TONIC INDUSTRIES HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)
website: http://www.tonic.com.hk
and http://www.irasia.com/listco/hk/tonic

(Stock Code: 978)

INTERIM RESULTS
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2009

The board of directors (the "Board") of Tonic Industries Holdings Limited (the "Company") announces that the unaudited condensed consolidated financial statements of the Company and its subsidiaries (the "Group") for the six months ended 30 September 2009 (the "Period") together with the comparative figures for the previous corresponding period are as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

	Notes	For six months ended 30 September 2009 Unaudited HK$'000	2008 Unaudited (restated) HK$'000
CONTINUING OPERATIONS			
Revenue	2	**436,823**	1,359,266
Cost of sales		**(695,127)**	(1,277,364)
Gross (loss)/profit		**(258,304)**	81,902
Gain on disposal of properties		**6,496**	29,254
Other income and gains		**14,718**	221
Selling and distribution costs		**(850)**	(2,208)
Administrative expenses		**(27,616)**	(42,438)
Finance costs		**(9,616)**	(16,503)
(Loss)/Profit before tax	3	**(275,172)**	50,228
Tax	4	**10,807**	(504)
(Loss)/Profit for the Period from continuing operation		**(264,365)**	49,724
DISCONTINUED OPERATION			
Profit for the Period from a discontinued operation		**1,386**	1,058
(Loss)/Profit for the Period attributable to equity holders of the Company		**(262,979)**	50,782
Interim dividend		**Nil**	Nil
Interim dividend per share		**N/A**	N/A
Earnings per share attributable to equity holders of the Company	5		
• Basic			
– For (loss)/profit for the period		**(24.9) cents**	4.8 cents
– For (loss)/profit from continuing operations		**(24.9) cents**	4.7 cents
• Diluted		**N/A**	N/A

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 September 2009

	For six months ended 30 September	
	2009	2008
	Unaudited	Unaudited
	HK$'000	HK$'000
(LOSS)/PROFIT FOR THE PERIOD	**(262,979)**	50,782
Other comprehensive income:		
Exchange differences arising on translation of foreign operations	**307**	5,736
Written back on disposal	**344**	190
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	**(262,328)**	56,708

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to equity holders of the Company							
	Issued capital	Share premium account	Contributed surplus	Asset revaluation reserve	Exchange fluctuation reserve	Retained profits	Proposed final dividend	Total
	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
For the six months ended 30 September 2009								
At 1 April 2009	105,789	71,388	280	97,711	7,180	104,332	–	386,680
Exchange realignment	–	–	–	–	307	–	–	307
Written back on disposal	–	–	–	(2,892)	–	3,236	–	344
Net loss for the period	–	–	–	–	–	(262,979)	–	(262,979)
Total comprehensive income for the period and at 30 September 2009	105,789	71,388	280	94,819	7,487	(155,411)	–	124,352
For the six months ended 30 September 2008								
At 1 April 2008	105,789	71,388	280	98,165	8,463	277,665	–	561,750
Exchange realignment	–	–	–	–	5,736	–	–	5,736
Written back on disposal	–	–	–	(1,364)	–	1,554	–	190
Net profit for the period	–	–	–	–	–	50,782	–	50,782
Total comprehensive income for the period and at 30 September 2008	105,789	71,388	280	96,801	14,199	330,001	–	618,458

