
| | | Sell | 300,000 | 1.05 |
| | 3 May 2012 | Sell | 100,000 | 1.00 |
| | | Sell | 100,000 | 1.01 |
| | | Sell | 100,000 | 1.03 |
| | | Sell | 100,000 | 0.95 |
| | | Sell | 100,000 | 0.96 |
| | | Sell | 144,000 | 0.93 |
| | 4 May 2012 | Sell | 300,000 | 0.93 |
| | | Sell | 100,000 | 0.95 |
| | | Sell | 100,000 | 0.97 |
| | | Sell | 100,000 | 1.00 |
| | | Sell | 100,000 | 1.01 |
| | | Sell | 200,000 | 1.05 |
| | | Sell | 34,000 | 1.06 |
| | 7 May 2012 | Sell | 404,000 | 0.95 |
| | | Sell | 400,000 | 0.96 |
| | | Sell | 200,000 | 0.97 |
| | 8 May 2012 | Sell | 260,000 | 0.96 |
| | | Sell | 500,000 | 0.95 |

| Name | Date | Type of transaction | Number of Shares involved | Transaction price per Share (HK$) |
|---|---|---|---|---|
| SAML | 30 January 2012 | Sell | 100,000 | 0.78 |
| | 30 April 2012 | Sell | 190,000 | 0.70 |
| | | Sell | 86,000 | 0.71 |
| | | Sell | 128,000 | 0.72 |
| | | Sell | 50,000 | 0.73 |
| | | Sell | 66,000 | 0.74 |
| | | Sell | 50,000 | 0.75 |
| | | Sell | 10,000 | 0.76 |
| | | Sell | 150,000 | 0.77 |
| | | Sell | 394,000 | 0.78 |
| | | Sell | 88,000 | 0.79 |
| | | Sell | 464,000 | 0.80 |
| | | Sell | 48,000 | 0.81 |
| | | Sell | 32,000 | 0.82 |
| | | Sell | 48,000 | 0.83 |
| | | Sell | 10,000 | 0.84 |
| | | Sell | 16,000 | 0.85 |
| | | Sell | 60,000 | 0.88 |
| | | Sell | 50,000 | 0.90 |
| | 2 May 2012 | Sell | 100,000 | 0.76 |
| | | Sell | 80,000 | 0.77 |
| | | Sell | 40,000 | 0.78 |
| | | Sell | 40,000 | 0.79 |
| | | Sell | 80,000 | 0.80 |
| | | Sell | 30,000 | 0.81 |
| | | Sell | 160,000 | 0.82 |
| | | Sell | 100,000 | 0.83 |
| | | Sell | 130,000 | 0.84 |
| | | Sell | 30,000 | 0.85 |
| | | Sell | 140,000 | 0.88 |
| | | Sell | 200,000 | 0.89 |
| | | Sell | 50,000 | 0.90 |
| | | Sell | 20,000 | 0.92 |
| | | Sell | 46,000 | 0.93 |
| | | Sell | 124,000 | 0.94 |
| | | Sell | 92,000 | 0.95 |
| | | Sell | 130,000 | 0.97 |
| | | Sell | 108,000 | 0.98 |
| | | Sell | 156,000 | 0.99 |
| | | Sell | 90,000 | 1.00 |
| | | Sell | 130,000 | 1.01 |
| | | Sell | 22,000 | 1.02 |
| | | Sell | 126,000 | 1.03 |
| | | Sell | 110,000 | 1.04 |

| Name | Date | Type of transaction | Number of Shares involved | Transaction price per Share (HK$) |
|---|---|---|---|---|
| | | Sell | 82,000 | 1.05 |
| | | Sell | 20,000 | 1.06 |
| | | Sell | 10,000 | 1.07 |
| | | Sell | 24,000 | 1.08 |
| | | Sell | 30,000 | 1.09 |
| | 3 May 2012 | Sell | 330,000 | 0.93 |
| | | Sell | 32,000 | 0.94 |
| | | Sell | 196,000 | 0.95 |
| | | Sell | 268,000 | 0.96 |
| | | Sell | 104,000 | 0.97 |
| | | Sell | 6,000 | 0.99 |
| | | Sell | 40,000 | 1.00 |
| | | Sell | 6,000 | 1.01 |
| | | Sell | 100,000 | 1.02 |
| | 4 May 2012 | Sell | 966,000 | 0.90 |
| | | Sell | 222,000 | 0.91 |
| | | Sell | 232,000 | 0.92 |
| | | Sell | 206,000 | 0.93 |
| | | Sell | 136,000 | 0.94 |
| | | Sell | 78,000 | 0.95 |
| | | Sell | 72,000 | 0.96 |
| | | Sell | 408,000 | 0.97 |
| | | Sell | 600,000 | 0.98 |
| | | Sell | 394,000 | 0.99 |
| | | Sell | 270,000 | 1.00 |
| | | Sell | 220,000 | 1.01 |
| | | Sell | 50,000 | 1.02 |
| | | Sell | 50,000 | 1.03 |
| | | Sell | 96,000 | 1.04 |
| | 7 May 2012 | Sell | 670,000 | 0.93 |
| | | Sell | 268,000 | 0.94 |
| | | Sell | 580,000 | 0.95 |
| | | Sell | 352,000 | 0.96 |
| | | Sell | 130,000 | 0.97 |

