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TONIC

TONIC INDUSTRIES HOLDINGS LIMITED

*(Incorporated in the Cayman Islands
with limited liability)*
(Stock Code: 978)

SKILL CHINA LIMITED

*(Incorporated in the British Virgin Islands
with limited liability)*

(1) PROPOSED CAPITAL REORGANISATION;

**(2) PROPOSED GROUP REORGANISATION AND
CREDITOR SCHEME;**

**(3) PROPOSED SUBSCRIPTION OF NEW SHARES AND
APPLICATION FOR THE GRANTING OF THE
WHITEWASH WAIVER;**

AND

(4) RESUMPTION OF TRADING OF THE SHARES OF THE COMPANY

**Financial adviser to
Tonic Industries Holdings Limited**

 **SOMERLEY LIMITED**

**Financial adviser to
Skill China Limited**

 **Quam** 華富嘉洛
CAPITAL 企業融資

PROPOSED CAPITAL REORGANISATION

The Board would like to place before the Shareholders a proposal for the Capital Reorganisation. As part of the Capital Reorganisation and pursuant to the proposed Capital Reduction, the par value of each issued Share will be reduced from HK\$0.10 to HK\$0.001 by the cancellation of HK\$0.099 of the paid-up capital on each existing Share and pursuant to the proposed Share Consolidation, every 10 issued and unissued Shares of par value of HK\$0.001 each will be consolidated into one Share of HK\$0.010 each.

PROPOSED GROUP REORGANISATION AND CREDITOR SCHEME

The Board proposes to place before the Shareholders a proposal for the Group Reorganisation, which will involve, among other things, the transfer of all the Company's subsidiaries, other than the Retained Subsidiaries, to Schemeco for the purpose of the Creditor Scheme. It is expected that upon completion of the Group Reorganisation, the Group will consist of the Company and the Retained Subsidiaries which are principally engaged in the manufacturing and domestic sales of set top boxes, while the Scheme Subsidiaries will be held by the Schemeco.

The Company has commenced discussion with its creditors (including the banks) to restructure all of its indebtedness and liabilities (actual and contingent) by way of a scheme of arrangement under Section 86 of the Cayman Companies Law and by way of a scheme of arrangement under Section 166 of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong), such that (i) all Creditors shall release, discharge and waive all of their Claims against the Company, and any guarantees they hold from, or claim against, any of the Retained Subsidiaries; and (ii) Schemeco shall accept and assume liability in place of the Company for all of the Claims, in each case on a limited recourse basis up to the extent of their respective *pari passu* share of the net realisable assets of Schemeco (after payment of all costs and expenses) and in accordance with the terms and conditions of the Creditor Scheme.

Pursuant to the Creditor Scheme, the Company will pay the Subscription Price to Schemeco and the Subscriber will transfer the Option Shares to the Schemeco for the purpose of the Creditor Scheme, and a put option agreement will be entered into between the Subscriber and the Schemeco, pursuant to which the Subscriber will grant a put option in favour to Schemeco to sell the Option Shares back to the Subscriber for a consideration of HK\$40,000,000, exercisable on a single occasion on any of the five Business Days immediately after the expiry of twelve months from the Effective Date, while Schemeco will grant to the Subscriber a right of first refusal in respect of any proposed sale of all or part of the Option Shares for a period of twelve months starting from the Effective Date.

Upon the Creditor Scheme becoming effective, the Administrators will have the power, among other things, to conduct a realisation of the assets of Schemeco and *pari passu* distribution of any funds received by the Schemeco including without limitation, the Subscription Price, the funds received through the realisation or winding up of the Scheme Subsidiaries after payment of the liabilities of the respective subsidiaries and through the realisation or holding of the Option Shares, amongst the Creditors in respect of their admitted Claims within such time period and manner as the Administrators may reasonably determine. Detailed terms of the Creditor Scheme will be set out in the Scheme Document.

SUBSCRIPTION OF THE SUBSCRIPTION SHARES

On 15 January 2010, the Company, the Subscriber and Dr. So as the guarantor entered into the Subscription Agreement pursuant to which the Company has conditionally agreed to allot and issue to the Subscriber, and the Subscriber has conditionally agreed to subscribe for 930,943,165 Subscription Shares at the Subscription Price.

Upon Completion and following the transfer of the Option Shares by the Subscriber to the Schemeco, the Concert Group will be interested in 867,469,767 Shares, representing approximately 82.0% of the enlarged issued share capital of the Company and this will give rise to (in the absence of the Whitewash Waiver) an obligation for the Concert Group to make a mandatory offer for the Shares (not already owned or agreed to be acquired by the Concert Group) under Rule 26.1 of the Takeovers Code. An application will be made by the Subscriber to the Executive for the Whitewash Waiver which, if granted, will be subject to the approval by the Independent Shareholders by way of a poll at the EGM.