CONDENSED CONSOLIDATED BALANCE SHEET

	Notes	30 September 2009 Unaudited HK$'000	31 March 2009 Audited HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment		**633,026**	661,300
Prepaid land lease payments		**36,022**	41,091
Intangible assets		**6,440**	10,345
Deposits for acquisition of items of property, plant and equipment		**53**	53
		675,541	712,789
CURRENT ASSETS			
Inventories		**150,698**	353,832
Accounts and bills receivables	6	**41,059**	68,495
Factored accounts receivables	7	**23,835**	53,394
Prepayments, deposits and other receivables		**22,023**	16,418
Prepaid land lease payments		**778**	909
Equity investments at fair value through profit or loss		**4,512**	2,592
Tax recoverable		**1,092**	–
Derivative financial instruments		**–**	382
Cash and bank balances		**4,604**	36,758
		248,601	532,780
CURRENT LIABILITIES			
Accounts payables	8	**311,011**	342,022
Accrued liabilities and other payables		**48,005**	43,548
Interest-bearing bank and other borrowings		**282,731**	284,033
Bank advances on factored accounts receivables		**15,484**	53,394
Tax payable		**3,103**	21,265
		660,334	744,262
NET CURRENT LIABILITIES		**(411,733)**	(211,482)
TOTAL ASSETS LESS CURRENT LIABILITIES		**263,808**	501,307
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings		**87,021**	61,144
Net deferred tax liabilities		**52,435**	53,483
		139,456	114,627
		124,352	386,680
EQUITY			
Equity attributable to equity holders of the Company			
Issued capital	9	**105,789**	105,789
Reserves		**18,563**	280,891
		124,352	386,680

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	For six months ended 30 September	
	2009	2008
	Unaudited	Unaudited
	HK$'000	HK$'000
Net cash (outflow)/inflow from operating activities	**(42,612)**	28,695
Net cash inflow from investing activities	**23,792**	7,569
Net cash outflow from financing activities	**(13,514)**	(12,861)
(Decrease)/Increase in cash and cash equivalents	**(32,334)**	23,403
Cash and cash equivalents at 1 April	**26,733**	26,732
Effect of foreign exchange rate changes, net	**(589)**	248
Cash and cash equivalents at 30 September	**(6,190)**	50,383
Represented by:		
Cash and bank balances	**4,604**	50,383
Bank overdrafts, secured	**(10,794)**	–
	(6,190)	50,383

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1a. Basis of presentation

During the period ended 30 September 2009, the Group incurred a net loss of HK$262,979,000 and the Group had net current liabilities of approximately HK$411,733,000 as at 30 September 2009. In order to improve the Groups' financial position, immediate liquidity and cash flows and otherwise to sustain the Group as a going concern, the Group is implementing the measures: (i) arranging further bank loans; (ii) arranging investor to inject cash into the Group to enlarge the equity base; (iii) scaling down the operation scale.

The directors of the Company consider that the Group will have sufficient working capital to finance its operations and financial obligations, and accordingly, are satisfied that it is appropriate to prepare the financial statements on a going concern basis. The consolidated financial statements do not include any adjustments relating to the carrying amount and reclassification of assets and liabilities that might be necessary should the Group be unable to continue as a going concern. This condensed consolidated interim financial statements are not reviewed by auditor but reviewed by audit committee.

1b. Basis of Preparation and Accounting Policies

The condensed consolidated interim financial statements are prepared in accordance with Hong Kong Accounting Standards ("HKAS") 34 "Interim Financial Reporting" and Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). The accounting policies and basis of preparation adopted in the preparation of the interim financial statements are the same as those used in the annual financial statements of the Group for the year ended 31 March 2009, except in relation to the following new or revised Hong Kong Financial Reporting Standards ("HKFRSs", which also include HKASs and Interpretations) that affect the Group and are adopted for the first time for the current period's financial statements.

HKFRSs (Amendments)	Improvements to HKFRSs 2008
HKAS 1 (Revised)	Presentation of Financial Statements
HKAS 23 (Revised)	Borrowing Costs
HKAS 32 and HKAS 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation
HKFRS 1 and HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
HKFRS 2 (Amendments)	Share-based Payment – Vesting Conditions and Cancellations
HKFRS 7 (Amendments)	Financial Instruments: Disclosures – Improving Disclosures about Financial Instruments
HKFRS 8	Operating Segments
HK(IFRIC)-Int 9 and HKAS 39 (Amendments)	Reassessment of Embedded Derivatives
HK(IFRIC)-Int 13	Customer Loyalty Programmes
HK(IFRIC)-Int 15	Agreements for the Construction of Real Estate
HK(IFRIC)-Int 16	Hedges of a Net Investment in a Foreign Operation

