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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)

CONTINUING CONNECTED TRANSACTIONS: THE PROCUREMENT AGREEMENT

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

ALTUS CAPITAL LIMITED

GHG, a wholly-owned subsidiary of the Company, and CMPD entered into the Procurement Agreement on 8 October 2012 pursuant to which GHG may source the Products for CMPD.

CMPD is a connected person of the Company under the Listing Rules by virtue of it being an associate of the controlling shareholder of the Company. As one or more of the applicable percentage ratios (as defined under the Listing Rules and other than the profits ratio), on an annual basis and in respect of the Annual Caps exceeds 5.0% and the Annual Caps is not less than HK\$10.0 million, the transactions contemplated under the Procurement Agreement (including the Annual Caps) are subject to the announcement, reporting, annual review and independent shareholders' approval requirements under the Listing Rules.

The Company will convene the EGM for the purpose of allowing the Independent Shareholders to consider, and if thought fit, to approve the entering into of the Procurement Agreement by GHG and the Continuing Connected Transactions (including the Annual Caps). A circular containing, among other things, (i) details of the Continuing Connected Transactions (including the Annual Caps); (ii) a letter from the Independent Board Committee; (iii) a letter of advice from Altus; and (iv) a notice convening the EGM, will be despatched to the Shareholders as soon as practicable in accordance with the Listing Rules, which is currently expected to be on or before 30 October 2012.

* For identification purposes only

INTRODUCTION

On 8 October 2012, GHG, a wholly-owned subsidiary of the Company, and CMPD entered into the Procurement Agreement and the details of the Procurement Agreement are as follow:

The Procurement Agreement

Date

8 October 2012

Parties

- (1) GHG, a wholly-owned subsidiary of the Company; and
- (2) CMPD, an indirect controlling shareholder of the Company

Principle terms

Pursuant to the Procurement Agreement, GHG may source the Products for CMPD, its subsidiaries and joint ventures. Depending upon the progress of projects of CMPD, its subsidiaries and joint ventures, GHG will enter into Procurement Sub-Contract under the Procurement Agreement for each purchase order with CMPD or its subsidiaries or its joint ventures (“Relevant Buyers”).

Pricing basis

The sourcing of the Products by GHG for CMPD will be by way of Procurement Sub-Contract, which will set out the quality, model type, specifications, quantity, pricing and payment terms of the Products. Pursuant to the Procurement Agreement, the pricing terms of the Products shall be negotiated on an arm’s length basis between GHG and the Relevant Buyers and be determined based on normal commercial terms with reference to prevailing market prices that are fair and reasonable for procuring the Products by and for independent third parties and in any event should not be below the best available price offered by GHG to independent third parties. If no prevailing market price is available, GHG will determine the price on a cost-plus basis, taking into consideration of the acquisition cost of the Products and indirect purchasing costs of the Products.

Payment terms

If not separately set out in the Procurement Sub-Contract, the price of the Products will be payable by the Relevant Buyers in the following manner:

- (i) 0% to 10% of the consideration will be payable within 10 days upon signing of the relevant Procurement Sub-Contract;
- (ii) 60% to 100% of the consideration will be payable within 20 days upon delivery and completion of inspection of the Products;
- (iii) 0% to 30% of the consideration will be payable within 20 days upon installation and completion of inspection by the respective departments of the Relevant Buyers of the Products; and

- (iv) 0% to 5% of the consideration will be payable immediately after the completion of the warranty period (to be agreed in the Procurement Sub-Contract).

GHG's payment terms granted to the Relevant Buyers are equal to and no worse off than GHG's payment obligations to its suppliers. Similarly, GHG's warranty terms given to the Relevant Buyers are equal to and no worse off than warranty terms received from its suppliers.

Term and termination

The Procurement Agreement shall become effective upon fulfilment of the conditions precedent below and shall continue in force until 31 December 2014.

Conditions precedent

The Procurement Agreement is conditional upon the fulfilment of the following conditions:

- (i) receiving the approval by the Board; and
- (ii) passing of an ordinary resolution by the Independent Shareholders at the EGM by way of a poll to approve the entering into of the Procurement Agreement by GHG and the Continuing Connected Transactions (including the Annual Caps), and compliance with all relevant requirements under the Listing Rules.

