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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.

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TONIC

TONIC INDUSTRIES HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 978)

**DISCLOSEABLE TRANSACTION
DISPOSAL OF THE EQUITY INTEREST IN A SUBSIDIARY**

17 December 2007

CONTENTS

	<i>Page</i>
Definitions	1-3
Letter from the Board	
Introduction.	4
The Sale and Purchase Agreement	5-7
Information on Tonic Appliances	7
Reason for the Disposal.	8
General	9
Additional information	9
Appendix – General information.	10-14

DEFINITIONS

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

“Board”	the board of directors of the Company
“Bond Limited”	東莞豐匡家用電器有限公司, a company incorporated in the PRC (the English name “Bond Limited” is adopted for identification purpose)
“Claim”	the action in the High Court of Hong Kong initiated by Applica Consumer Products, Inc. and Applica Asia Limited, former customers of Tonic Appliances on 12 September 2006, 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, detail of which can be referred to in note 35(b) of the section headed “Notes to Financial Statements” on page 112 of the Company’s annual report for the financial year ended 31 March 2007
“Company”	Tonic Industries Holdings Limited, a company incorporated in the Cayman Islands, whose shares are listed on the Stock Exchange
“Completion”	completion for the Disposal
“Completion Accounts”	a balance sheet and a profit and loss account of the Company as of the date of Completion, which shall be prepared in accordance with the generally accepted accounting principles applies in Hong Kong
“Completion Net Asset Value”	the difference between the amount of total assets, the amount of total liabilities and the amount of minority interest (if any) of Tonic Appliances set forth on the balance sheet of the Completion Accounts
“Condition Date”	1 month from the date of the Sale and Purchase Agreement (or such other date as the parties shall agree in writing)
“Directors”	the directors of the Company
“Disposal”	the disposal of the Sale Shares by the Company to the Purchaser subject to the terms and conditions of the Sale and Purchase Agreement

DEFINITIONS

“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 PRC
“Latest Practicable Date”	13 December 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
“Management Accounts”	the management accounts of Tonic Appliances as at 30 September 2007 comprising the balance sheet and the profit and loss account, which shall be prepared in accordance with the generally accepted accounting principles applies in Hong Kong
“Management Accounts Net Asset Value”	the difference between the amount of total assets, the amount of total liabilities and the amount of minority interest (if any) of Tonic Appliances set forth on the balance sheet of the Management Accounts
“Purchaser”	Profit Cycle Investments Limited, a company incorporated in the British Virgin Islands with limited liability
“PRC”	the People’s Republic of China
“Sale and Purchase Agreement”	the sale and purchase agreement dated 28 November 2007 between the Company and the Purchaser in relation to the Disposal
“Sale Shares”	2 ordinary shares of HK\$1.00 each in the share capital of Tonic Appliances, representing the entire issued share capital of Tonic Appliances
“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

DEFINITIONS

“Shareholder(s)”	holder(s) of the Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“TA Limited”	TA Limited, a company incorporated in Hong Kong and is an indirectly wholly owned subsidiary of the Company
“Tonic Appliances”	Tonic Appliances Limited, a company incorporated in Hong Kong and is a direct 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 purpose.

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TONIC INDUSTRIES HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 978)

Executive Directors:

Mr. LING Siu Man, Simon
(Chairman and Managing Director)

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
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Grand Cayman
Cayman Islands
British West Indies

Independent non-executive Directors:

Mr. PANG Hon Chung

Mr. CHENG Tsang Wai

Dr. CHUNG Hing Wah, Paul

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of business in Hong Kong:*

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

17 December 2007

To the Shareholders

Dear Sirs,

DISCLOSEABLE TRANSACTION DISPOSAL OF THE EQUITY INTEREST IN A SUBSIDIARY

INTRODUCTION

On 28 November 2007, the Board announced that the Company entered into an agreement with the Purchaser pursuant to which the Company agreed to sell and the Purchaser agreed to acquire from the Company the Sale Shares, representing the entire issued share capital of Tonic Appliance, a direct wholly owned subsidiary of the Company.

The Disposal constitutes a discloseable transaction for the Company under Chapter 14 of the Listing Rules.

LETTER FROM THE BOARD

The purpose of this circular is to provide you with further information in relation to the Disposal.

THE SALE AND PURCHASE AGREEMENT

Date

28 November 2007

Parties

- (i) The Company
- (ii) The Purchaser

The Purchaser is a company incorporated in the British Virgin Islands. It is an investment holding company with interests in supplying finished electrical appliances to overseas importers. The ultimate beneficial owner of the Purchaser holds interest in a corporation which supplies components and parts to the Group. To the best of the Directors' knowledge, information and belief having made all reasonable enquiry, the Purchaser and its ultimate beneficial owner are third parties independent of the Company and connected persons of the Company.

