

The image features a large, stylized logo for Tonic Industries Holdings Limited. The logo consists of the word "TONIC" in a bold, sans-serif font, with the letter "O" rendered in a golden-yellow color and a circular gradient. To the right of the logo, the Chinese characters "東力實業" are written in a large, golden-yellow, calligraphic style. The background is a vibrant blue with a subtle, abstract pattern of light rays and a large, white, curved shape on the left side. The overall design is modern and professional.

**TONIC**

東力實業控股有限公司  
Tonic Industries Holdings Limited  
(Stock Code: 0978)

**2007**

INTERIM REPORT

## CORPORATE INFORMATION

### DIRECTORS

#### *Executive Directors*

Mr. LING Siu Man, Simon  
*(Chairman & Managing Director)*  
 Mr. WONG Ki Cheung  
 Ms. LI Fung Ching, Catherine  
 Mr. AU Wai Man  
 Mr. LAM Kwai Wah  
 Mr. LIU Hoi Keung, Gary *(CEO)*  
*(resigned on 1 December 2007)*  
 Mr. LEE Ka Yue, Peter  
*(resigned on 3 August 2007)*

#### *Non-executive Directors*

Mr. PANG Hon Chung\*  
 Mr. CHENG Tsang Wai\*  
 Dr. CHUNG Hing Wah, Paul\*  
 Mr. WONG Wai Kwong, David  
*(resigned on 3 August 2007)*

\* *Independent*

### REGISTERED OFFICE

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

### HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

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

### COMPANY SECRETARY

Ms. WONG Pui Shan, Cammy,  
*FCCA, CPA, ACIS, ACS*

### LEGAL ADVISOR

Richards Butler

### AUDITORS

Ernst & Young

### AUDIT COMMITTEE

Mr. PANG Hon Chung *(Chairman)*  
 Mr. CHENG Tsang Wai  
 Dr. CHUNG Hing Wah, Paul  
 Mr. WONG Wai Kwong, David  
*(resigned on 3 August 2007)*

### REMUNERATION COMMITTEE

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

### EXECUTIVE COMMITTEE

Mr. LING Siu Man, Simon *(Chairman)*  
 Mr. WONG Ki Cheung  
 Ms. LI Fung Ching, Catherine  
 Mr. AU Wai Man  
 Mr. LAM Kwai Wah  
 Mr. LIU Hoi Keung, Gary  
*(resigned on 1 December 2007)*

### PRINCIPAL BANKERS

Hang Seng Bank Limited  
 The Hong Kong and Shanghai Banking  
 Corporation Limited  
 China Construction Bank Corporation  
 CITIC Ka Wah Bank Limited

### SHARE REGISTRARS AND TRANSFER OFFICE

In Hong Kong  
 Tricolor Tengis Limited  
 26/F, Tesbury Centre  
 28 Queen's Road East  
 Hong Kong

In Cayman Islands  
 Butterfield Fund Services  
 (Cayman) Limited  
 Butterfield House  
 68 Fort Street  
 PO Box 705  
 George Town  
 Grand Cayman  
 Cayman Islands  
 British West Indies

### WEBSITES

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

### STOCK CODE

978

The Board of Directors (the “Directors”) of Tonic Industries Holdings Limited (the “Company”) is pleased to announce that the unaudited condensed consolidated financial statements of the Company and its subsidiaries (the “Group”) for the six months ended 30 September 2007 (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	
		2007 Unaudited HK\$'000	2006 Unaudited HK\$'000
Revenue	2	<b>1,128,319</b>	1,578,422
Cost of sales		<b>(1,054,388)</b>	(1,511,714)
Gross profit		<b>73,931</b>	66,708
Other income		<b>11,187</b>	10,949
Selling and distribution costs		<b>(2,514)</b>	(4,029)
Administrative expenses		<b>(50,810)</b>	(34,649)
Finance costs		<b>(15,850)</b>	(17,005)
Profit before tax	3	<b>15,944</b>	21,974
Tax	4	<b>(289)</b>	(431)
Net profit for the Period attributable to ordinary equity holders of the Company		<b>15,655</b>	21,543
Interim dividend		<b>Nil</b>	Nil
Interim dividend per share		<b>N/A</b>	N/A
Earnings per share attributable to ordinary equity holders of the Company	5		
– Basic		<b>1.6 cents</b>	2.3 cents
– Diluted		<b>N/A</b>	N/A