THE ANNUAL CAPS

Set out below are the Annual Caps for the three financial years ending 31 December 2014.

	For each of the years ending 31 December		
	2012	2013	2014
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Annual Caps	50,000	120,000	30,000
	<i>(Note i)</i>		<i>(Note ii)</i>

Note:

- (i) The cap amount for the year ending 31 December 2012 only covers the period from the effective date of the Procurement Agreement to 31 December 2012.
- (ii) The cap amount for the year ending 31 December 2014 represents the estimated amount of the purchase orders placed by CMPD during the year ending 31 December 2013 but delivered during the year ending 31 December 2014.

The Annual Caps are determined by reference to a number of factors, particularly (i) the estimated demand for the Products from the existing projects of CMPD (including its subsidiaries and joint ventures) in the South China region as at the date of this announcement; (ii) the projected demand for the Products from the effective date of the Procurement Agreement to 31 December 2013; (iii) the projected sourcing capacity of the Products by GHG from the effective date of the Procurement Agreement to 31 December 2013; and (iv) the projected purchase prices of the Products from the effective date of the Procurement Agreement to 31 December 2013.

REASONS FOR AND BENEFITS OF THE CONTINUING CONNECTED TRANSACTIONS

The Company strives to operate and expand its existing businesses, optimize the consolidation of internal resources as well as further adjust the business strategies to cater for changes in market demand so as to enhance the overall operating efficiency of the Company. The Company is an investment holding company incorporated in Cayman Islands with limited liability, the shares of which are listed on the main board of the Stock Exchange. The Group is principally engaged in the manufacturing of electronic consumer products and the trading of electrical consumer products.

CMPD is a company established in the PRC with limited liability. It is principally engaged in property investment and property development.

The sourcing of the Products by GHG for CMPD is considered an integral part of the ordinary and usual course of business of the Group and will be conducted on normal commercial terms following an arm's length negotiation between the parties to the Procurement Agreement. The Directors (excluding the independent non-executive Directors, whose views will be rendered after considering the recommendations from Altus) consider that the Procurement Agreement and the Continuing Connected Transactions thereunder will enable the Group to expand its existing businesses to the procurement of building and renovation materials and construction equipment and also develop a wider customer base for its existing sale of electronic consumer products and related components.

As the Procurement Agreement will be carried out in the ordinary and usual course of the Group's business and on normal commercial terms, the Directors (excluding the independent non-executive Directors, whose views will be rendered after considering the recommendations from Altus) are of the view that terms of the Continuing Connected Transactions (including the Annual Caps) are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

LISTING RULES IMPLICATIONS

CMPD is a connected person of the Company under the Listing Rules by virtue of it being an associate of the controlling shareholder of the Company. As one or more of the applicable percentage ratios (as defined under the Listing Rules and other than the profits ratio), on an annual basis and in respect of the Annual Caps exceeds 5.0% and the Annual Caps is not less than HK\$10.0 million, the transactions contemplated under the Procurement Agreement (including the Annual Caps) are subject to the announcement, reporting, annual review and independent shareholders' approval requirements under the Listing Rules.

Success Well was interested in 749,860,626 Shares, representing approximately 70.18% of the entire issued share capital of the Company as at the date of this announcement. Success Well is an indirect wholly-owned subsidiary of CMPD. Pursuant to Rule 14A.54 of the Listing Rules, Success Well and its associates will abstain from voting on the resolution(s) relating to the Continuing Connected Transactions (including the Annual Caps) at the EGM.

INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER

The Independent Board Committee comprising all independent non-executive Directors has been formed to advise the Independent Shareholders on the Continuing Connected Transactions (including the Annual Caps). The Company has appointed Altus as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in the same regard.

