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TONIC

TONIC INDUSTRIES HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

Website: <http://www.tonic.com.hk>

and <http://www.irasia.com/listco/hk/tonic>

(Stock Code: 978)

**ANNOUNCEMENT
PURSUANT TO RULE 3.7 OF THE TAKEOVERS CODE
PRICE-SENSITIVE INFORMATION
AND
RESUMPTION OF TRADING**

This announcement is made by the Company pursuant to Rule 13.09(1) of the Listing Rules and Rule 3.7 of the Takeovers Code.

As stated in the 2009 Interim Report, the Group continued to be affected by the looming global financial crisis. Sales of the Group for the six months ended 30 September 2009 decreased, in particular, export sales to markets in Europe and Americas plunged by 82% and working capital pressure increased against the credit crunch. In addition, the US government stopped subsidizing consumers in purchasing digital set top boxes and that further dampened sales of set top boxes to the market. The Group has decided to consolidate and streamline its businesses while to scale down the operations scale, in particular its exports sales, in order to alleviate the financial situation of the Group.

As part of the Group's business restructuring plan, the Group has consolidated its sales orders and set top boxes manufacturing operations into the Shi Pai Factory, the PRC. Meanwhile, with a view to further reduce costs and mitigate the loss-making position of the Group, the Group has suspended the operations of the Qi Shi Factory and the Tangxia Factory in the PRC, since March 2009 and December 2009 respectively.

The Directors are currently reviewing the terms and balances of the Group's trade and other creditors for the purposes of considering the latest indebtedness position of the Group with respect to its trade and other creditors.

The Company is currently engaging in ongoing discussions with the relevant bankers to explore the possibility of seeking a forbearance of the Group's banking facilities with the view to strengthening the Group's overall cash flow situation.

The Directors would also like to advise that the Company is in a final-stage discussion with an independent investor for the possible injection of new capital by way of loan and equity which if consummated, may result in a change in control of the Company, which may or may not lead to the making of a general offer.

Shareholders and potential investors are advised that the possible injection of new capital into the Company by the independent investor which, if implemented, may lead to a change in control of the Company. Shareholders and potential investors should be aware that the above mentioned capital injection may or may not proceed and therefore should exercise caution when dealing in the Shares.

The Group has been involved in a number of litigations recently, details of which have been set out in the 2009 Interim Report.

Trading in the Shares on the Stock Exchange was suspended at the request of the Company at 9:30 a.m. on 29 December 2009. The Company has applied to the Stock Exchange for the resumption of trading of the Shares with effect from 9:30 a.m. on 11 January 2010.

This announcement is made by Tonic Industries Holdings Limited (the “Company”, together with its subsidiaries, the “Group”) pursuant to Rule 13.09(1) of the Rules Governing the Listing of Securities (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) and Rule 3.7 of the Hong Kong Code on Takeovers and Mergers (the “Takeovers Code”).

The Group is principally engaged in manufacture and trading of consumer electronic products. As at the date of this announcement, the Group has its manufacturing operations in Shi Pai, the People’s Republic of China (the “PRC”) for the manufacturing and domestic sales of the Group’s product including set top boxes.

STATUS OF THE GROUP

The Group recorded a loss attributable to shareholders of the Company (the “Shareholders”) of approximately HK\$175 million for the year ended 31 March 2009. As stated in the Company’s interim report for the six months ended 30 September 2009 (the “2009 Interim Report”), the Group continued to be affected by the looming global financial crisis. For the six months ended 30 September 2009, the Group recorded a turnover of approximately HK\$437 million, representing a decrease of approximately 67.9% as compared to the corresponding period in 2008. Loss attributable to Shareholders amounted to approximately HK\$263 million for the six months ended 30 September 2009, as compared to the profit attributable to Shareholders of approximately HK\$50.8 million for the corresponding period in 2008. Sales of the Group for the six months ended 30 September 2009 decreased, in particular, export sales to markets in Europe and Americas plunged by 82% and working capital pressure increased against the credit crunch. In addition, the US government stopped subsidizing consumers in purchasing digital set top boxes and that further dampened sales of set top boxes to the market. The Group has decided to consolidate and streamline its businesses while to scale down the operations scale, in particular its exports sales, in order to alleviate the financial situation of the Group.