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to ordinary 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
At 1 April 2006	95,289	59,098	280	91,613	(5,240)	257,497	9,529	508,066
Exchange realignment	-	-	-	-	182	-	-	182
Net profit for the period	-	-	-	-	-	21,543	-	21,543
Final 2006 dividend	-	-	-	-	-	-	(9,529)	(9,529)
At 30 September 2006	<u>95,289</u>	<u>59,098</u>	<u>280</u>	<u>91,613</u>	<u>(5,058)</u>	<u>279,040</u>	<u>-</u>	<u>520,262</u>
At 1 April 2007	95,289	59,098	280	98,165	7,029	271,980	9,529	541,370
Exchange realignment	-	-	-	-	829	-	-	829
Net profit for the period	-	-	-	-	-	15,655	-	15,655
Final 2007 dividend	-	-	-	-	-	-	(9,529)	(9,529)
At 30 September 2007	<u>95,289</u>	<u>59,098</u>	<u>280</u>	<u>98,165</u>	<u>7,858</u>	<u>287,635</u>	<u>-</u>	<u>548,325</u>

**CONDENSED CONSOLIDATED BALANCE SHEET**

		<b>30 September 2007 Unaudited HK\$'000</b>	<b>31 March 2007 Audited HK\$'000</b>
	Notes	<u>                    </u>	<u>                    </u>
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment		695,136	704,250
Prepaid land lease payments		42,598	44,155
Intangible assets		25,623	27,228
Available-for-sale investments		14,219	14,219
Non-current portion of other receivable		4,780	4,780
Non-current portion of loan receivable		93	93
Deposits for acquisition of items of property, plant and equipment		6,781	5,510
		<u>789,230</u>	<u>800,235</u>
<b>CURRENT ASSETS</b>			
Inventories		551,296	315,509
Accounts and other receivables	6	333,530	261,122
Prepaid land lease payments		1,018	1,004
Equity investments at fair value through profit or loss		4,320	10,512
Derivative financial instruments		1,584	1,582
Tax recoverable		1,016	921
Cash and bank balances		55,732	92,698
		<u>948,496</u>	<u>683,348</u>
<b>CURRENT LIABILITIES</b>			
Accounts and other payables	7	664,534	354,266
Interest-bearing bank and other borrowings		310,831	373,111
Tax payable		5,597	5,410
		<u>980,962</u>	<u>732,787</u>
<b>NET CURRENT LIABILITIES</b>		<u>(32,466)</u>	<u>(49,439)</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>756,764</b>	<b>750,796</b>
<b>NON-CURRENT LIABILITIES</b>			
Interest-bearing bank and other borrowings		155,226	156,785
Net deferred tax liabilities		53,213	52,641
		<u>208,439</u>	<u>209,426</u>
		<u>548,325</u>	<u>541,370</u>
<b>EQUITY</b>			
Equity attributable to ordinary equity holders of the Company			
Issued capital	8	95,289	95,289
Reserves		453,036	436,552
Proposed final dividend		-	9,529
		<u>548,325</u>	<u>541,370</u>

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	For six months ended	
	30 September	
	2007	2006
	Unaudited	Unaudited
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<u>          </u>	<u>          </u>
Net cash inflow from operating activities	46,660	38,089
Net cash outflow from investing activities	(19,663)	(30,512)
Net cash outflow from financing activities	<u>(64,285)</u>	<u>(1,564)</u>
(Decrease)/Increase in cash and cash equivalents	(37,288)	6,013
Cash and cash equivalents at 1 April	92,698	99,971
Effect of foreign exchange rate changes, net	<u>322</u>	<u>182</u>
Cash and cash equivalents at 30 September	<u><u>55,732</u></u>	<u><u>106,166</u></u>
Represented by cash and bank balances	<u><u>55,732</u></u>	<u><u>106,166</u></u>

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 1. Basis of preparation and accounting policies

The Directors are responsible for the preparation of the Group's unaudited condensed consolidated interim financial statements. These unaudited condensed consolidated interim financial statements are prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting". The accounting policies and basis of preparation adopted in the preparation of these unaudited condensed consolidated interim financial statements are the same as those used in the annual financial statements for the year ended 31 March 2007.