The above new/revised HKFRSs are mandatory for the first time for the financial year beginning on 1 April 2009. The adoption of the new/revised HKFRSs, except for HKAS 1 (Revised) and HKFRS 8 as described below, had no material effect on the results and financial position for the current or prior accounting periods which have been prepared and presented. Accordingly, no prior period adjustment has been recognized.

HKAS 1 (Revised) introduces changes in the presentation and disclosures of financial statements. The revised standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with all non-owner changes in equity presented as a single line. In addition, this standard also introduces the statement of comprehensive income, with all items of income and expenses recognized in profit or loss, together with all other items of recognized income and expenses recognized directly in equity, either in one single statement, or in two linked statements. The Group has elected to present two statements.

HKFRS 8 replaces HKAS 14 "Segment Reporting", and specifies how an entity should report information about its operating segments, bases on information about the components of the entity that is available to the chief operating decision maker for the purposes of allocating resources to the segments and assessing their performance. Due to the adoption of HKFRS 8 during the current period, certain comparative amounts have been restated to confirm with the current period's presentation.

2. Segment Information

The Group is solely engaged in manufacture and trading of consumer electronic products. In accordance with HKFRS 8 "Operating Segments" adopted by the Group during the Period, the Group determines that there are five operating segments, based on location of customers (the destination of sales), including Mainland China, Europe, Americas and Asia. These segments are managed separately as each segment is subject to risks and returns that are different from each other.

The revenue and the result of each operating segment for the six month ended 30 September 2009 are as follows:

	Revenue Six months ended 30 September (Unaudited)		**Segment result Six months ended 30 September (Unaudited)**	
	2009	2008	**2009**	2008
	HK$'000	HK$'000	**HK$'000**	HK$'000
Mainland China	**228,887**	197,362	**(55,602)**	242
Europe	**67,656**	218,547	**(67,979)**	13,970
Americas	**124,301**	973,340	**(118,964)**	62,865
Asia and others	**15,979**	156,457	**(16,995)**	9,978
	436,823	1,545,706	**(259,540)**	87,055
Other income			**22,391**	27,996
Unallocated corporate expenses			**(27,725)**	(46,965)
Finance expenses			**(9,615)**	(16,654)
(Loss)/Profit before tax			**(274,489)**	51,432
Tax			**11,510**	650
(Loss)/Profit for the period			**(262,979)**	52,082

3. (Loss)/Profit before Tax

	For the six months ended 30 September	
	2009	2008
	Unaudited	Unaudited
	HK$'000	HK$'000
(Loss)/profit before tax is arrived at after charging/(crediting):		
Amortisation of trademarks	**–**	141
Amortisation of research and development costs	**3,905**	5,867
Depreciation	**25,112**	32,991
Interest on interest-bearing bank borrowings		
– From continuing operations	**9,616**	16,503
– From discontinued operation	**–**	151
Gain on disposal of properties	**(6,496)**	(29,254)
Fair value loss on equity investments at fair value through profit or loss	**(1,920)**	1,200
Interest income	**(12)**	(71)

4. Tax

Hong Kong profits tax has been provided at the rate of 16.5% (2008: 16.5%) on the estimated assessable profits arising in Hong Kong during the Period. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislations, interpretations and practices in respect thereof.

5. Earnings Per Share Attributable to Equity Holders of the Company

The calculation of basic earnings per share for the Period is based on the loss for the Period attributable to equity holders of the Company of HK$262,979,000 (2008: profit HK$50,782,000) and the weighted average of 1,057,889,962 ordinary shares (2008: 1,057,889,962 shares) in issue during the Period.

