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

*(Incorporated in the Cayman Islands with limited liability)*
*Website: http://www.tonic.com.hk*
**(Stock Code: 978)**

## INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2011

The board of directors (the "Board") of Tonic Industries Holdings Limited (the "Company") hereby announces the unaudited consolidated interim results of the Company and its subsidiaries (the "Group") for the six months ended 30 September 2011 (the "Period") together with the comparative figures for the previous corresponding period as follows:

* *For identification purposes only*

# 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** | *4* | **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 | | **–** | 241,407 |
| Provision for financial guarantee liabilities relating to the borrowings of a deconsolidated subsidiary | | **–** | (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 | *5* | **(7,824)** | (13,744) |
| **(Loss)/profit before tax** | | **(23,728)** | 130,125 |
| Income tax | *6* | **–** | – |
| **(Loss)/profit for the period attributable to equity holders of the Company** | *7* | **(23,728)** | 130,125 |
| **(Loss)/earnings per share** | *8* | | |
| 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** | 2010 |
| | **Unaudited** | Unaudited |
| | **HK$'000** | HK$'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 | | **227,273** | 227,411 |
| **Current assets** | | | |
| Inventories | | **10,848** | 7,172 |
| Accounts receivables | *9* | **3,666** | 9,801 |
| Prepayments, deposits and other receivables | | **2,145** | 2,054 |
| Due from a scheme subsidiary | *10* | **–** | 122,055 |
| Cash and bank balances | | **42,779** | 8,927 |
| | | **59,438** | 150,009 |
| **Current liabilities** | | | |
| Accounts payables | *11* | **1,368** | 2,245 |
| Accruals and other payables | | **23,443** | 31,038 |
| Borrowings | *12* | **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 | *12* | **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 | | **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** | **Share premium** | **Contributed reserve** | **Property revaluation reserve** | **Foreign currency translation reserve** | **Accumulated losses** | **Total** |
| | Unaudited | Unaudited | Unaudited | Unaudited | Unaudited | Unaudited | Unaudited |
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | 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:

## 1. 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.

## 2. 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.

## 3. 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 |

## 4. Turnover

The Group's turnover is analysed as follows:

| | Six months ended 30 September | |
|---|---|---|
| | **2011** | 2010 |
| | **Unaudited** | Unaudited |
| | **HK$'000** | HK$'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 |

## 5. 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 |

## 6. 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.

## 7. (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) |

## 8. (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.

## 9. 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 |

## 10. 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.

## 11. 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 |

## 12. 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.

# INTERIM DIVIDEND

The Board has resolved not to declare any interim dividend in respect of the Period (2010: Nil).

# MANAGEMENT DISCUSSION AND ANALYSIS

## Group Results

The Group recorded a turnover of approximately HK$101 million, negative EBITDA of approximately HK$10 million and loss attributable to equity holders of the Company of approximately HK$24 million for the six months ended 30 September 2011, compared to turnover of approximately HK$18 million, EBITDA of approximately HK$153 million and profit of HK$130 million for the corresponding period in 2010. The EBITDA and net profit for this corresponding period were, however, arrived at after crediting the one-off non-cash gain of approximately HK$241 million on the deconsolidation of a subsidiary during the process of restructuring of the Group.

## Business Development and Prospects

The very slow economic recovery from the global financial crisis continued to affect the operations of the Group, forcing it to accept even narrower margins in order to stay in business. This, plus the renewed sovereign financial instability in Europe, have caused the delay in the revitalizing efforts of the Group after the restructuring since its completion in December 2010.

The Directors are optimistic that the present policy of strengthening the Group's domestic sales while, at the same time, exploring new business initiatives, particularly those with potential synergy, for widening the Group's horizon, will progressively improve the turnover and profitability of the Group.

## Liquidity and Financial Resources

As at 30 September 2011, the net assets value of the Group amounted to approximately HK$41 million (31 March 2011: HK$59 million), including cash and bank balances of approximately HK$43 million (31 March 2011: HK$9 million) which were denominated mainly in Hong Kong dollars.

The trade receivable balance as at 30 September 2011 was approximately HK$3.6 million (31 March 2011: HK$9.8 million).

As at 30 September 2011, the Group's aggregate borrowings were approximately HK$203 million (31 March 2011: HK$269 million). The borrowings were denominated in Hong Kong dollars and Renminbi which bear interest mainly on market interest rate basis. The gearing ratio of the Group, calculated based on net borrowings over the total equity of the Group, was 490% (31 March 2011: 459%).

The Group is not exposed to any material currency fluctuation risks. 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 the factory in the People's Republic of China (the "PRC").

### Pledge of Assets

As at 30 September 2011, the Group's land and building with a net carrying amount of approximately HK$174 million (31 March 2011: HK$173 million) were pledged to secure for other borrowings (31 March 2011: bank and other borrowings) of the Group. 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.

### Employee relations

As at 30 September 2011, the Group had approximately 310 (31 March 2011: 320) employees in Hong Kong and the PRC. Salaries and wages for the six months ended 30 September 2011 totaled approximately HK$9.4 million (year ended 31 March 2011: approximately HK$16.8 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.

## 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 these unaudited interim financial statements for the Period.

## CODE OF CORPORATE GOVERNANCE PRACTICES

The Group is committed to ensure a high standard of corporate governance. For the six months ended 30 September 2011, 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. Dr. So Shu Fai took over as Chairman of the Company since 30 December 2010 immediately after the re-structuring of the Group while the position of the chief executive office has since been left vacant. The Board considers it prudent to make appointment of the chief executive officer when the business and environment of the Group have become clearer and more predictable.

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 least once every 3 years at annual general meetings under the Company's articles of association. The Board considers that the requirement has the same effect of 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 Dr. So Shu Fai, being the Chairman 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 Code 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 2011 Annual Report issued on 28 June 2011.

On behalf of the Board
**TONIC INDUSTRIES HOLDINGS LIMITED**
**Dr. So Shu Fai**
*Chairman*

Hong Kong, 29 November 2011

*As at the date of this announcement, the Board comprises Dr. So Shu Fai, Mr. Mak Bing Kau, Mr. Ng Wai Hung and Mr. Lau Cheuk Lun as Executive Directors and Mr. Pang Hon Chung, Mr. Cheng Tsang Wai and Dr. Chung Hing Wah, Paul as Independent Non-executive Directors.*