The following new standards, amendments to standards and interpretations which are relevant to the Group's operations are mandatory for the year ending 31 March 2008.

-	Amendment to HKAS 1	Capital disclosures
-	HKFRS 7	Financial instruments: Disclosures
-	HK(IFRIC)-Int 8	Scope of HKFRS 2
-	HK(IFRIC)-Int 9	Reassessment of embedded derivatives
-	HK(IFRIC)-Int 10	Interim financial reporting and impairment
-	HK(IFRIC)-Int 11	HKFRS 2 – Group and treasury share transactions

The adoption of the above standards, amendments to standards and interpretations has no material effect on the results or financial position of the Group for the current or prior accounting periods. Accordingly, no prior period adjustment is required.

The Group has not applied any new standards, amendments to standards and interpretations that are not yet effective for the current accounting period. The Group has already commenced an assessment of the impact of these new standards, amendments to standards and interpretations but is not yet in a position to state whether they would significantly impact on its results of operations and financial position.

2. Segmental Information

The principal activities of the Group are the sale and manufacture of consumer electronic products and components and home appliances products.

The following tables present unaudited revenue for the Group's geographical segments and business segments for the six months ended 30 September.

*Geographical segments*

	Americas		Europe		Asia Pacific countries		Consolidated	
	2007	2006	2007	2006	2007	2006	2007	2006
	Unaudited HK\$'000	Unaudited HK\$'000	Unaudited HK\$'000	Unaudited HK\$'000	Unaudited HK\$'000	Unaudited HK\$'000	Unaudited HK\$'000	Unaudited HK\$'000
Segment revenue:								
Sales to external customers	<u>431,392</u>	<u>966,581</u>	<u>470,235</u>	<u>343,470</u>	<u>226,692</u>	<u>268,371</u>	<u>1,128,319</u>	<u>1,578,422</u>

*Business segments*

	Electronic products and components		Home appliance products		Corporate		Consolidated	
	2007	2006	2007	2006	2007	2006	2007	2006
	Unaudited HK\$'000	Unaudited HK\$'000	Unaudited HK\$'000	Unaudited HK\$'000	Unaudited HK\$'000	Unaudited HK\$'000	Unaudited HK\$'000	Unaudited HK\$'000
Segment revenue:								
Sales to external customers	<u>956,901</u>	<u>1,447,678</u>	<u>171,418</u>	<u>130,744</u>	-	-	<u>1,128,319</u>	<u>1,578,422</u>
Other segment revenue	<u>9,911</u>	<u>2,485</u>	<u>232</u>	<u>607</u>	-	-	<u>10,143</u>	<u>3,092</u>
Total	<u>966,812</u>	<u>1,450,163</u>	<u>171,650</u>	<u>131,351</u>	-	-	<u>1,138,462</u>	<u>1,581,514</u>
Segment results	<u>27,736</u>	<u>31,532</u>	<u>9,235</u>	<u>(374)</u>	<u>(3)</u>	<u>(1)</u>	<u>36,968</u>	<u>31,157</u>
Interest income and unallocated income							1,044	7,857
Unallocated expenses							(6,218)	(35)
Finance costs							(15,850)	(17,005)
Profit before tax							<u>15,944</u>	<u>21,974</u>
Tax							<u>(289)</u>	<u>(431)</u>
Net profit for the Period attributable to ordinary equity holders of the Company							<u>15,655</u>	<u>21,543</u>



3. Profit before Tax

	For the six months ended 30 September	
	2007	2006
	Unaudited	Unaudited
	HK\$'000	HK\$'000
Profit before tax is arrived at after charging/(crediting):		
Amortisation of trademarks	139	131
Amortisation of research and development costs	5,571	3,495
Depreciation	36,113	32,760
Interest on borrowings	15,850	17,005
	<u>          </u>	<u>          </u>
Gain on disposal of a property	(326)	-
Gain on disposal of an equity investment at fair value through profit or loss	-	(2,916)
Fair value loss/(gain) on equity investment at fair value through profit or loss	6,192	(2,112)
Interest income	(739)	(388)
	<u>          </u>	<u>          </u>