Save and except as disclosed, the Company has no prior relationship with the Purchaser and its ultimate beneficial owner. There is also no other transaction which required to be aggregated with the Disposal under the Listing Rule 14.22.

Asset to be Disposed

The Company agreed to sell and the Purchaser agreed to acquire from the Company the Sale Shares, representing the entire issued share capital of Tonic Appliance, a direct wholly owned subsidiary of the Company.

Consideration

The consideration (subject to adjustment, if any) for the disposal of the Sale Shares is HK\$5,609,826 and is payable in cash by the Purchaser upon Completion.

The consideration was arrived at after arm's length negotiation between the Purchaser and the Company with reference to (i) 2 times of the net asset value of Tonic Appliance as at 30 September 2007; (ii) the Company agreed sharing of one half of the amount of damages claimed under the Claim which approximately is HK\$1,826,500; and (iii) the future prospect of Tonic Appliance from the view point of the Group. The Directors (including the independent non-executive Directors) consider the consideration is fair and reasonable.

LETTER FROM THE BOARD

It is estimated that the expenses relating to the Disposal (including preparation of documents and this circular) will be approximately HK\$70,000. The consideration (subject to adjustment, if any), after deducting the aforesaid expenses will be approximately HK\$5,539,826 and will be used for working capital of the Group.

Adjustment to the Consideration

As soon as practicable, but in any event no later than 45 days after the date of Completion, the Company shall prepare and deliver to the Purchaser the Completion Accounts, including a calculation of the Completion Net Asset Value of Tonic Appliance. In case there is any dispute in relation to the component(s) in the calculation of the Completion Net Asset Value, the parties agree that it shall be determined by PricewaterhouseCoopers, an independent certified public accountants.

Within 5 days following the determination of the Completion Net Asset Value, if the Completion Net Asset Value varies from the Management Accounts Net Asset Value, the consideration of the Disposal shall be adjusted dollar for dollar and payment shall become due as follows:

- (i) if the Completion Net Asset Value exceeds the Management Accounts Net Asset Value, the consideration shall be increased by the amount of such excess times two and the Purchaser shall pay over such amount to the Vendor; or
- (ii) if the Completion Net Asset Value is less than the Management Accounts Net Asset Value, the consideration shall be decreased by the amount of such deficit times two and the Vendor shall pay over such amount to the Purchaser.

The payment of any adjustment to the consideration shall be made immediately by the paying party.

Based on the estimation of the management, the Completion Net Asset Value will not be a negative figure. In the event a negative figure shall appear, the Disposal will not be proceeded.

Conditions

The Sale and Purchase Agreement is conditional until the Condition Date upon:

- (i) the Purchaser being satisfied in all respects with the results of its enquiries into the respective financial, corporate, taxation, contractual and trading positions and prospects of Tonic Appliance;
- (ii) the warranties given by the Company being true and accurate and shall remain so from the date of the Sale and Purchase Agreement until Completion.

LETTER FROM THE BOARD

Completion of the Disposal

Completion shall take place within 3 business days following the satisfaction or waiver of the above conditions (or such later date as the parties shall agree in writing). In the event the above conditions are not fulfilled (or waived by the Purchaser) by the Condition Date, the Purchaser shall be entitled to:

- (i) treat the Sale and Purchase Agreement as terminated; or
- (ii) proceed to Completion without prejudice to its rights under the Sale and Purchase Agreement.

If the Sale and Purchase Agreement is terminated by the Purchaser, then the Sale and Purchase Agreement and everything therein contained shall, subject to the liability of the Company in respect of any breaches of the terms of the Sale and Purchase Agreement, be null and void and of no effect.

Covenant not to Compete

The Company undertakes to the Purchaser that during a period beginning on the date of Completion and ending on the first anniversary thereof, the Company shall not, or permit any of its subsidiaries or affiliates to, directly or indirectly, without the consent of the Purchaser, carry on the business of trading or selling of electrical appliances in Asia Pacific (excluding Japan, Korea and Taiwan) and South America countries.

INFORMATION ON TONIC APPLIANCES

Tonic Appliance was incorporated on 24 May 1999 and is principally engaged in the trading of electrical appliances.

The audited net profits before and after taxation and extraordinary items attributable to Tonic Appliance in respect of the financial year ended 31 March 2006 and 31 March 2007 prepared in accordance with the generally accepted accounting principles applied in Hong Kong were:

	Financial Year Ended 31 March 2006 (HK\$)	Financial Year Ended 31 March 2007 (HK\$)
Net Profit before Tax	5,990,365	5,507,056
Net Profit after Tax	4,680,237	4,593,610

The net asset value of Tonic Appliance as at 30 September 2007 was approximately HK\$3,718,160.