The completion of the Capital Reorganisation, Group Reorganisation and the Subscription, and the Creditor Scheme becoming effective are inter-conditional upon each other.

LOAN AGREEMENT

On 15 January 2010, GGP and the Subscriber entered into the Loan Agreement pursuant to which the Subscriber agreed to make available to GGP which is a wholly owned subsidiary of the Company and one of the Retained Subsidiaries, the Facility in the principal amount of HK\$40,000,000. Until any and all of the Loan shall be fully repaid and discharged, the Subscriber shall have (a) a charge over 100 % of the shareholdings in GGP under the Share Charge; and (b) fixed and floating charges over the assets of GGP under the Debenture.

EGM

The Company will convene the EGM for the purpose of considering, and if thought fit, approving the Capital Reorganisation, the Group Reorganisation, the Subscription Agreement and the Whitewash Waiver. An independent board committee comprising the independent non-executive Directors will be formed to advise the Independent Shareholders on the Capital Reorganisation, the Group Reorganisation, the Subscription Agreement and Whitewash Waiver. An independent financial adviser will also be appointed to advise the independent board committee and the Independent Shareholders on the Capital Reorganisation, the Group Reorganisation, the Subscription Agreement and the Whitewash Waiver. The Company will issue a further announcement regarding the appointment of the independent financial adviser in due course.

A circular containing, among other things, details of the Capital Reorganisation, the Group Reorganisation, the Creditor Scheme, the Subscription Agreement, the Whitewash Waiver, the financial information of the Group, the pro forma financial information of the Retained Group upon Completion, the recommendation of the independent board committee, the advice of the independent financial adviser on the Capital Reorganisation, the Group Reorganisation, the Subscription Agreement and the Whitewash Waiver and a notice convening the EGM will be despatched to the Shareholders as soon as practicable and in compliance with the Takeovers Code and the Listing Rules.

Pursuant to Rule 8.2 of the Takeovers Code, the Company is required to despatch a circular in relation to, among other things, the proposed Subscription involving the application for the Whitewash Waiver by the Subscriber to the Shareholders within 21 days after the date of the announcement, which is on or before 17 February 2010. Since the circular will include the financial information of the Group as well as the unaudited pro forma financial

statements of the Retained Group and accordingly, it is expected that more time will be needed for the preparation of such financial information. As such, the Company will make an application to the Executive for an extension of deadline for the despatch of the circular of the Company. Further announcement will be made as and when appropriate.

RESUMPTION OF TRADING OF THE SHARES

At the request of the Company, trading in the Shares on the Main Board of the Stock Exchange was suspended with effect from 9:30 a.m. on 15 January 2010 pending the release of this announcement. Application for the resumption of trading in the Shares on the Main Board of the Stock Exchange with effect from 9:30 a.m. on 28 January 2010 has been made by the Company.

WARNING

Shareholders and investors should be aware that the Subscription is subject to certain conditions being fulfilled or waived (if applicable) and may or may not be completed and hence Shareholders and investors are advised to exercise caution when dealing in the securities of the Company.

1. PROPOSED CAPITAL REORGANISATION

The Capital Reorganisation comprises the Capital Reduction, Share Sub-division and the Share Consolidation.

Pursuant to the proposed Capital Reduction, the par value of each issued Share will be reduced from HK\$0.10 to HK\$0.001 by the cancellation of HK\$0.099 of the paid-up capital on each existing Share.

Pursuant to the proposed Share Sub-division, each authorised but unissued Share of par value HK\$0.10 each will be sub-divided into 100 Shares of par value HK\$0.001 each.

Pursuant to the proposed Share Consolidation, every 10 issued and unissued Shares of par value of HK\$0.001 each will be consolidated into one Share of HK\$0.010 each.

As at the date of this announcement but before the Capital Reorganisation, the authorised share capital of the Company is HK\$300,000,000 divided into 3,000,000,000 Shares of HK\$0.10 each, and the issued share capital of the Company is HK\$105,788,996.20 divided into 1,057,889,962 Shares. Immediately after completion of the Capital Reorganisation, the authorised share capital of the Company will be HK\$300,000,000, divided into 30,000,000,000 Shares of HK\$0.010 each and the issued share capital of the Company will be reduced to approximately HK\$1,057,889.96 divided into 105,788,996 Shares of HK\$0.010 each. The Shares will rank *pari passu* in all respects with each other.

1.1 Reasons for the Capital Reorganisation

The Capital Reorganisation will facilitate future fund raising exercises by the Company through the issuance of new Shares. Presently, the existing Shares have a par value of HK\$0.10, which means that the minimum price at which a new Share can be issued is HK\$0.10. In light of the Company's current financial condition, the Directors consider that it is not realistic for such a minimum issue price for the Shares to be achieved, and that the Company will not be able to raise any equity funds unless the price is set at a level substantially below HK\$0.10 per Share.