Save as the disclosure relating to the dealings by Somerley and SAML respectively as set out in this paragraph (g), (i) none of the other advisors to the Company (as specified in class (2) of the definition of "associate" under the Takeovers Code) had any interest in the Shares, convertible securities, warrants, options or derivatives of the Company as at the Latest Practicable Date, and (ii) none of them had dealt in any shares, convertible securities, warrants, options or derivatives of the Company during the Relevant Period.

(h) None of (i) the subsidiaries of the Company; or (ii) the pension fund of the Company or of a subsidiary of the Company 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.

(i) 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.

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

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

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

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

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

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

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

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

(r) As at the Latest Practicable Date, the Offeror has no agreement, arrangement or understanding or intention to transfer (unless otherwise required by the Listing Rules with regard to public float requirements), charge or pledge the Shares acquired in pursuance with the Offer to any other persons.

## 6. MARKET PRICES

(a) The highest and lowest closing prices of the Shares as quoted on the Stock Exchange during the Relevant Period were HK$1.430 per Share (on 21 May 2012) and HK$0.630 per Share (on 20 January 2012), respectively.

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

| **Date** | **Closing Price of Shares** *HK$* |
|---|---|
| 31 October 2011 | 0.650 |
| 30 November 2011 | 0.700 |
| 30 December 2011 | 0.780 |
| 31 January 2012 | 0.700 |
| 29 February 2012 | 0.790 |
| 30 March 2012 | 0.670 |
| 30 April 2012 | 0.700 |

(c) The closing price of the Shares on the Stock Exchange on the Last Trading Day was HK$0.710.

(d) The closing price of the Shares on the Stock Exchange on the Latest Practicable Date was HK$1.160.

## 7. LITIGATION

As at the Latest Practicable Date, none of the member of the Group was engaged in any litigation, arbitration of material importance and no litigation or claim of material importance was known to the Directors to be pending or threatened by or against any member of the Group or to which any member of the Group may become a party.

## 8. MATERIAL CONTRACTS

The following contracts (not being contracts in the ordinary course of business carried on or intended to be carried on by the Company or any of its subsidiaries) have been entered into by members of the Group after the date two years before 27 April 2012, (being the date of the Joint Announcement) and are or may be material:

(a) the deed of novation dated 23 April 2012 entered into among Grand Golden Profit Limited (a direct wholly-owned subsidiary of the Company, "GGP"), Tonic Electronic (B.V.I.) Limited (an indirect wholly-owned subsidiary of the Company, "TEBVI") and Skill China in relation to (i) the set off the amount due from Tonic BVI to GGP of HK$37,967,952.17 as at effective date (i.e. 19 April 2012); and (ii) the novation of the payment obligation owed by GGP to Skill China under the Loan Agreement (as defined below) and the Facility Agreement (as defined below) to TEBVI, resulting in that payment obligation be owed by TEBVI to Skill China;

(b) the deed of novation dated 23 April 2012 entered into among GGP, TEBVI and Success Forever Limited in relation to the novation of the payment obligation owed by GGP to Success Forever Limited to TEBVI, resulting in that payment obligation be owed by TEBVI to Success Forever Limited;

(c) the deed of novation dated 23 April 2012 entered into among Champion Apex Limited (a direct wholly-owned subsidiary of the Company, "CAL"), TEBVI and Skill China in relation to the novation of the payment obligation owed by CAL to Skill China to TEBVI, resulting in that payment obligation be owed by TEBVI to Skill China;

(d) the deed of novation dated 23 April 2012 entered into among CAL, TEBVI and Dr. So in relation to the novation of the payment obligation owed by CAL to Dr. So to TEBVI, resulting in that payment obligation be owed by TEBVI to Dr. So;

(e) the deed of release dated 23 April 2012 entered into between Skill China and the Company in relation to the release of the share charge executed on 15 January 2010 by the Company (as charger) in favour of Skill China (as chargee) over 100% of the shareholding in GGP;