4. Tax

Hong Kong profits tax has been provided at the rate of 17.5% (2006: 17.5%) 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

The calculation of basic earnings per share for the Period is based on the net profit for the Period attributable to ordinary equity holders of the Company of HK\$15,655,000 (2006: HK\$21,543,000) and the weighted average of 952,889,962 ordinary shares (2006: 952,889,962 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 other receivables**

Included in accounts and other receivables are accounts and bills receivables of HK\$307,774,000 (31 March 2007: HK\$199,162,000), the aging analysis of which is as follows:

	<b>30 September 2007 Unaudited HK\$'000</b>	31 March 2007 Audited HK\$'000
0 – 30 days	183,038	125,828
31 – 60 days	69,131	10,098
61 – 90 days	35,959	47,828
Over 90 days	19,646	15,408
	<b>307,774</b>	199,162

The Group's sales are on terms of L/C at sight and the others on 35 days to 100 days open account basis.

**7. Accounts and other payables**

Included in accounts and other payables are accounts payables of HK\$578,769,000 (31 March 2007: HK\$288,408,000), the aging analysis of which is as follows:

	<b>30 September 2007 Unaudited HK\$'000</b>	31 March 2007 Audited HK\$'000
0 – 30 days	256,994	111,368
31 – 60 days	166,394	44,628
61 – 90 days	77,106	44,869
Over 90 days	78,275	87,543
	<b>578,769</b>	288,408

The majority of the Group's purchases are on 30 days to 120 days open account basis.

8. Share capital

	30 September 2007 Unaudited HK\$'000	31 March 2007 Audited HK\$'000
<i>Authorised:</i>		
1,200,000,000 (31 March 2007: 1,200,000,000) ordinary shares of HK\$0.10 each	<u>120,000</u>	<u>120,000</u>
<i>Issued and fully paid:</i>		
952,889,962 (31 March 2007: 952,889,962) ordinary shares of HK\$0.10 each	<u>95,289</u>	<u>95,289</u>

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9. Contingent liabilities

Contingent liabilities in respect of bills discounted with recourse at 30 September 2007 was HK\$31 million (31 March 2007: Nil).

10. Commitments

(a) Capital commitments in respect of fixed assets

	30 September 2007 Unaudited HK\$'000	31 March 2007 Audited HK\$'000
Contracted for but not provided in the financial statements	2,050	53
Authorised but not contracted for	<u>-</u>	<u>54,600</u>
	<u>2,050</u>	<u>54,653</u>

(b) Commitments to buy and sell foreign currencies amounted to HK\$293 million (31 March 2007: HK\$662 million).

**11. Related party transactions**

The Group did not sell audio and video products and related components during the Period (2006: HK\$Nil) to Pioneer Ventures Limited, a wholly-owned subsidiary of EganaGoldpfeil (Holdings) Ltd, which was ceased to be a substantial shareholder of the Company on 7 September 2007.

**12. Post balance sheet events**

- (a) On 13 November 2007, the Company entered into a subscription agreement with an independent investor pursuant to which the Company agreed to issue an aggregate of 105,000,000 new ordinary shares at a price of HK\$0.218 per share. The net proceeds from the issuing new shares was approximately HK\$22.8 million.
- (b) On 28 November 2007, the Company entered into a sale and purchase agreement to dispose of its entire interest in Tonic Appliances Limited, a wholly owned subsidiary of the Company, to a third party at a total consideration of approximately HK\$5.6 million (subject to adjustment).

## INTERIM DIVIDEND

The Directors have resolved not to declare any interim dividend in respect of the Period (2006: Nil).

## MANAGEMENT DISCUSSION & ANALYSIS

### Group Result

Turnover of the Group for the six months ended 30 September 2007 ("Period") amounted to approximately HK\$1,128 million (six months ended 30 September 2006: approximately HK\$1,578 million). EBITDA and profit attributable to shareholders were approximately HK\$74 million and HK\$16 million respectively.

### Business Review

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During the Period, the Group phased out some of the low profit margin products and concentrated on developing and producing high-end and high profit margin products such as iPod products, HD Radio products, HDMI DVD players, ATSC flat panel TVs, LCD-TVs, LCD-TV+DVD combo products, digital satellite receivers, cable set top boxes, coffee espresso machines, humidifier and beer machine. However, sales of some of the high profit margin products did not reach the expected levels, which caused the decrease in turnover for the Period.