As part of the Group's business restructuring plan, the Group has consolidated its sales orders and set top boxes manufacturing operations into the manufacturing facilities in Shi Pai (the "Shi Pai Factory"), the PRC. Meanwhile, with a view to further reduce costs and mitigate the loss-making position of the Group, the Group has suspended the operations of the manufacturing plants in Qi Shi (the "Qi Shi Factory") and Tangxia (the "Tangxia Factory", together with the Qi Shi Factory, the "Factories"), the PRC, since March 2009 and December 2009 respectively. The Qi Shi Factory was principally engaged in the production of components for the manufacturing of the Group's products including set top boxes. The Tangxia Factory was principally engaged in the manufacturing and export sales of set top boxes and DVDs. The Factories had been loss-making and faced immense difficulty in resolving its cash flow problem during the financial year ended 31 March 2009. Having regard to the worsening business performance of the Factories and the Group's business strategy to focus on domestic sales, and in order to ensure that the Group operates in an optimum scale, the directors of the Company (the "Directors") finally came to the decision to restructure and to close down the operations of the Factories.

Due to the current immense pressure on the cash flow of the Group, the Group has delayed salaries payment to certain workers and staffs of the Group. Up to 31 December 2009, the aggregate salaries in arrears was approximately HK\$12 million. The Group has been active in finding ways to turn around its business and improve working capital. The Company intends to repay the salaries in arrears once the Group can access to sufficient new fundings and its working capital position is improved.

The Group is currently running its business and operations in the Shi Pai Factory which is principally engaging in the manufacturing and domestic sales of set top boxes of the Group. As disclosed in the 2009 Interim Report, domestic sales in the PRC has contributed approximately HK\$229 million to the Group's total revenue, which represented over 50% of the total revenue of the Group of approximately HK\$437 million during the six months period ended 30 September 2009. The Group had a net asset value of approximately HK\$124 million as at 30 September 2009.

DISCUSSION WITH THE GROUP'S CREDITORS

The Group has been continuing to implement cost rationalisation measures all across its operations in order to streamline its cost structure, and to strengthen its cash flow position as well as its competitiveness.

As at 31 December 2009, the total balance due to the trade and other creditors by the Group was approximately HK\$330 million, among which almost all overdue. The Group is currently in negotiation with them regarding a restructuring of the settlement terms including extension of the repayment period, or accepting a discounted settlement of the relevant outstanding amount due.

The Directors are currently reviewing the terms and balances of the Group's trade and other creditors for the purposes of considering the latest indebtedness position of the Group with respect to its trade and other creditors.

The total outstanding bank and other borrowings of the Group (excluding accrued interest) as at 31 December 2009 was approximately HK\$372 million, representing a decrease of 3.4% as compared with the outstanding bank and other borrowings of the Group (excluding accrued interest) as at 30 September 2009 of approximately HK\$385 million. In addition, the Directors confirm that the Group has breached the repayment terms of certain banking facilities and certain loan repayments since January 2009. As at the date of this announcement, banking facilities and loan repayments (excluding accrued interest) in the aggregated sum of approximately HK\$168 million have become overdue.

In this connection, the Company is currently engaging in ongoing discussions with the relevant bankers to explore the possibility of seeking a forbearance of the Group's banking facilities with the view to strengthening the Group's overall cash flow situation. As the aforesaid discussions with the relevant bankers are on-going, the Directors are not in the position to form an opinion on the possible impact on the Group's operation and financial position as at the date of this announcement. However, the Group will make further announcements to keep the Shareholders informed of the progress of the discussions with its bankers.