LETTER FROM THE BOARD

REASON FOR THE DISPOSAL

Tonic Appliance is a trading company which provides design and materials to processing trade enterprise in the PRC for the manufacture of electrical appliances. The release of prohibited-type commodity catalog in processing trade in the PRC in September 2006 has adversely affected the processing trade enterprise co-operated with Tonic Appliance, which in turn, has increased the production cost and operation cost of Tonic Appliance as more restrictions were imposed on processing trade enterprise.

The Group noted the effect of the change of policy regulating the processing trade and has, in December 2006, incorporated TA Limited in Hong Kong for the purpose of holding Bond Limited, a wholly foreign-owned enterprise in the PRC for the manufacture of electrical appliances. The Group expects, with the tax and other benefits enjoyed by Bond Limited, the electrical appliances supplied by the Group will be more competitive. Additionally, Bond Limited will be allowed to participate in the domestic sale business in the PRC, which will meet the medium term strategy and planning of the Group.

TA Limited commenced its trading operation of electrical appliances since its incorporation and starts to generate return to the Group. The Group's reliance on Tonic Appliances has been reduced and the Disposal provides an opportunity for the Group to realize a subsidiary with less economic advantage (as compare with TA Limited). Taking into account the above matters, the net asset value of Tonic Appliances, the potential risk of the Claim and the future prospect of Tonic Appliances from the view point of the Group, the Directors (including the independent non-executive Directors) consider that the terms of the Disposal are fair and reasonable and in the interests of the Shareholders as a whole.

At present, Tonic Appliances is a wholly-owned subsidiary of the Company and its financial results are consolidated into the Group's financial statement. After Completion, Tonic Appliances will cease to be a subsidiary of the Company and the Company will cease to have any equity interest in Tonic Appliances. Accordingly, the equity interest in Tonic Appliances no longer be consolidated in the accounts of the Group.

The gain or loss arising from the Disposal is the difference between the consideration of Disposal and net asset value of Tonic Appliances as at the date of Completion. Based on the Management Accounts, the Group is expected to record a gain of approximately HK\$1,891,666. Nonetheless, such gain is subject to the adjustment to the consideration, the Completion Net Asset Value and the audit by the auditors of the Company. The Group will make relevant disclosure regarding such gain or loss arising from the Disposal as soon as the same can be ascertained in the forthcoming annual report for the year ended 31 March 2008 or if the same can be ascertained before the issue of the annual report, in further announcement.

LETTER FROM THE BOARD

The Disposal will not have significant effect on the liabilities of the Group but the assets of the Group will increased by approximately HK\$1,891,666 (being the difference between the consideration for the Disposal and net asset value of Tonic Appliances based on the Management Accounts). Regarding the effect on earnings, despite Tonic Appliances contributed approximately 17.38% of the Group's net profit for the financial year ended 31 March 2007 (the net profits (before tax) of Tonic Appliances and the Group for the financial year ended 31 March 2007 were respectively HK\$5,507,056 and HK\$31,685,000), the Disposal will only have a short term effect on earnings of the Group as the Group's reliance on Tonic Appliances has been reduced since the incorporation of TA Limited. However, if taking into account the gain on Disposal (based on the Management Accounts), the overall earnings to the Group will not have any significant effect.

GENERAL

The Group is engaged in manufacturing of consumer electronic products and home appliance products.

The Disposal constitutes a discloseable transaction for the Company under Chapter 14 of the Listing Rules.

ADDITIONAL 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 referred to therein, or (iii) were required pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers 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>)	668,492,476	63.19
WONG Ki Cheung	Personal	1,749,000	0.17
LI Fung Ching, Catherine	Personal	2,142,000	0.20
CHENG Tsang Wai	Personal	3,626,000	0.34

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
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 3,000 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 referred to therein, or (iii) were required pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers 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 2007 (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 668,492,476 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

Directors	Nature of interests	Number of Shares held	Approximate% of the Company's issued share capital
Success Forever Limited (<i>Note</i>)	Beneficially owned	668,492,476	63.19

Note: The entire issued share capital of Success Forever Limited is beneficially owned by Mr. LING Siu Man, Simon, a Director.

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 2007 (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 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. 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 its amended defence on 24 July 2007. The plaintiffs should file its amended reply if any, within 21 days thereafter, then the parties should proceed with discovery (i.e. to exchange documentary evidence in relation to the case) but Tonic Appliances had not received any amended reply nor had the plaintiffs requested to exchange the documentary evidence up to the Latest Practicable Date.

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.

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 26th Floor, 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.