The Group was also subjected to cost pressure from hike in raw material costs due to inflation, rising oil price and increased minimum wage level in Guangdong Province. However, the Group's bid to diversify into high profit margin products helped bring down cost of sales as compared with the last corresponding period.

During the Period, the Group invested substantial resources into research and development of new high-end consumer electronic products such as Internet Radio products, ATSC converter products, DVB products, digital video receivers and Blu-ray Disc player. The Group expects to commence production of the newly developed high-end consumer electronic products in early 2008.

### Other Investment

Since April 2007, the management has worked hard at identifying and exploring investment opportunities in the business area of consumer electronics development, distribution and retail in the USA, Europe and Asia. In May 2007, the Group signed an agreement with Cove Sunrise Inc. ("Cove Sunrise") to subscribe for not more than 45% of the total capital stock of Cove Sunrise. At that material time, Cove Sunrise was looking to invest in the Group's target business. The management terminated the agreement in September 2007 because certain conditions in the agreement could not be met.

Subsequent to the balance sheet date, on 28 November 2007, the Company entered into a memorandum of understanding ("MOU") with an independent third party regarding cooperation, development and investment in the areas of advisory and technical support of mobile multimedia service and related businesses for the PRC market ("Proposed Project"). The MOU was not legally binding. The Company is conducting due diligence evaluation of the Proposed Project and, depending on the results, may proceed to negotiate for a formal agreement.

### Disposal of Equity Interest in Subsidiary

Subsequent to the balance sheet date, on 28 November 2007, the Company entered into an agreement with an independent party, Profit Cycle Investments Limited, pursuant to which the Company agreed to dispose of its entire interest in the issued share capital of Tonic Appliances Limited ("Tonic Appliances"), a direct wholly owned subsidiary of the Company, at a total consideration of approximately HK\$5.6 million (subject to adjustment). Details of the disposal were set out in the Company's announcement dated 29 November 2007.

### Prospects

Looking ahead, to stay competitive in the industry, the Group will continue to keep tight control on production cost and seek to continuously improve operational efficiency and cost effectiveness. The Group will strive to grasp opportunities bred by the digital broadcasting trend sweeping the world and continue to develop more high-end and high-profit margin product to meet market needs. At the same time, it will continue

to look for suitable opportunities for investing in the business of consumer electronics development, distribution and retail in the USA, Europe and Asia aiming for generating long-term synergies for the Group. It is ready to embark on investments that can positively impact the Group's returns in the long run.

### Liquidity and Financial Resources

As at 30 September 2007, the net asset value of the Group attributable to ordinary equity holders amounted to approximately HK\$548 million (31 March 2007: approximately HK\$541 million), including cash and bank balances of approximately HK\$56 million (31 March 2007: approximately HK\$93 million) which were denominated mainly in Hong Kong dollars.

The trade receivable balance as at 30 September 2007 was approximately HK\$308 million (31 March 2007: approximately HK\$199 million). The Group has adopted a prudent credit policy, except for a few customers to whom the Group offers credit on an open account basis, the Group transacts business with all other customers on letter of credit.

As at 30 September 2007, the Group's aggregate borrowings was approximately HK\$466 million (31 March 2007: approximately HK\$530 million), of which approximately HK\$445 million was bank borrowings and approximately HK\$21 million was for obligations under finance leases. The Group's borrowings are denominated in Hong Kong dollars and bear interest mainly on HIBOR basis.

Included in the bank borrowings was a 3-year HK\$150 million term loan facility signed on 23 March 2006 with a syndicate of 7 international and local banks repayable by installment starting 18 months after the agreement date. As at 30 September 2007, the outstanding balance of the loan was HK\$112.5 million. Pursuant to the terms of the loan agreement, Mr. Ling Siu Man, Simon, Chairman and Managing Director of the Group, is required to maintain at least 40% shareholding of the Company, be the single largest shareholder and be actively involved in the management and business of the Group, otherwise, the agreement will be considered as default.

The gearing ratio of the Group, measured on the basis of net borrowings as a percentage of ordinary equity attributable to equity holders of the Company, was 75% (31 March 2007: 81%).