DISCUSSION WITH A POTENTIAL INVESTOR

The Directors would like to advise that the Company is in a final-stage discussion with an independent investor for the possible injection of new capital by way of loan and equity which if consummated, may result in a change in control of the Company, which may or may not lead to the making of a general offer. The Company confirms that, as at the date of this announcement, there is no formal or informal, binding or non-binding agreement between the Group and any potential investor(s). As at the date of this announcement, the Company has a total of 1,057,889,962 issued shares of the Company (the "Shares") and outstanding options granted under the option scheme of the Company entitling the holders thereof to subscribe for a total of 37,905,000 Shares. Save for the above, the Company does not have any other shares, outstanding warrants, options, derivatives or other securities carrying conversion or subscription rights into shares of the Company. As at the date of this announcement, the controlling Shareholder, Success Forever Limited (which is wholly and beneficially owned by Mr. Ling Siu Man, Simon, a Director), owned 618,492,476 Shares, representing approximately 58.46% of the issued shares capital of the Company.

Shareholders will be informed of any further development with regards to the possible injection of new capital by the potential investor as and when necessary and on a monthly basis until the announcement of the successful conclusion of the aforesaid possible injection of new capital or of a decision not to proceed with the possible injection of new capital has been made.

Shareholders and potential investors are advised that the possible injection of new capital into the Company by the independent investor which, if implemented, may lead to a change in control of the Company. Shareholders and potential investors should be aware that the above mentioned capital injection may or may not proceed and therefore should exercise caution when dealing in the Shares.

RECENT LITIGATIONS OF THE GROUP

The Group has been involved in a number of litigations recently, details of which have been set out in the 2009 Interim Report (the “Litigations”). There have been no major updates regarding the Litigations since the publication of the 2009 Interim Report. As at the date of this announcement, save for the Litigations, the Group was not engaged in any litigation or arbitration of material importance and no litigation of material importance is known to the Directors to be pending or threatened against the Group.

RESUMPTION OF TRADING

Trading in the Shares on the Stock Exchange was suspended at the request of the Company at 9:30 a.m. on 29 December 2009. The Company has applied to the Stock Exchange for the resumption of trading of the Shares with effect from 9:30 a.m. on 11 January 2010.

Save as aforesaid, the Directors confirm that there is no other price sensitive information to be disclosed, and that all relevant issues have been considered and addressed. Subject to a satisfactory conclusion of the discussions between the Group and its trade creditors and the continual financial support from the banks, the Directors are satisfied that the Company is able to meet its financial obligations in the foreseeable future. The Company will make further announcements to update Shareholders on the developments of these discussions.

DEALING DISCLOSURE

Stockbrokers, banks and others who deal in relevant securities on behalf of clients have a general duty to ensure, so far as they are able, that those clients are aware of the disclosure obligations attaching to associates and other persons under Rule 22 of the Takeovers Code and that those clients are willing to comply with them. Principal traders and dealers who deal directly with investors should, in appropriate cases, likewise draw attention to the relevant rules of the Takeovers Code. However, this does not apply when the total value of dealings (excluding stamp duty and commission) in any relevant security undertaken for a client during any 7-day period is less than HK\$1 million. This dispensation does not alter the obligation of principals, associates and other persons themselves to initiate disclosure of their own dealings, whatever total value is involved.

Intermediaries are expected to co-operate with the Executive Director of the Corporate Finance Division of the Securities and Futures Commission or any of its delegate (the “Executive”) in its dealings enquiries. Therefore, those who deal in relevant securities should appreciate that stockbrokers and other intermediaries will supply the Executive with relevant information as to those dealings, including identities of clients, as part of that co-operation. Any associates of the Company and parties acting in concert with it are reminded to disclose their dealings in any securities of the Company.

By Order of the Board
Tonic Industries Holdings Limited
Ling Siu Man, Simon
Chairman

Hong Kong, 10 January 2010

As at the date of this announcement, the Board comprises Mr. Ling Siu Man, Simon, Mr. Wong Ki Cheung, Ms. Li Fung Ching, Catherine and Mr. Lam Kwai Wah as Executive Directors and Mr. Pang Hon Chung, Mr. Cheng Tsang Wai and Dr. Chung Hing Wah, Paul as Independent Non-executive Directors.

The Directors jointly and severally accept full responsibility for the accuracy of the information contained in this announcement and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this announcement have been arrived at after due and careful consideration and there are no other facts not contained in this announcement the omission of which would make any statement in this announcement misleading.