Shareholders should note that a reduction of the par value of the Shares to HK\$0.01 does not require the Company to issue new Shares at that price. The Directors will continue to endeavour to obtain the best possible issue price for the Shares in the interests of the Shareholders. The Capital Reorganisation will provide the Company with maximum flexibility in future fund raising exercises through new Share issues.

The Capital Reduction is necessary to enable the Subscription Agreement to proceed. Details of the Subscription Agreement are set out in the section headed "3. Subscription Agreement dated 15 January 2010 and Whitewash Waiver" below. One of the conditions precedent of the Subscription Agreement is that the Capital Reorganisation will be approved at the EGM.

Among other resolutions, the Capital Reorganisation is subject to the approval of the Shareholders at the EGM.

1.2 Effects of the Capital Reorganisation

Full and complete implementation of the Capital Reorganisation would not, by itself, alter in whatsoever and howsoever way the underlying assets, liabilities, businesses, management or financial position of the Company and the Group or the rights of Shareholders except for incurring the liability for payment of the related costs and expenses.

The following table sets out the effect of the Capital Reorganisation on the share capital of the Company, that is, before and after completion of the Capital Reorganisation:

| | Before the Capital Reorganisation | Immediately after the Capital Reorganisation |
|----------------------------------|--|---|
| Nominal value | HK\$0.10 | HK\$0.010 |
| Authorised share capital | HK\$300,000,000 divided into 3,000,000,000 Shares | HK\$300,000,000, divided into 30,000,000,000 Shares |
| Issued and paid-up share capital | HK\$105,788,996.20 divided into 1,057,889,962 Shares | HK\$1,057,889.96 divided into 105,788,996 Shares |

1.3 Status of the Shares after Capital Reorganisation

The Shares after Capital Reorganisation will be identical and rank *pari passu* in all respects with each other and the Capital Reorganisation will not result in any change in the relative rights of the Shareholders.

1.4 Conditions of the Capital Reorganisation

The implementation of the Capital Reorganisation and the listing of the Shares are conditional upon, including:

- (1) the passing of a special resolution by the Shareholders by way of poll at the EGM to approve the Capital Reorganisation;
- (2) the registration by the Registrar of Companies in the Cayman Islands of an official copy of the Court order and the minutes containing the particulars required under the Cayman Companies Law;
- (3) compliance with any conditions imposed by the Court; and
- (4) the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the Shares in issue upon the Capital Reorganisation becoming effective.

An application will be made by the Company to the Listing Committee of the Stock Exchange for the listing of, and the permission to deal in, the Shares in issue arising from the Capital Reorganisation.

Upon the conditions mentioned above being fulfilled, the Capital Reorganisation and the listing of the Shares will become effective.

Further announcement will be made by the Company to inform the Shareholders of the arrangements of the free exchange of the new Share certificates for the existing Share certificates as and when appropriate.

2. PROPOSED GROUP REORGANISATION AND CREDITOR SCHEME

2.1 Proposed Group Reorganisation

The Board proposes to place before the Shareholders a proposal for the Group Reorganisation, which will involve the following principal elements:

- (i) the transfer of all the Company's subsidiaries, other than the Retained Subsidiaries, to Schemeco for the purpose of the Creditor Scheme;
- (ii) the Scheme Subsidiaries assigning to the Company unconditionally and irrevocably all and any indebtedness, actual or contingent, owing to them by any of the Retained Subsidiaries;

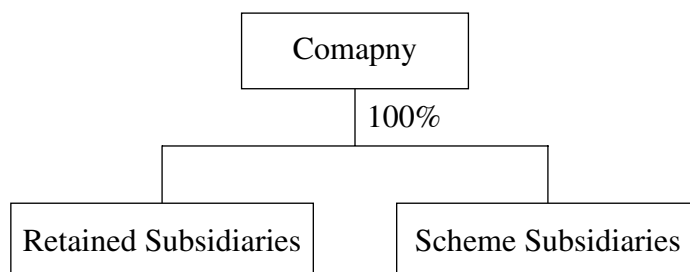
- (iii) the Company and the Retained Subsidiaries assigning to Schemeco unconditionally and irrevocably all and any indebtedness, actual or contingent, owing to them by any of the Scheme Subsidiaries; and
- (iv) the Company paying the Subscription Price to Schemeco for eventual distribution to the Creditors.

It is expected that upon completion of the Group Reorganisation, the Group will consist of the Company and the Retained Subsidiaries which are principally engaged in the manufacturing and domestic sales of set top boxes, while the Scheme Subsidiaries will be held by the Schemeco.