(f) the deed of release dated 23 April 2012 entered into Skill China and GGP in relation to the release of the deed of debenture creating fixed and floating charges over the assets of GGP executed by GGP in favour of Skill China on 15 January 2010;

(g) the escrow agreement dated 3 December 2010 entered into between Rays Chan & Co., Greatest Mark Limited, the Company and Skill China in relation to the escrow of the Subscription Price (defined in (j) below) paid by Skill China, which shall be released to Greatest Mark Limited upon the written instruction of the administrators appointed pursuant to the creditor scheme as set out in the scheme document issued by the Company to the creditors dated 5 August 2010 (as amended by a supplemental scheme document dated 12 October 2010 issued by the Company to the creditors);

(h) the facility agreement dated 3 December 2010 (the "Facility Agreement") entered into between Grand Golden Profit Limited (as borrower) and Skill China (as lender) pursuant to which Skill China made available to GGP an unsecured and interest-free loan facility in the aggregate principal amount of HK$30,000,000;

(i) the loan agreement dated 15 January 2010 (as amended by the supplemental loan agreement dated 24 June 2010)(the "Loan Agreement") entered into between GGP (as borrower) and Skill China (as lender) in relation to the advance of the loan facility in the principal amount of HK$40,000,000 made available to GGP; and

(j) 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 (as subscriber) and Dr. So (as guarantor) in relation to the subscription of 909,785,366 Shares at the total consideration of HK$80,000,000 (the "Subscription Price") (equivalent to approximately HK$0.0879 per Shares).

## 9. CONSENTS AND QUALIFICATIONS

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

| Name | Qualification |
|---|---|
| CITIC Securities | a corporation licensed under SFO to carry out Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities, being the financial adviser to the Offeror in connection with the Offer |
| First Shanghai | a corporation licensed under the SFO to carry out Type 6 (advising on corporate finance) regulated activity under the SFO, being the independent financial adviser to the Independent Board Committee in connection with the Offer |

As at the Latest Practicable Date, none of CITIC Securities and First Shanghai, 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 2011 (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 CITIC Securities and First Shanghai, has given and has not withdrawn their respective written consents to the issue of this Composite Document with the inclusion of their respective advice, letters and/or reports (as the case may be) and references to their names and logos in the form and context in which they respectively appear.

## 10. GENERAL

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

(b) The head office and principal place of business of the Company in Hong Kong is at 13/F., Guangdong Investment Tower, 148 Connaught Road Central, Hong Kong.

(c) The registered office of the Offeror and Good Ease is at Palm Grove House, P.O. Box 438, Road Town, Tortola, British Virgin Islands. The registered office and correspondence address of Eureka is at Room 1812, West Tower Shun Tak Centre, 200 Connaught Road, Central, Hong Kong. The registered office of CMPD is at Building 3, Nanhai Ecool Innovation Park, No. 6 Xinghua Road, Shekou, Shenzhen, China. The correspondence address of the Offeror, Good Ease and Eureka is at Room 3111, 31/F., China Merchants Tower, Shun Tak Centre, Nos. 168–200 Connaught Road, Central, Hong Kong.

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

(e) The registered office of CITIC Securities Corporate Finance (HK) Limited is at 26th Floor, CITIC Tower, 1 Tim Mei Avenue, Central, Hong Kong.

(f) The principal place of business of ING in Hong Kong is at 36/F., One International Finance Centre, 1 Harbour View Street, Central, Hong Kong.

(g) The registered office of First Shanghai is at 19/F., Wing On House, 71 Des Voeux Road Central, Hong Kong.

(h) 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.

(i) The company secretary of the Company is Mr. Lau Cheuk Lun, who is a member of Institute of Chartered Accountants of England and Wales as well as Hong Kong Institute of Certified Public Accountants. He is also a fellow of the Association of Chartered Certified Accountants of the United Kingdom.

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

**11. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents are available for inspection on the websites of the SFC (www.sfc.hk) and the Company (www.tonic.com.hk) and, during normal business hours from 9:00 a.m. to 5:00 p.m. (other than Saturdays, Sundays and public holidays), at the Company's Hong Kong principal office address at 13/F, Guangdong Investments Tower, 148 Connaught Road Central, Hong Kong from the date of this Composite Document until the close of the Offer:

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

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

(c) the annual reports of the Company for the two years ended 31 March 2011;

(d) the interim report of the Company for the six months end 30 September 2011;

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

(f) the letter from CITIC Securities, the text of which is set out in this Composite Document;

(g) the letter from the Independent Board Committee, the text of which is set out in this Composite Document;

(h) the letter from First Shanghai, the text of which is set out in this Composite Document;

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

(j) the written consents referred to in the section headed "Consents and qualifications" in this appendix.