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

Subsequent to the balance sheet date, on 13 November 2007, the Company entered into a subscription agreement with CorporActive Fund Limited ("CorporActive"), an independent investor, for the subscription of 105 million new shares of the Company at the price of HK\$0.218 per share. CorporActive was allotted 105 million shares of the Company under the general mandate granted to Directors of the Company at the annual general meeting of the Company held on 25 September 2007. The subscription was completed on 30 November 2007 and the gross proceeds and the net proceeds amounted to approximately HK\$22.9 million and HK\$22.8 million respectively.

### Litigation

In April 2007, Toshiba alleged the Group of infringing on its DVD technology patents and filed claims against some of the members of the Group. The Group, with knowledge that Toshiba was a member of the DVD 6C Patent Licensing Group ("6C Group"), commenced negotiation for a licence from the 6C Group through Tonic Digital Products Limited ("Tonic Digital"), an indirect wholly owned subsidiary of the Company. On 25 July 2007, Tonic Digital signed a license agreement with the 6C Group and obtained the DVD license for manufacturing DVD player products using patented technologies of Toshiba, Mitsubishi, Hitachi, JVC, Panasonic, Samsung, Sanyo, Warner Brothers and Sharp. Subsequent to that, Toshiba dropped all its claims against members of the Group.



On 12 September 2006, Applica Consumer Products, Inc. and Applica Asia Limited, both former customers of Tonic Appliances commenced legal proceedings against Tonic Appliances seeking damages for breach of agreement for sale of goods in the sum of HK\$3,652,767 together with interest. After the closing of pleadings, the plaintiffs sought leave to amend the statement of claim and leave was granted on 4 July 2007. Tonic Appliances filed an amended defence on 24 July 2007, and the plaintiffs should file its amended reply, if any, within 21 days thereafter, then the parties would proceed with discovery (i.e. to exchange documentary evidence in relation to the case). However, Tonic Appliances had not received any amended reply nor had the plaintiffs requested to exchange the documentary evidence up to the date of approval of these financial statements.

On 20 October 2006, Tonic Digital commenced legal proceedings against Senlan Limited, a former customer for goods sold and delivered in the sum of US\$456,135 (equivalent to approximately HK\$3,557,853) together with interest. The defendant filed its defence on 16 November 2006. Pleadings had closed and the case is now in discovery stage.

### Employee relations

As at 30 September 2007, the Group had approximately 150 employees in Hong Kong and 8,600 workers in its PRC factories (as at 31 March 2007: approximately 160 employees in Hong Kong and 7,700 workers in the PRC factories). The salaries and wages for the six months ended 30 September 2007 totalled approximately HK\$87 million (six months ended 30 September 2006: approximately HK\$78 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 be granted share options at the discretion of the Directors under the Company's share option scheme.

## DIRECTORS' INTERESTS IN SHARES

At 30 September 2007, the interests of the directors in the share capital of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange of Hong Kong Limited ("Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), were as follows:

a) *Long positions in ordinary shares of the Company*

<u>Name of director</u>	<u>Nature of interest</u>	<u>Number of ordinary shares held</u>	<u>Percentage of the Company's issued share capital</u>
Ling Siu Man, Simon	Corporate (Note)	668,492,476	70.15
Liu Hoi Keung, Gary (resigned on 1 December 2007)	Personal	3,706,000	0.39
Wong Ki Cheung	Personal	1,749,000	0.18
Li Fung Ching, Catherine	Personal	2,142,000	0.22
Cheng Tsang Wai	Personal	<u>3,988,000</u>	<u>0.43</u>
		<u>680,077,476</u>	<u>71.37</u>

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

b) *Associated corporation*

At 30 September 2007, Mr. Ling Siu Man, Simon personally held 3,000 non-voting deferred shares of HK\$100 each of Tonic Electronics Limited, a subsidiary of the Company.

The interests of the directors in the share options of the Company are separately disclosed under the heading "SHARE OPTION SCHEME" below.