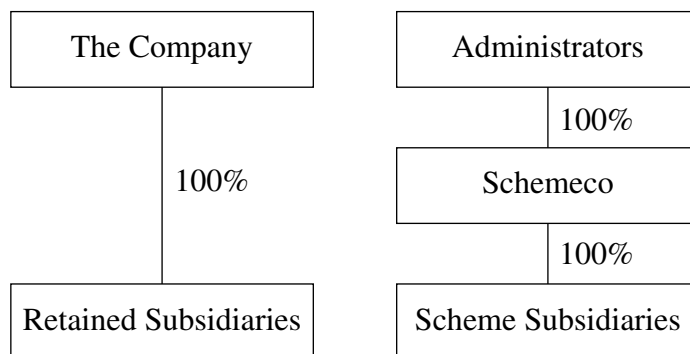
The Board is of the view that, immediately upon completion of the Group Reorganisation, the Group will have sufficient level of operations and have tangible assets of sufficient value to warrant the continued listing of the Shares.

2.2 Proposed corporate structure as at the date of this announcement and immediately upon completion of the Group Reorganisation

As at the date of announcement:



Immediately upon completion of the Group Reorganisations:



2.3 Proposed Creditor Scheme

The Company has commenced discussion with its creditors (including the banks) to restructure all of its indebtedness and liabilities (actual and contingent) by way of a scheme of arrangement under Section 86 of the Cayman Companies Law and by way of a scheme of arrangement under Section 166 of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong), such that:

- (i) all Creditors shall release, discharge and waive all of their Claims against the Company, and any guarantees they hold from, or claim against, any of the Retained Subsidiaries; and
- (ii) Schemeco shall accept and assume liability in place of the Company for all of the Claims, in each case on a limited recourse basis up to the extent of their respective *pari passu* share of the net realisable assets of Schemeco (after payment of all costs and expenses) and in accordance with the terms and conditions of the Creditor Scheme.

The events described above shall be subject to, and shall occur automatically on, the latest to occur of the followings:

- (i) the receipt by the Company of the Subscription Price pursuant to the Subscription Agreement;
- (ii) the Company paying the Subscription Price to Schemeco for the purpose of the Creditor Scheme;
- (iii) the Company transferring (or procuring the transfer of) all the Scheme Subsidiaries to Schemeco for the purpose of the Creditor Scheme;
- (iv) the Scheme Subsidiaries assigning to the Company unconditionally and irrevocably all and any indebtedness, actual or contingent, owing to them by any of the Retained Subsidiaries;
- (v) the Company and the Retained Subsidiaries assigning to Schemeco unconditionally and irrevocably all and any indebtedness, actual or contingent, owing to them by any of the Scheme Subsidiaries;
- (vi) the transfer of full beneficial title in and to the Option Shares to Schemeco by the Subscriber for the purposes of the Creditor Scheme; and
- (vii) a put option agreement to be entered into between the Subscriber and the Schemeco, pursuant to which the Subscriber will grant a put option in favour to Schemeco to sell the Option Shares back to the Subscriber for a consideration of HK\$40,000,000, exercisable on a single occasion on any of the five Business Days immediately after the expiry of twelve months from the Effective Date, while Schemeco will grant to the Subscriber a right of first refusal in respect of any proposed sale of all or part of the Option Shares for a period of twelve months starting from the Effective Date, and becoming unconditional.

Upon the Creditor Scheme becoming effective, the Administrators will have the power, among other things, to conduct a realisation of the assets of Schemeco and *pari passu* distribution of any funds received by the Schemeco including without limitation, the Subscription Price, the funds received through the realisation or winding up of the Scheme Subsidiaries after payment of the liabilities of the respective subsidiaries and through the realisation or holding of the Option Shares, amongst the Creditors in respect of their admitted Claims within such time period and manner as the Administrators may reasonably determine.

Detailed terms of the Creditor Scheme will be set out in the Scheme Document.

Sanction of the Creditor Scheme is a condition precedent to the Subscription Agreement, details of which are set out in sub-section headed “3.6 Conditions Precedent” below.

Shareholders and investors should be aware that, as at the date of this announcement, there is no formal or informal, binding or non-binding agreement between the Company and the Creditors regarding the Creditor Scheme.

2.4 Reasons for the Group Reorganisation and Creditor Scheme

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, especially export sales to markets in Europe and Americas plunged by 82% and working capital pressure increased against the credit crunch. In addition, the United States 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, in particular its exports sales, in order to alleviate the financial difficulties of the Group. As disclosed in the announcement of the Company dated 10 January 2010, with a view to further reducing costs and mitigating the loss-making position of the Group, the Group has suspended the operations of some of its factories in Qi Shi and Tangxia in the PRC since March 2009 and December 2009 respectively. Due to the immense pressure on the cash flow of the Group, the Group has delayed salaries payment to certain workers and staff of the Group.

While the Company is currently engaging in discussions with its banks to explore the possibility of seeking a forbearance of the Group’s banking facilities with a view to strengthening the Group’s overall cash flow position, the Company has also considered the necessity of fund raising exercises that may be able to relieve the immediate liquidity problem of the Group. After arm’s length negotiations between the Company and the Subscriber, the Subscriber has conditionally agreed to subscribe for the Subscription Shares and the Company intends that the existing indebtedness of the Company shall be restructured by way of the Creditor Scheme.