There is no diluted earnings per share for the Period since the Company has no dilutive potential ordinary share.

6. Accounts and Bills Receivables

The aged analysis of the Group's accounts and bills receivables as at the balance sheet date is as follows:

	30 September 2009 Unaudited HK$'000	31 March 2009 Audited HK$'000
0 – 30 days	**22,833**	45,221
31 – 60 days	**7,137**	7,948
61 – 90 days	**299**	11,192
Over 90 days	**10,790**	4,134
	41,059	68,495

The Group's trading terms with its customers are mainly on credit and sight letter of credit. The credit period is generally 30 days, extending up to 90 days for major customers. The Group's accounts and bills receivables are non-interest-bearing and their carrying amounts approximate to their fair values.

7. Factored Accounts Receivables

The aged analysis of the Group's factored accounts receivables as at the balance sheet date is as follows:

	30 September 2009 Unaudited HK$'000	31 March 2009 Audited HK$'000
0 – 30 days	**–**	23,493
31 – 60 days	**–**	7,276
61 – 90 days	**–**	12,993
Over 90 days	**23,835**	9,632
	23,835	53,394

The maturity date of the factored accounts receivables range from 60 to 90 days. No impairment is made on the factored accounts receivables.

8. Accounts Payables

The aged analysis of the Group's accounts payables as at the balance sheet date is as follows:

	30 September 2009 Unaudited HK$'000	31 March 2009 Audited HK$'000
0 – 30 days	**50,092**	123,488
31 – 60 days	**36,722**	24,509
61 – 90 days	**7,299**	7,346
Over 90 days	**216,898**	186,679
	311,011	342,022

The Group's accounts payables are non-interest-bearing and are on 30 days to 120 days open account basis. The carrying amounts of the accounts payables approximate to their fair values.

9. Share Capital

	30 September 2009 Unaudited HK$'000	31 March 2009 Audited HK$'000
Authorised:		
3,000,000,000 (31 March 2009: 3,000,000,000) ordinary shares of HK$0.10 each	**300,000**	300,000
Issued and fully paid:		
1,057,889,962 (31 March 2009: 1,057,889,962) ordinary shares of HK$0.10 each	**105,789**	105,789

10. Contingent Liabilities

On 11 November 2008. Thomson Hong Kong Holdings Limited ("Plaintiff"), a former customer of the Group, filed a writ of summons with the High Court of Hong Kong against the Company and two of its indirect wholly-owned subsidiaries namely, Tonic Digital Products Limited and Tonic Electronics Limited (collectively known as the "Defendants"), in respect of disputes relating, inter alia, goods returned for refund by the Plaintiff, claiming damages in the sum of US$4,289,664.15 (approximately HK$33,244,897.16) together with interests. On 31 December 2008, a counterclaim was submitted by the Group against the Plaintiff the sum of US$0.3 million (approximately HK$2.5 million) being default to pay and settle goods sold and supplied by the Group (the "Counterclaim"). The Plaintiff filed its reply and defence to the Counterclaim on 17 March 2009. As at the date of approval of these financial statements, the parties are to attend to resolve interlocutory matters before the case is to be fixed. In the opinion of the directors, the case is still in its preliminary stage and it is premature to speculate the outcome of such claims. Therefore, no provision has been made.

On 14 August 2009, J.C. Electronics Co. Limited issued a writ of summons in the High Court of Hong Kong against two indirect wholly-owned subsidiaries, namely Tonic Electronics Limited and Tonic Trading Development Limited respectively, in respect of goods sold and delivered in the amount of HK$4,743,443.67 and HK$10,541,664.26 respectively. Defence was filed and the actions are still in preliminary stage so it is premature to evaluate the probability of outcome. No provision has been made.