GENERAL

The Company will convene the EGM for the purpose of allowing the Independent Shareholders to consider, and if thought fit, to approve the entering into of the Procurement Agreement by GHG and the Continuing Connected Transactions thereunder (including the Annual Caps). A circular containing, among others, (i) details of the Continuing Connected Transactions (including the Annual Caps); (ii) a letter from the Independent Board Committee; (iii) a letter of advice from Altus; and (iv) a notice convening the EGM, will be despatched to the Shareholders as soon as practicable in accordance with the Listing Rules, which is currently expected to be on or before 30 October 2012.

DEFINITIONS

“Altus” or the “Independent Financial Adviser”	Altus Capital Limited, a corporation licensed by the Securities and Futures Commission to conduct Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong, the independent financial adviser appointed to advise the Independent Board Committee and the Independent Shareholders in respect of the Continuing Connected Transactions (including the Annual Caps)
“Annual Caps”	the proposed annual maximum aggregate value for the Continuing Connected Transactions for the periods from the effective date of the Procurement Agreement to 31 December 2012 and each of the two years ending 31 December 2013 and 31 December 2014 respectively
“associate(s)”	has the meaning given to it under the Listing Rules
“Board”	the board of Directors
“CMPD”	招商局地產控股股份有限公司 (China Merchants Property Development Co., Ltd.), a company established in the PRC with limited liability, with shares listed on the Shenzhen Stock Exchange

“Company”	Tonic Industries Holdings Limited, a company incorporated in the Cayman Islands with limited liability and the issued shares of which are listed on the main board of the Stock Exchange
“connected person(s)”	has the meaning given to it under the Listing Rules
“Continuing Connected Transactions”	the continuing connected transactions to be entered into between GHG and CMPD pursuant to the Procurement Agreement
“controlling shareholder”	has the meaning given to it under the Listing Rules
“Director(s)”	the director(s) of the Company
“EGM”	the extraordinary general meeting of the Company to be convened for the purpose of allowing the Independent Shareholders to consider, and if thought fit, to approve the entering into of the Procurement Agreement by GHG and the Continuing Connected Transactions (including the Annual Caps) including any adjournment thereof
“GHG”	冠華港貿易(深圳)有限公司 (Guan Hua Gang Trading (Shenzhen) Co., Ltd.*), a company incorporated in the PRC with limited liability and a wholly-owned subsidiary of the Company
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollar(s), the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Independent Board Committee”	an independent committee of the Board that has been formed and which comprises of all independent non-executive Directors namely, Dr. Wong Wing Kuen, Albert, Ms. Chen Yanping and Dr. Shi Xinping, to advise the Independent Shareholders on the Continuing Connected Transactions (including the Annual Caps)
“Independent Shareholders”	the Shareholders other than Success Well and its associates
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange

“PRC” or “China”	the People’s Republic of China and, for the purpose of this announcement, excluding Hong Kong, the Macau Special Administrative Region of the People’s Republic of China and Taiwan
“Procurement Agreement”	the master procurement agreement dated 8 October 2012 entered into between GHG and CMPD in relation to the sourcing of the Products by GHG for CMPD
“Procurement Sub-Contract(s)”	the separate procurement agreement(s) to be entered into between GHG and CMPD or its subsidiaries or its joint ventures for each procurement of Products during the term of the Procurement Agreement referred in, and subject to the terms of, the Procurement Agreement
“Products”	the electronic and electrical products and building related materials and equipment, including but not limited to building and renovation materials and construction equipment and other related materials to be sourced by GHG under the Procurement Agreement
“Share(s)”	ordinary share(s) of HK\$0.01 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Success Well”	Success Well Investments Limited, a company incorporated in the British Virgin Islands with limited liability and is an indirect wholly-owned subsidiary of CMPD, and the controlling shareholder of the Company

For and on behalf of the Board of
Tonic Industries Holdings Limited
Mr. Huang Peikun
Chairman

Hong Kong, 8 October 2012

As at the date of this announcement, the Board comprises Mr. Huang Peikun, Dr. So Shu Fai, Mr. Liu Zhuogen, Mr. Yu Zhiliang as executive Directors; Ms. Liu Ning as non-executive Director and Dr. Wong Wing Kuen, Albert, Ms. Chen Yanping and Dr. Shi Xiping as independent non-executive Directors.

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