The Board considers that the Group Reorganisation and the Creditor Scheme will enable the Group to deal with its indebtedness in a formal and orderly manner so that, so far as the Company is concerned, all of the Company's indebtedness and liabilities (actual and contingent) will be released and discharged, which is in the interests of the Company and the Shareholders as a whole.

3. SUBSCRIPTION AGREEMENT DATED 15 JANUARY 2010 AND WHITEWASH WAIVER

3.1 Issuer

The Company

3.2 Subscriber

Skill China Limited, an investment holding company incorporated in the BVI with limited liability.

The Subscriber and its ultimate beneficial owners are independent of, not connected with and not acting in concert with any of the Directors, the chief executives or the substantial Shareholders of the Company or its subsidiaries or any of their respective associates. As at the date of this announcement, the Concert Group does not hold any existing Shares.

3.3 Guarantor

Dr. So agrees to unconditionally and irrevocably guarantee, inter alia, due and punctual performance and discharge of and compliance with all obligations (whether actual or contingent) which may at any time thereafter be required to be performed (including, without limitation, the payment of: (a) any monies due, owing, payable; and/or (b) legal and other costs, charges and expenses reasonably incurred in enforcing or attempting to enforce the performance of such obligations) by the Subscriber in favour of or to the Company pursuant to the Subscription Agreement (collectively, the "Guaranteed Obligations"), and agrees that, if at any time or from time to time any of the Guaranteed Obligations is not discharged in full in accordance with the Subscription Agreement, he shall immediately on demand discharge the Guaranteed Obligations which are due, owing or payable.

3.4 Subscription Shares

Pursuant to the Subscription Agreement, the Company has conditionally agreed to allot and issue to the Subscriber, and the Subscriber has conditionally agreed to subscribe for 930,943,165 Subscription Shares of HK\$0.010 each (which are Shares following the completion of the Capital Reorganisation) at the Subscription Price of HK\$80,000,000.

The changes in the Company's shareholding structure as a result of the allotment and issue of the Subscription Shares and the Remuneration Shares, and the transfer of the Option Shares by the Subscriber to the Schemeco upon Completion are set out in section headed "6. Shareholding structure of the Company" below.

The Subscription Shares, when issued and fully-paid, will rank equally in all respects among themselves and with all other Shares in issue as at the date of their allotment and issue.

3.5 Subscription Price

The Subscription Price of approximately HK\$0.0859 per Subscription Share represents:

- a discount of approximately 94.9% to the theoretical closing price of HK\$1.69 per Share based on the closing price of HK\$0.169 per Share as quoted on the Stock Exchange on the Last Trading Day;
- a discount of approximately 94.6% to the average theoretical closing price of HK\$1.59 per Share based on the average closing price of HK\$0.159 per Share as quoted on the Stock Exchange for the last five consecutive trading days up to and including the Last Trading Day; and
- a discount of approximately 93.9% to the average theoretical closing price of HK\$1.419 per Share based on the average closing price of HK\$0.1419 per Share as quoted on the Stock Exchange for the last ten consecutive trading days up to and including the Last Trading Day.

The estimated net price of the Subscription Shares to be received by the Company is approximately HK\$0.0859 per Share.

The Subscription Price is determined by the Company and the Subscriber on an arm's length basis having taken into account, among other things, the following factors:

- the significant unaudited gross loss and net loss of the Group for the six months ended 30 September 2009;
- the net asset value of the Company as at 30 September 2009;
- the possible adverse impact of the recent down-sizing of the operations and pressure on the cash flow of the Group;
- the persistent deterioration of market conditions;
- the urgent need to satisfy the Company's financial obligations; and
- the business outlook of the Group and the uncertainty as to its business prospects.

In view of the above, the Directors (excluding the independent non-executive Directors who will express their views after receiving advice from the independent financial adviser) consider that although the Subscription Price of approximately HK\$0.0859 per Share represents more than 90% discount of the recent trading price of the Shares, the Subscription Price has been arrived at on a fair and reasonable basis.

