
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in doubt as to any aspect of this circular or as to the action to be taken, you should consult your licensed securities dealer or registered institution in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in **Tonic Industries Holdings Limited**, you should at once hand this circular to the purchaser or transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

The Stock Exchange of Hong Kong Limited takes no responsibility for the contents of this circular, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this circular.

TONIC

TONIC INDUSTRIES HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 978)

**DISCLOSEABLE TRANSACTION
SUBSCRIPTION OF SHARES IN COVE SUNRISE INC.**

CONTENTS

	<i>Page</i>
Definitions	1
Letter from the Board	
Introduction	3
The Agreement	4
Information on Cove Sunrise	5
Reasons for and benefit of the transaction	6
Listing Rules implications	6
Further information	6
Appendix – General information	7

DEFINITIONS

In this circular, unless the context requires otherwise, the following expressions have the following meanings:

“Agreement”	the subscription agreement dated 9 May 2007 among Tonic Venture, Cove Partners and Cove Sunrise
“Board”	the board of Directors
“Company”	Tonic Industries Holdings Limited, a company incorporated in the Cayman Islands with limited liabilities, whose shares are listed on the Stock Exchange
“Completion”	completion of the Agreement
“Connected Person(s)”	has the meaning ascribed thereto in the Listing Rules
“Cove Partners”	Cove Partners LLC, a limited liability company incorporated in the State of California, the USA
“Cove Sunrise”	Cove Sunrise Inc., a company incorporated in the State of Delaware, the USA
“Directors”	the directors of the Company
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	Hong Kong Special Administrative Region of the People’s Republic of China
“Latest Practicable Date”	17 May 2007, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information for inclusion in this circular
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“SFO”	Securities and Futures Ordinance (Cap 571 of the Laws of Hong Kong)
“Share(s)”	ordinary share(s) of HK\$0.10 each in the share capital of the Company
“Shareholder(s)”	holder(s) of (a) Share(s)

DEFINITIONS

“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscribers”	purchasers of shares in Cove Sunrise who have been procured by Cove Partners to acquire shares in Cove Sunrise
“Tonic Venture”	Tonic Venture Capital Limited, an indirect wholly-owned subsidiary of the Company
“USA”	United States of America
“US\$”	U.S. dollars, the lawful currency of the USA

In this circular, the exchange rate of US\$1.00 = HK\$7.80 have been adopted for illustration purposes.

TONIC

TONIC INDUSTRIES HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 978)

Executive Directors:

Mr. LING Siu Man, Simon (Chairman)
Mr. LIU Hoi Keung, Gary
Mr. LEE Ka Yue, Peter
Mr. WONG Ki Cheung
Ms. LI Fung Ching, Catherine
Mr. AU Wai Man
Mr. LAM Kwai Wah

Registered office:

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

Non-executive Director:

Mr. WONG Wai Kwong, David

*Head office and principal place
of business in Hong Kong:*

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

Independent non-executive Directors:

Mr. PANG Hon Chung
Mr. CHENG Tsang Wai
Dr. CHUNG Hing Wah, Paul

21 May 2007

To the Shareholders

Dear Sirs,

DISCLOSEABLE TRANSACTION SUBSCRIPTION OF SHARES IN COVE SUNRISE INC.

INTRODUCTION

On 10 May 2007, the Board announced that Tonic Venture, an indirect wholly-owned subsidiary of the Company, entered into the Agreement with Cove Partners and Cove Sunrise pursuant to which Tonic Venture agreed to subscribe for 675 shares in Cove Sunrise, representing 45% of the total capital stock of Cove Sunrise for not more than US\$7 million (equivalent to approximately HK\$55 million).

Upon Completion, the Group will equity account for its investment in Cove Sunrise and the transactions contemplated under the Agreement is not expected to have any immediate material impact on the Group's total assets, total liabilities and results.

LETTER FROM THE BOARD

Based on the commitment of US\$7 million (equivalent to approximately HK\$55 million) by the Group pursuant to the Agreement, the entering into of the Agreement constitutes a discloseable transaction for the Company under the Listing Rules.

The purpose of this circular is to provide you with further information regarding the transactions contemplated under the Agreement and other information required by the Listing Rules.

THE AGREEMENT

Date: 9 May 2007

Parties: (i) Tonic Venture, an indirect wholly-owned subsidiary of the Company;

(ii) Cove Partners; and

(iii) Cove Sunrise.