On 12 September 2009, Super Victory Enterprises Limited issued a writ of summons in the District Court of Hong Kong against an indirect wholly-owned subsidiary, namely Tonic Electronics Limited ("TEL"), in respect of goods sold and delivered in the amount of US$85,987.45 (approximately HK$666,230.76). TEL is currently preparing the defence. Since the dispute is at preliminary stage, no provision has been made.

On 24 August 2009, Tonic Electronics Limited ("TEL") and Tonic Digital Products Limited ("TDPL"), indirect wholly-owned subsidiaries, issued a writ of summons in the High Court of Hong Kong against the former customer Alco Holdings Limited for goods sold and delivered in the sum of US$820,912.06 (approximately HK$6,360,426.64) for TEL and US$288,977 (approximately HK$2,238,993.80) for TDPL. It is in the stage of exchange of documents.

On 14 September 2009, Multimedia Devices Limited issued a writ of summons in the High Court of Hong Kong against two indirect wholly-owned subsidiaries, namely Tonic Electronics Limited ("TEL") and Tonic Digital Products Limited ("TDPL"), in respect of returned goods in the amount of US$1,167,598.78 (approximately HK$9,046,555.35) for TEL and US$213,146.70 (approximately HK$1,651,460.63) for TDPL. TEL and TDPL are currently preparing the defence. Since the dispute is at preliminary stage, no provision has been made.

On 23 November 2009, Technotrend Trading Limited, indirect wholly-owned subsidiary, issued a writ of summons in the High Court of Hong Kong against former customer Technotrend GmbH for goods sold and delivered in the sum of US$2,541,464.29 (approximately HK$19,691,265.32). The case is in the stage of service of the Writ of Summons against Technotrend GmbH.

On 13 November 2009, Stmicroelectronics Asia Pacific PTE Limited issued a writ of summons in the High Court of Hong Kong against an indirect wholly-owned subsidiary, namely Tonic Electronics Limited ("TEL"), in respect of goods sold and delivered in the amount of US$279,741.70 (approximately HK$2,167,438.69). TEL is currently preparing the defence. Since the dispute is at preliminary stage, no provision has been made.

On 16 November 2009, Fung Shing Steel Company Limited issued a writ of summons in the District Court of Hong Kong against a direct wholly-owned subsidiary, namely Gold Beam Developments Limited ("GB"), in respect of goods sold and delivered in the amount of HK$429,364.73. GB is currently preparing the defence. Since the dispute is at preliminary stage, no provision has been made.

On 20 November 2009, Max Components Limited issued a writ of summons in the District Court of Hong Kong against an indirect wholly-owned subsidiary, namely Tonic Trading Development Limited ("TTDL"), in respect of goods sold and delivered in the amount of US$56,346.30 (approximately HK$436,571.13). TTDL is currently preparing the defence. Since the dispute is at preliminary stage, no provision has been made.

On 27 November 2009, Lucky Harvest (HK) Company Limited issued a writ of summons in the High Court of Hong Kong against an indirect wholly-owned subsidiary of the Company, namely Tonic Electronics Limited ("TEL"), in respect of goods sold and delivered in the amount of HK$1,121,066.24. TEL is currently preparing the defence. Since the dispute is at preliminary stage, no provision has been made as at 30 September 2009.

On 9 December 2009, Yan Hsin Da Electronics Limited issued a writ of summons in the District Court of Hong Kong against a direct wholly-owned subsidiary of the Company, namely Tonic Technology Limited ("TTL"), in respect of goods sold and delivered in the amount of US$31,395.6 (approximately HK$243,315.9. TTL is currently preparing the defence.

11. Commitments

(a) Capital commitments in respect of fixed assets

	30 September 2009 Unaudited HK$'000	31 March 2009 Audited HK$'000
Contracted, but not provided for:		
Equipment and tools	**53**	53

(b) As at 30 September 2009, the Group had outstanding forward currency contracts with an aggregate notional amount of approximately HK$23 million (31 March 2009: HK$162 million) to hedge payables denominated in United States dollars.