3.6 Conditions Precedent

Pursuant to the Subscription Agreement, Completion shall be conditional upon the following conditions precedent being fulfilled or waived (as the case may be):

- (1) passing of the Capital Reorganisation Resolution at the EGM by way of poll by the Shareholders;
- (2) passing of the Subscription Resolution at the EGM by way of poll by the Shareholders;
- (3) due passing of the Whitewash Waiver Resolution at the EGM;
- (4) the Listing Committee of the Stock Exchange granting approval (either unconditionally or subject to conditions to which neither the Company nor the Subscriber shall reasonably object) for the listing of, and permission to deal in, all the Subscription Shares;
- (5) Whitewash Waiver having been granted by the Executive to the Subscriber and parties acting in concert with it;
- (6) an office copy of an order of the Court sanctioning the Creditor Scheme pursuant to the Cayman Companies Law having been delivered to the Registrar of Companies in the Cayman Islands for registration and an office copy of an order of the High Court of Hong Kong sanctioning the Creditor Scheme pursuant to the Companies Ordinance having been delivered to the Registrar of Companies in Hong Kong for registration;
- (7) passing of the resolutions in respect of the Group Reorganisation by way of poll by Shareholders (if necessary) and the Group Reorganisation being completed in accordance with the board terms of the restructuring memorandum set out in the Subscription Agreement;
- (8) the Shares remaining listed and traded on the Stock Exchange at all times prior to and on Completion, save for any temporary suspension not exceeding 10 consecutive trading days (or such longer period as the Subscriber may accept in writing) or any temporary suspension in connection with the clearance of the announcement in relation the Subscription Agreement by the Stock Exchange and the SFC;
- (9) listing of the Shares on the Stock Exchange not being revoked or withdrawn at any time prior to the Completion and there being no indication received by the Company from the Stock Exchange or the SFC prior to the Completion that listing of the Shares will be revoked at any time after Completion;
- (10) all necessary governmental, regulatory and corporate authorisations and approvals for the entering into of the Subscription Agreement and the performance of obligations thereunder having been obtained and effective; and

- (11) there being no material adverse change in the financial position, business or operations of any Retained Subsidiary as at the Completion and the warranties given by the Company under the Subscription Agreement being true and accurate in all material respects as at the Completion, in each case save and except as disclosed.

The conditions precedent (1), (2), (4), (6) and (7) are not waivable. The conditions precedent (3), (5), (8), (9), (10) and (11) are waivable at any time by the Subscriber either in whole or in part by giving written notice to the Company. Pursuant to the Takeovers Code, the Whitewash Waiver is subject to the approval of the Independent Shareholders by way of poll at the EGM.

If the conditions precedent are not fulfilled on or before 5:00 p.m. (Hong Kong time) on 31 December 2010 or such later date or dates as may be agreed in writing between the parties to the Subscription Agreement, the Subscription Agreement shall (unless otherwise agreed in writing by the parties) terminate and none of the parties shall have any claim against the other in respect of any matter or thing arising out of or in connection with the Subscription Agreement except (i) in relation to obligations, agreements and liabilities arising prior to such termination (including liabilities arising prior to such termination under the representations, warranties and undertakings referred to relevant clause in the Subscription Agreement); and (ii) in relation to any antecedent breach of any obligation under the Subscription Agreement.

In the event that the Subscriber waives the satisfaction of conditions precedent (3) and (5) above and elects to proceed with the Subscription, the Subscriber will comply with all the relevant requirements under the Takeovers Code, including but not limited to, the making of a general offer (subject to, among other things, the financial adviser to the Subscriber being satisfied that the Subscriber has sufficient financial resources to satisfy full acceptance of the general offer) and further announcement(s). As at the date of this announcement, the Subscriber has not yet determined whether or not to proceed with the Subscription in the absence of the Whitewash Waiver.

3.7 Working capital provided by the Subscriber upon Completion

Upon Completion, the Subscriber shall make available to GGP an unsecured and interest-free shareholder loan in an aggregate principal amount of HK\$30,000,000.

3.8 Completion

Following the fulfilment or waiver (as the case may be) of the conditions and Subscriber's obligations set out in the Subscription Agreement, the Completion shall take place at such time or such other time as the parties may agree.

3.9 Custody Agreement

Pursuant to the Subscription Agreement, on 15 January 2010, the Subscriber, the Custodian and Success Forever entered into the Custody Agreement pursuant to which Success Forever has agreed at all times prior to the Completion to place 618,492,476 Shares, being its entire shareholdings in the Company, in the custody of the Custodian on the terms, and subject to the conditions, set out in the Custody Agreement. Nothing provided in the custody agreement shall be construed to prejudice any voting, dividend and other rights and benefits attached to the Custodian Shares to which Success Forever shall be entitled for so long as Success Forever remains the legal and beneficial owner of such Custodian Shares. The custody agreement shall terminate on the earlier of (i) the close of business (Hong Kong time) on 31 December 2010; (ii) termination of the Subscription Agreement; and (iii) the date on which the Custodian Securities have been fully released to Success Forever.