Cove Partners is principally engaged in investment banking business. To the best of the Directors' knowledge, information and belief and having made all reasonable enquiries, Cove Partners and its ultimate beneficial owners are third parties independent of the Company and are not Connected Persons of the Company.

Upon Completion, Tonic Venture will pay not more than US\$7 million (equivalent to approximately HK\$55 million) to Cove Sunrise subscribing for 675 shares in Cove Sunrise, representing 45% of the total capital stock of Cove Sunrise, by cash. Whereas Cove Partners and/or the Subscribers will pay not less than US\$8 million (equivalent to approximately HK\$62 million) to Cove Sunrise for the subscription of 815 shares in Cove Sunrise (together with the ten shares in Cove Sunrise currently held by Cove Partners), representing 55% of the total capital stock of Cove Sunrise, by cash. Upon Completion, Cove Sunrise will have total capital stock of approximately US\$15 million (equivalent to approximately HK\$117 million). The entire committed amount has not yet been paid to Cove Sunrise as at the Latest Practicable Date.

The contribution pursuant to the Agreement of not more than US\$7 million (equivalent to approximately HK\$55 million) is based on arm's length negotiations with reference to the Group's 45% share of the total capital stock of Cove Sunrise of approximately US\$7 million (equivalent to approximately HK\$55 million) upon Completion.

LETTER FROM THE BOARD

Condition for completion

Completion is conditional upon the entering into of a shareholders agreement by Cove Sunrise and all the shareholders of Cove Sunrise.

Completion shall take place on the fifth business day after the date of satisfaction of the condition precedent. If the above condition is not satisfied (or waived by all parties of the Agreement) by 5:00 p.m. on 31 July 2007 (or such later date as the parties may agree), any party may by notice terminate the Agreement and the parties shall have no further claims against the other(s) save for antecedent breaches. As at the Latest Practicable Date, the above condition has not yet been fulfilled or waived (as the case maybe).

Under the Agreement, Cove Partners undertook to Tonic Venture that the Subscribers that it may procure to take up part or all of the shares in Cove Sunrise from Cove Partner (i) will be approved by Tonic Venture in writing; (ii) will not be Connected Persons of the Company; and (iii) will agree to execute the shareholders agreement referred to above.

INFORMATION ON COVE SUNRISE

On Completion, Cove Sunrise will be held as to 45% by Tonic Venture and 55% by Cove Partners and/or the Subscribers. It is expected that Tonic Venture will nominate two persons and Cove Partners and/or the Subscribers will nominate three persons to the board of directors of Cove Sunrise.

Cove Sunrise was established by Cove Partners for the purpose of investing in business as relating to the product development, distribution and retail of consumer products in the USA, Europe, Asia and in particular, the Greater China Region. Ten shares of Cove Sunrise have been duly issued and fully paid up by Cove Partners. The Company was invited by Cove Partners to jointly subscribe for shares in Cove Sunrise for the sole purpose of acquiring the businesses relating to above. Since the incorporation of Cove Sunrise, it has no business operation save and except for the fact that Cove Partners has been negotiating and reviewing several investment opportunities which it intends to be invested through Cove Sunrise.

As Cove Sunrise has no business operation since its incorporation on 8 May 2007, it has not prepared any financial statements and has no revenue nor material expense since its incorporation. Save for its US\$10,000 (equivalent to approximately HK\$78,000) cash, Cove Sunrise has no material assets nor liabilities as at the Latest Practicable Date.

The investment amount payable by Tonic Venture was arrived at based on the size of those investment projects which Cove Partners has been negotiating and reviewing and represents an amount which the Company is prepared to allocate towards new investment opportunities and will be funded by internal resources.

LETTER FROM THE BOARD

REASONS FOR AND BENEFIT OF THE TRANSACTION

The Group is engaged in manufacturing of consumer electronic products and home appliance products. The Company considers that the entering into of the Agreement constitutes a good opportunity to team up with international investors to jointly invest in businesses that may complement the business of the Group. If any investment projects currently negotiating and reviewing by Cove Partners can be materialised, it will represent a step for the Group to diversify into the product development, distribution and retail of consumer products business. It is expected that such investment will bring to the Group a network of distributors, which will produce a synergistic effect on the manufacturing operations of the Group and bring long term benefits to the Company. Upon Completion, the Group will equity account for its investment in Cove Sunrise and the transactions contemplated under the Agreement is not expected to have any immediate material impact on the Group's total assets, total liabilities and results. The Directors consider that this structure will reduce the financial risk for the Group and lower the cashflow requirement of the Group in making investments as any financial risks will be shared by other investors of Cove Sunrise and any future contribution of fundings to Cove Sunrise will be made by its shareholders on a pro-rata basis.