12. Comparative Amounts

Certain comparative amounts have been reclassified to conform with the presentation and accounting treatment for the Period.

INTERIM DIVIDEND

The Board has resolved not to declare any interim dividend in respect of the Period (2008: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Group Results

The Group recorded a turnover of HK$437 million, EBITDA of HK$(236) million and loss attributable to shareholders of HK$263 million for the six-month ended 30 September 2009, compared to HK$1,546 million, HK$107 million and HK$51 million respectively for the corresponding period.

Business Review

In the Period 2009, the Group continued to be affected by the looming global financial crisis. Sales of the Group for the Period under review, especially export sales to markets in Europe and Americas plunged by 82% and working capital pressure increased against the credit crunch. In addition, the US government stopped subsidising consumers in purchasing digital set top boxes and that further dampened sales of set top boxes to the market. Also, the Group has closed the home appliances division last year, which accounted for around 12% of its total sales in last corresponding period.

Although export sales dropped, the Group continued to maintain growth in domestic sales of set top boxes during the Period. Benefiting from the move of the PRC Government to subsidise purchase of home appliances by rural households (家電下鄉政策), the Group recorded sales of set top boxes and other electronic products in the domestic market.

Loss for the Period was mainly the result of the following factors:

Firstly, sales dropped by 72% as compared with the last corresponding period and could not cover fixed costs of the Group. Fixed production overheads which did not come down as desired resulted in a huge operating loss. The Group has started to downsizing its operations aiming to minimise production overheads.

Secondly, the Group decided to suspend operation of some of the factories in the PRC during the Period and had written off certain stock, amounting to HK$108 million, in compliance with prevailing accounting standards.

Prospects

The Group anticipates continuous steady growth for the domestic market and hence shall focus on pushing domestic sales in coming years. All loss-incurring companies will be closed eventually to ensure the Group operates in an optimum scale. The Group has been active in finding ways to turn around its business and improve working capital.

Business Development

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

Liquidity and Financial Resources

As at 30 September 2009, the net asset value of the Group attributable to equity holders amounted to approximately HK$124 million (31 March 2009: approximately HK$387 million), including cash and bank balances of approximately HK$5 million (31 March 2009: approximately HK$37 million) which were denominated mainly in Hong Kong dollars.

The trade receivable balance as at 30 September 2009 was approximately HK$65 million (31 March 2009: approximately HK$122 million), including factored accounts receivables of HK$24 million (31 March 2009: approximately HK$53 million). The factored receivables were covered by credit insurance and all other trade receivables were on letter of credit.

As at 30 September 2009, the Group's aggregate borrowings was approximately HK$385 million (31 March 2009: approximately HK$399 million), of which approximately HK$382 million was bank borrowings and approximately HK$3 million was for obligations under finance leases. The borrowings were denominated in Hong Kong dollars and bore interest mainly on HIBOR basis. The gearing ratio of the Group, calculated based on net borrowings over shareholder funds, was 306% (31 March 2009: 94%).

The Group is not exposed to any material currency fluctuation risks, as most of its receivables as well as payables are in US dollars. It has natural hedges against currency risks and adheres to the policy of not engaging in speculative activities. In addition, the Group's Renminbi receipts from domestic sales could offset Renminbi expenses of factories in the PRC.

Pledge of Assets

As at 30 September 2009, certain of the Group's property, plant and equipment and prepaid land lease payments with a net book value of approximately HK$171 million (31 March 2009: approximately HK$220 million) were pledged to secure general banking facilities.