3.10 Escrow Agreement

In connection with the Subscription, the Subscriber has agreed to pay the sum of HK\$10,000,000 as earnest money to settle the professional fees to be incurred for the implementation of the restructuring proposal set out in the Subscription Agreement. And pursuant to the Subscription Agreement, on 15 January 2010, the Subscriber, the Company and the Escrow Agent entered into the Escrow Agreement pursuant to which the Escrow Agent shall establish an escrow account and shall deposit the HK\$10,000,000 earnest money into such escrow account, and agree to hold all sums standing to the credit of the escrow account from time to time and all rights attaching to such monies beneficially, for the Subscriber. Subject to sufficient funds standing to the credit of such escrow account, as soon as reasonably practicable (and in any event no later than five (5) Business Days) following the receipt by the Escrow Agent of a notice containing written joint instructions of the Subscriber and the Company which shall be irrevocable, the Escrow Agent shall transfer the specified amount to the account(s) specified in the notice for the purposes of settlement of professional fees incurred pursuant to the Subscription Agreement.

Upon execution of the Escrow Agreement and receipt by the Escrow Agent of the HK\$10,000,000 earnest money, the Company undertakes that it will not offer to any other party the opportunity to negotiate any terms for the investment in the Group, restructuring of the outstanding indebtedness and/or share capital of any member of the Group before (a) the close of business (Hong Kong time) on 31 December 2010; or (b) the termination of the Subscription Agreement pursuant to the terms thereof, whichever is earlier.

3.11 Reasons for the Subscription

As mentioned in sub-section headed “2.4 Reasons for the Group Reorganisation and Creditor Scheme” above, the Group continued to be affected by the looming global financial crisis. Sales of the Group for the six months ended 30 September 2009, especially export sales to markets in Europe and Americas plunged by 82% and working capital pressure increased against the credit crunch. In addition, the United States government stopped subsidizing consumers in purchasing digital set top boxes and that further dampened sales of set top boxes to the market.

Although the Subscription Price represents a substantial discount to the recent trading price of the Shares and the shareholding of the existing Shareholders will be significantly diluted as a result of the Completion, the Directors, having taken into account (i) the significant unaudited gross loss and net loss of the Group for the six months ended 30 September 2009 and the net assets value of the Group as at 30 September 2009; (ii) the persistent deterioration of market conditions; (iii) the urgent need to satisfy the financial obligations of the Company; and (iv) the business outlook of the Group and the uncertainty as to its business prospects, consider that the Subscription will offer an efficient way for the Company to raise capital so as to repay part of the outstanding bank loans in a timely manner and at the same time enlarge the share capital and shareholder base of the Company. Not only the Subscription will allow the Company to strengthen its financial position and broaden its equity base, the strong industrial and financial expertise and business network in the Greater China region of the members of the Subscriber are also considered complementary to the experience of the existing management of the Company. Detailed information relating to the background and expertise of the members of the Subscribers are set out in section headed “8. Information on the Company and the Subscriber” below.

In view of the strong expertise and the Greater China region business networks of the members of the Subscriber, the introduction of the Subscriber is expected to benefit the Company’s long-term business development by strengthening the Company’s operational and financial management and opening to it more business opportunities in the future. Accordingly, the Directors (excluding the independent non-executive Directors who will express their views after receiving advice from the independent financial adviser) consider that the Subscription is in the interests of the Company and the Shareholders as a whole and the terms of the Subscription Agreement are fair and reasonable.

3.12 Use of proceeds

Pursuant to the Subscription Agreement, the Company will pay the Subscription Price to the Schemeco for the purpose of the Creditor Scheme.

3.13 Application for listing

The Company will apply to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Subscription Shares.

3.14 Whitewash Waiver

Upon Completion and following the transfer of the Option Shares by the Subscriber to the Schemeco, the Subscriber and parties acting in concert with it will, in aggregate, hold approximately 82.0% of the enlarged issued share capital of the Company and this will give rise to (in the absence of the Whitewash Waiver) an obligation for the Concert Group to make a mandatory offer for the Shares (not already owned or agreed to be acquired by the Concert Group) under Rule 26.1 of the Takeovers Code. An application will be made by the Subscriber to the Executive for the Whitewash Waiver which, if granted, will be subject to the approval by the Independent Shareholders by way of a poll at the EGM.

4. LOAN AGREEMENT DATED 15 JANUARY 2010

4.1 Borrower

GGP

4.2 Lender

The Subscriber

4.3 Major terms of the Loan Agreement

Subject to the terms and conditions of the Loan Agreement, the Subscriber agreed to make available to GGP which is a wholly owned subsidiary of the Company and one of the Retained Subsidiaries, the Facility in the principal amount of HK\$40,000,000.

The Facility has been made available by the Subscriber to the Group in one advance within three Business Days after the execution of the Subscription Agreement, the Share Charge, the Debenture, the Custody Agreement and the Escrow Agreement, or such later date as the parties to the Loan Agreement may agree.

The outstanding principal balance of the Loan, together with any accrued but unpaid interest thereon, shall be due and payable in full on the date falling twelve months after the date of borrowing.

4.4 Interest

Interest shall be payable on the Loan at 2% per annum, and payable on the date falling twelve months after the date of borrowing.