The Directors (including the independent non-executive Directors) are of the view that the terms of the Agreement are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole.

LISTING RULES IMPLICATIONS

Based on the commitment of US\$7 million (equivalent to approximately HK\$55 million) by the Group pursuant to the Agreement, the entering into of the Agreement constitutes a discloseable transaction for the Company under the Listing Rules.

FURTHER INFORMATION

Your attention is drawn to the additional information set out in the appendix to this circular.

Yours faithfully,
By Order of the Board
Tonic Industries Holdings Limited
LING Siu Man, Simon
Chairman

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts the omission of which would make any statement contained in this circular misleading.

2. INTERESTS OF DIRECTORS

As at the Latest Practicable Date, the interests or short positions of each Director and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which (i) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he/she was taken or deemed to have under such provisions of the SFO), or (ii) were required pursuant to section 352 of the SFO to be entered in the register maintained by the Company referred to therein, or (iii) were required pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules to be notified to the Company and the Stock Exchange, were as follows:

(i) Long position in Shares

Directors	Nature of interests	Number of Shares held	Approximate % of the Company's issued share capital
LING Siu Man, Simon	Corporate (<i>Note</i>)	476,830,173	50.04
LIU Hoi Keung, Gary	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
PANG Hon Chung	Personal	2,000,000	0.21
CHENG Tsang Wai	Personal	6,000,000	0.63

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 Mr. LING Siu Man, Simon.

(ii) Long position in underlying Shares in respect of share options

Directors	Number of share options held	Exercise period	Exercise price per Share HK\$
LING Siu Man, Simon	15,000,000	10 April 2000 to 9 April 2010	0.467
LIU Hoi Keung, Gary	2,715,000	10 April 2000 to 9 April 2010	0.467
LEE Ka Yue, Peter	2,715,000	10 April 2000 to 9 April 2010	0.467
WONG Ki Cheung	2,715,000	10 April 2000 to 9 April 2010	0.467
LI Fung Ching, Catherine	2,715,000	10 April 2000 to 9 April 2010	0.467
AU Wai Man	2,715,000	10 April 2000 to 9 April 2010	0.467
LAM Kwai Wah	1,650,000	10 April 2000 to 9 April 2010	0.467

(iii) Long position in shares of associated corporation

Mr. LING Siu Man, Simon personally held 2,850 non-voting deferred shares of HK\$100 each in the capital of Tonic Electronics Limited, a subsidiary of the Company.

Save as disclosed above and other than certain shares of the Company's subsidiaries held by certain Directors in trust for the Group solely for the purpose of complying with the minimum company membership requirement, as at the Latest Practicable Date, none of the Directors and chief executive of the Company or their respective associates had any interests and short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which (i) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he/she was taken or deemed to have under such provisions of the SFO), or (ii) were required pursuant to section 352 of the SFO to be entered in the register maintained by the Company referred to therein, or (iii) were required pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules to be notified to the Company and the Stock Exchange.

(iv) Other Directors' interests

- (a) None of the Directors has, or has had, any direct or indirect interest in any assets which have been since 31 March 2006 (being the date to which the latest published audited consolidated financial statements of the Group were made up) acquired or disposed of by or leased to, or are proposed to be acquired or disposed of by or leased to any member of the Group.
- (b) None of the Directors was materially interested in any contract or arrangement subsisting at the Latest Practicable Date which is significant in relation to the business of the Group.
- (c) As at the Latest Practicable Date, other than Mr. LING Siu Man, Simon being a Director, is a director of Success Forever Limited which is interested in 476,830,173 Shares and Mr. LEE Ka Yue, Peter and Mr. WONG Wai Kwong, David, being Directors, are directors of EganaGoldpfeil (Holdings) Limited which is interested in 194,404,303 Shares, none of the Directors and the chief executive of the Company was a director or employee of a company which has an interest or short position in the Shares and underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

3. INTERESTS OF SUBSTANTIAL SHAREHOLDERS

So far as is known to any Director or chief executive of the Company, as at the Latest Practicable Date, persons (other than a Director or chief executive of the Company) who had an interest or a short position in the Shares, underlying Shares or debentures of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group or any options in respect of such capital, were as follows:

Long position in Shares

Name	Nature of interests	Number of Shares held	Approximate % of the Company's issued share capital
Success Forever Limited (<i>Note 1</i>)	Beneficially owned	476,830,173	50.04
Eco-Haru Mfr. Holdings Limited ("Eco-Haru") (<i>Note 2</i>)	Beneficially owned	181,651,303	19.06
Glorious Concept Limited ("Glorious Concept") (<i>Note 2</i>)	Beneficially owned	12,753,000	1.34
EganaGoldpfeil (Holdings) Limited ("EganaGoldpfeil") (<i>Note 2</i>)	Interests held by controlled corporations	194,404,303	20.40

Notes:

1. The entire issued share capital of Success Forever Limited is beneficially owned by Mr. LING Siu Man, Simon, a Director.
2. The entire issued share capital of each of Eco-Haru and Glorious Concept is beneficially owned by EganaGoldpfeil.

Save as disclosed above, so far as is known to any Director or chief executive of the Company, no person (other than a Director or chief executive of the Company) had an interest or a short position in the Shares, underlying Shares or debentures of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or was, directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group or any options in respect of such capital, as at the Latest Practicable Date.

4. MATERIAL ADVERSE CHANGES

Save as disclosed in the circular, as at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 March 2006 (being the date to which the latest published audited consolidated financial statements of the Group were made up).

5. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had a service contract or a proposed service contract with any member of the Group which is not determinable by the Company within one year without payment of compensation (other than statutory compensation). As at the Latest Practicable Date, the Company did not have any proposed Director.

6. COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors nor their respective associates was considered to have an interest in a business which competes or is likely to compete, either directly or indirectly, with the business of the Group.

7. LITIGATION

On 12 September 2006, Applica Consumer Products, Inc. and Applica Asia Limited, former customers of Tonic Appliances Limited (“Tonic Appliances”) a wholly-owned subsidiary of the Company, commenced legal proceedings against Tonic Appliances claiming for damages for breach of agreement for sale of goods in the sum of HK\$3,652,767 together with interest. Tonic Appliances filed its defence on 19 December 2006. The plaintiffs should have filed its reply, if any, within fourteen days thereafter, but Tonic Appliances had not received any reply from the plaintiff up to the Latest Practicable Date and the time for the plaintiffs to file the same has long been expired and the pleadings should be deemed to be closed.

On 20 October 2006, Tonic Digital Products Limited, an indirect wholly-owned subsidiary of the Company, 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 had filed its defence on 16 November 2006. Pleadings have been closed and the case is now undergoing discovery stage.

On 6 April 2007, Toshiba Corporation and Toshiba America Consumer Products, L.L.C. (“Toshiba”) filed a civil complaint against nine of the Company’s subsidiaries (the “Defendants”) alleging their infringement of Toshiba’s DVD technology patents. Toshiba sought for permanently enjoining and restraining Defendants from further infringement and damages. The Defendants filed motion to stay the proceedings on 10 May 2007 on the ground that similar action was currently pending with the United States International Trade Commission (“ITC”), making this lawsuit unnecessary duplicative. The case is pending for the motion hearing.

On 4 May 2007, ITC issued a notice of investigation to the Defendants advising the Defendants that ITC had initiated its own investigation into the sale of DVD related products which allegedly infringing the DVD technology patents of Toshiba. The Defendants have taken legal advice on filing of defence. Further announcement on this legal case will be made upon any further material development and in accordance with the Listing Rules.

On the basis that (i) the claims made by Toshiba and the investigation conducted by ITC are still in a preliminary stage; (ii) the legal advisers appointed by the Company are in the progress of reviewing the case and have not made any conclusion in relation thereto as at the Latest Practicable Date; and (iii) it is premature to speculate the outcome of such claims and investigation, the Directors are of the view that announcement pursuant to Rule 13.09 of the Listing Rules is not required in this stage.

Save as disclosed above, as at the Latest Practicable Date, neither the Company nor any of its subsidiaries is engaged in any litigation or arbitration of material importance and so far as the Directors are aware, no litigation or claims of material importance are pending or threatened by or against the Company or any of its subsidiaries.

8. MISCELLANEOUS

- (i) The Company’s Hong Kong branch share registrar and transfer office is Tengis Limited at 26/F., Tesbury Centre, 28 Queen’s Road East, Wanchai, Hong Kong.
- (ii) The Company’s secretary and qualified accountant is Ms. Wong Pui Shan, Cammy, *FCCA*, *CPA*, *ACIS*, *ACS*.
- (iii) In the event of inconsistency, the English text of this circular shall prevail over the Chinese text thereof.