Litigation

On 11 November 2008, Thomson Hong Kong Holdings Limited ("Plaintiff"), a former customer of the Group, issued a writ of summons in the High Court of Hong Kong against the Company and two of its indirect wholly-owned subsidiaries, namely Tonic Digital Products Limited and Tonic Electronics Limited (collectively known as "Defendants"), in respect of disputes relating, inter alia, goods returned for refund by the Plaintiff, claiming damages in the sum of US$4,289,664.15 (approximately HK$33,244,897.16) together with interest. The Defendants filed Defence and Counterclaim and the Plaintiff filed Reply and Defence to Counterclaim on 17 March 2009. The claims of the Plaintiff relate, inter alia, to refund of the purchase price of goods sold and delivered by Tonic Digital Products Limited to the Plaintiff. Based on the case pleaded by the Plaintiff and the information now available to the Defendants, the Defendants have a defence with merits to such claim. The parties are attempting to resolve interlocutory matters before the trial date for the case is fixed.

On 14 August 2009, J.C. Electronics Co. Limited issued a writ of summons in the High Court of Hong Kong against two indirect wholly-owned subsidiaries of the Company, namely Tonic Electronics Limited and Tonic Trading Development Limited respectively, regarding goods sold and delivered in the amount of HK$4,743,443.67 and HK$10,541,664.26 respectively. Defence was filed and the actions are still in preliminary stage and so it is too early to evaluate the probable outcome.

On 12 September 2009, Super Victory Enterprises Limited issued a writ of summons in the District Court of Hong Kong against an indirect wholly-owned subsidiary of the Company, namely Tonic Electronics Limited ("TEL"), in respect of goods sold and delivered in the amount of US$85,987.45 (approximately HK$666,230.76). TEL is currently preparing the defence.

On 24 August 2009, Tonic Electronics Limited ("TEL") and Tonic Digital Products Limited ("TDPL"), indirect wholly-owned subsidiaries of the Company, issued a writ of summons in the High Court of Hong Kong against former customer Alco Holdings Limited for goods sold and delivered in the sum of US$820,912.06 (approximately HK$6,360,426.64) for TEL and US$288,977 (approximately HK$2,238,993.80) for TDPL. The action is in the preliminary stage with exchange of documents in progress.

On 14 September 2009, Multimedia Devices Limited issued a writ of summons in the High Court of Hong Kong against two indirect wholly-owned subsidiaries of the Company, namely Tonic Electronics Limited ("TEL") and Tonic Digital Products Limited ("TDPL"), in respect of returned goods in the amount of US$1,167,598.78 (approximately HK$9,046,555.35) for TEL and US$213,146.70 (approximately HK$1,651,460.63) for TDPL. TEL and TDPL are currently preparing the defence.

On 23 November 2009, Technotrend Trading Limited, an indirect wholly-owned subsidiary of the Company, issued a writ of summons in the High Court of Hong Kong against former customer Technotrend GmbH for goods sold and delivered in the sum of US$2,541,464.29 (approximately HK$19,691,265.32). The case is in the stage of service of the Writ of Summons against Technotrend GmbH.

On 13 November 2009, Stmicroelectronics Asia Pacific PTE Limited issued a writ of summons in the High Court of Hong Kong against an indirect wholly-owned subsidiary of the Company, namely Tonic Electronics Limited ("TEL"), in respect of goods sold and delivered in the amount of US$279,741.70 (approximately HK$2,167,438.69). TEL is currently preparing the defence. Since the dispute is at preliminary stage and after the balance sheet date, no provision has been made as at 30 September 2009.

On 16 November 2009, Fung Shing Steel Company Limited issued a writ of summons in the District Court of Hong Kong against a direct wholly-owned subsidiary of the Company, namely Gold Beam Developments Limited ("GB"), in respect of goods sold and delivered in the amount of HK$429,364.73. GB is currently preparing the defence. Since the dispute is at preliminary stage and after the balance sheet date, no provision has been made as at 30 September 2009.

On 20 November 2009, Max Components Limited issued a writ of summons in the District Court of Hong Kong against an indirect wholly-owned subsidiary of the Company, namely Tonic Trading Development Limited ("TTDL"), in respect of goods sold and delivered in the amount of US$56,346.30 (approximately HK$436,571.13). TTDL is currently preparing the defence. Since the dispute is at preliminary stage and after the balance sheet date, no provision has been made as at 30 September 2009.