Save as disclosed above, as at 30 September 2007, none of the Directors had registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

## DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Apart from as disclosed under the heading "Directors' Interests in Shares" above and "Share Option Scheme" below, at no time during the Period were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Directors or their respective spouse or minor children, or were any such rights exercised by them; or was the Company, its holding company or any of its subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

## SHARE OPTION SCHEME

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

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

	At 1 April 2007	Number of outstanding share options cancelled during the Period	At 30 September 2007	Date of grant of share options	Exercise period of share options	Exercise price of share options HK\$
<b>Directors</b>						
Ling Siu Man, Simon	15,000,000	-	15,000,000	07-04-00	10-04-00 to 09-04-10	0.467
Liu Hoi Keung, Gary*	2,715,000	-	2,715,000	07-04-00	10-04-00 to 09-04-10	0.467
Lee Ka Yue, Peter**	2,715,000	(2,715,000)	-	07-04-00	10-04-00 to 09-04-10	0.467
Wong Ki Cheung	2,715,000	-	2,715,000	07-04-00	10-04-00 to 09-04-10	0.467
Li Fung Ching, Catherine	2,715,000	-	2,715,000	07-04-00	10-04-00 to 09-04-10	0.467
Au Wai Man	2,715,000	-	2,715,000	07-04-00	10-04-00 to 09-04-10	0.467
Lam Kwai Wah	1,650,000	-	1,650,000	07-04-00	10-04-00 to 09-04-10	0.467
	<u>30,225,000</u>	<u>(2,715,000)</u>	<u>27,510,000</u>			
<b>Other employees:</b>						
In aggregate	<u>34,950,000</u>	<u>(2,925,000)</u>	<u>32,025,000</u>	07-04-00	10-04-00 to 09-04-10	0.467
	<u>65,175,000</u>	<u>(5,640,000)</u>	<u>59,535,000</u>			

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No theoretical value of share options is disclosed as no share options were granted during the Period.

No options were granted, exercised or lapsed during the Period.

\* resigned on 1 December 2007

\*\* resigned on 3 August 2007

## SUBSTANTIAL SHAREHOLDERS' INTERESTS

At 30 September 2007, the following parties having interests of 5% or more of the issued share capital of the Company were recorded in the register of interests kept by the Company pursuant to Section 336 of the SFO:

<u>Name of substantial shareholder</u>	<u>Nature of interests</u>	<u>Number of ordinary shares of the Company</u>	<u>Percentage of the Company's issued share capital (%)</u>
Success Forever Limited (Note)	Beneficially owned	668,492,476	70.15

Note:

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The entire issued share capital of Success Forever Limited is beneficially owned by Mr. Ling Siu Man, Simon as disclosed in "Directors' interests in shares" above.

Save as disclosed above, as at 30 September 2007, no person, other than the Directors of the Company, whose interests are set out in the section "Directors' interests in shares" above, had registered an interest or short positions in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

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

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

## AUDIT COMMITTEE

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

## CODE OF CORPORATE GOVERNANCE PRACTICES

The Group is committed to ensure a high standard of corporate governance. For the six months ended 30 September 2007, the Group has applied the principles and complied with the requirements set out in the Code on Corporate Governance Practices (“CG Code”) contained in Appendix 14 of the Listing Rules with the following deviations:

Code 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 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. Mr. Ling Siu Man, Simon, being the Chairman and Managing Director, is not subject to retirement by rotation pursuant to the said Article 116.

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 2007 Annual Report issued on 25 July 2007.

## MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted its code of conduct regarding the Directors' securities transactions on terms no less exacting than the required standard set out in the Model Code as then in force, and after having made specific enquiry to all of the Directors, the Directors are satisfied that the required standard set out in the Model Code and its code of conduct regarding the Directors' securities transactions have been fully complied with, throughout the accounting period covered by the interim report.

## SECURITIES TRANSACTIONS BY RELEVANT EMPLOYEES

Under Code Provision A.5.4 of the CG Code, the Directors have established written guidelines on no less exacting terms than the Model Code for relevant employees in respect of their dealings in the Company's securities. "Relevant employee" includes any employee of the Group or a Director or employee of a subsidiary or holding company of the issuer, because of such office or employment, is likely to be in possession of unpublished price sensitive information in relation to the Group and its securities. Having made specific enquiry of all Relevant Employees, the Company confirms that all relevant employees have complied with the written guidelines regarding securities transactions for the Period.

On behalf of the Board

**LING Siu Man, Simon**

*Chairman & Managing Director*

Hong Kong, 18 December 2007