On 27 November 2009, Lucky Harvest (HK) Company Limited issued a writ of summons in the High Court of Hong Kong against an indirect wholly-owned subsidiary of the Company, namely Tonic Electronics Limited ("TEL"), in respect of goods sold and delivered in the amount of HK$1,121,066.24. TEL is currently preparing the defence. Since the dispute is at preliminary stage and after the balance sheet date, no provision has been made as at 30 September 2009.

On 9 December 2009, Yan Hsin Da Electronics Limited issued a writ of summons in the District Court of Hong Kong against a direct wholly-owned subsidiary of the Company, namely Tonic Technology Limited ("TTL"), in respect of goods sold and delivered in the amount of US$31,395.6 (approximately HK$243,315.9). TTL is currently preparing the defence. Since the dispute is at preliminary stage and after the balance sheet date, no provision has been made as at 30 September 2009.

Employee relations

As at 30 September 2009, the Group had approximately 2,400 employees in Hong Kong and the PRC (as at 31 March 2009: 3,700). Salaries and wages for the year ended 30 September 2009 totalled approximately HK$49 million (year ended 31 March 2009: approximately HK$93 million). Employees' remuneration packages are generally structured by reference to market conditions, individual qualifications and performance. In addition to basic salary payment, other benefits offered to employees include contributions to mandatory provident fund, group medical insurance and group personal accident insurance. Employees may also to be granted share options at the discretion of the board of directors under the Company's share option scheme.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the Period, neither the Company, nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

AUDIT COMMITTEE

The Audit Committee has reviewed the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters including the review of the unaudited interim financial statements for the Period with the management of the Group.

CODE OF CORPORATE GOVERNANCE PRACTICES

The Group is committed to ensure a high standard of corporate governance. For the six months ended 30 September 2009, the Group has applied the principles and complied with the code provisions ("Code Provisions") set out in the Code on Corporate Governance Practices ("CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited with the following deviations:

Code Provision A.2.1 stipulates that the roles of chairman and chief executive officer should be separated and should not be performed by the same individual. Mr. Ling is the chairman and chief executive officer of the Group. He is responsible for the Group's overall strategic planning, management of the Board's affairs. The Board considers that this structure is more effective and efficient in running the business. The Board believes that Mr. Ling's appointment to the posts of chairman and chief executive officer is beneficial to the business prospects of the Group.

Code Provision A.4.1 stipulates that non-executive directors should be appointed for a specific term, subject to re-election. One of the existing non-executive directors of the Company, Mr. Pang Hon Chung, being an independent non-executive director of the Company, does not have a specific term of appointment. However, non-executive directors are subject to the requirement to retire by rotation at annual general meetings under the Company's Articles of Association accomplishing the same objective as a specific term of appointment.

Code Provision A.4.2 stipulates that every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years. According to Article 116 of the Articles of Association of the Company, at each annual general meeting, the number nearest to but not less than one-third of the directors (other than the chairman or the managing director or joint managing director) for the time being shall retire from office by rotation, provided that every director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years. The Board considers that Mr. Ling, being the chairman and managing director of the Company, should not be subject to retirement by rotation to ensure continuity of leadership and stability for growth of the Company.

The Group's compliance with the provisions and recommended best practices of the CG Code together with reasons for any deviations are set out in the Corporate Governance Report contained in the Company's 2009 Annual Report issued on 24 July 2009.

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

Hong Kong, 18 December 2009

As at the date of this announcement, the Board comprises Mr. Ling Siu Man, Simon, Mr. Wong Ki Cheung, Ms. Li Fung Ching, Catherine and Mr. Lam Kwai Wah as Executive Directors and Mr. Pang Hon Chung, Mr. Cheng Tsang Wai and Dr. Chung Hing Wah, Paul as Independent Non-executive Directors.