If any interest pursuant to above is due but not paid, default premium shall be payable on the principal amount of the Loan outstanding at the rate of 4% per annum.

4.5 Security

Until any and all of the Loan shall be fully repaid and discharged, the Subscriber shall have:

- (a) a charge over 100% of the shareholdings in GGP under the Share Charge; and
- (b) fixed and floating charges over the assets of GGP under the Debenture.

5. PROPOSED ISSUE OF REMUNERATION SHARES

Somerley is the financial advisers to the Company regarding the Capital Reorganisation, the Subscription, the Group Reorganisation and the Whitewash Waiver. Having considered the financial position of the Company, it was agreed between the Company and Somerley that part of the professional fees charged by Somerley may be settled by the issue of up to 2% of the share capital of the Company as enlarged by the allotment and issue of the Subscription Shares and the Remuneration Shares upon Completion.

As at the date of this announcement, Somerley has no interest in the Company. Upon the issue of the Remuneration Shares, Somerley will be interested in 21,157,799 Shares, representing approximately 2.0% of the issued share capital of the Company as enlarged by the allotment and issue of the Subscription Shares and the Remuneration Shares upon Completion.

As at the date of this announcement, the General Mandate has not been utilized since it was granted on 18 September 2009 and the maximum number of new Shares that could be issued by the Company under the General Mandate is 21,157,799 Shares (assuming the Capital Reorganisation becoming effective). The Remuneration Shares will be issued under the General Mandate. Application will be made to the Stock Exchange in respect of such listing of, and permission to deal in, the Remuneration Shares.

6. SHAREHOLDING STRUCTURE OF THE COMPANY

As at the date of this announcement, the Company has a total of 1,057,889,962 issued 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 any conversion or subscription rights into Shares.

The following table sets out the existing shareholding structure of the Company and the changes thereto as a result of the allotment and issue of the Subscription Shares and the Remuneration Shares and the transfer of the Option Shares by the Subscriber to the Schemeco:

| Name of Shareholders | As at the date of this announcement | | Immediately upon Completion, the allotment and issue of the Subscription Shares and the Remuneration Shares, and the transfer of the Option Shares by the Subscriber to the Schemeco | |
|-----------------------------------|--|---------------|--|---------------|
| | Number of Shares | % | Number of Shares | % |
| The Concert Group | – | – | 867,469,767 | 82.00 |
| Schemeco | – | – | 63,473,398 | 6.00 |
| Success Forever (<i>Note 1</i>) | 618,492,476 | 58.46 | 61,849,247 | 5.85 |
| Somerley | – | – | 21,157,799 | 2.00 |
| Public | 439,397,486 | 41.54 | 43,939,748 | 4.15 |
| Total | <u>1,057,889,962</u> | <u>100.00</u> | <u>1,057,889,959</u> | <u>100.00</u> |

Note:

1 The entire issued share capital of which is beneficially owned by Mr. Ling.

As shown in the above shareholding table and save for the entering into of the Subscription Agreement, none of the members of the Concert Group hold any Share, outstanding options, derivatives, warrants or other securities convertible or exchangeable into the Shares as at the date of this announcement. Upon Completion and following the transfer of the Option Shares by the Subscriber to the Schemeco, the Concert Group will be interested in 867,469,767 Shares, representing approximately 82.0% of the enlarged issued share capital of the Company. In order to ensure that immediately upon Completion, there will be not less than 25% of the Company's entire issued ordinary share capital held by the public, the Subscriber will endeavor to secure other investors, who are independent investors not connected with the directors, the chief executives and the substantial shareholders of the Subscriber and the Company and their respective subsidiaries and associates (as defined in the Listing Rules), to subscribe sufficient number of Shares which shall restore the minimum 25% public float. Further announcement will be made to update the Shareholders on the progress of the measures to be taken by the Subscriber and the Company.

7. FUND RAISING EXERCISE BY THE COMPANY IN THE PAST TWELVE MONTHS

Save for the Subscription and the subscription agreement dated 22 July 2009 between the Company, Success Forever and S.M. Centerus Renewable Energy Limited in relation to the subscription for an aggregate of 210,000,000 new Shares at a consideration of approximately HK\$0.155 per Share which was terminated on 28 October 2009 (as disclosed in the Company's announcements dated 24 July 2009 and 29 October 2009), the Company has not conducted any fund raising activities by way of issuing equity securities in the twelve-month period immediately preceding the date of this announcement.

8. INFORMATION ON THE COMPANY AND THE SUBSCRIBER

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 PRC for the manufacturing and domestic sales of the Group's product including set top boxes.

Skill China Limited is a company incorporated in the BVI on 29 December 2009 with limited liability whose principal business is investment holding. The Subscriber is wholly-owned by Sinogrand Group Limited which in turn is owned (i) as to 59.5% by Jointprofit Limited, a company wholly-owned by Dr. So; (ii) as to 39.5% by Greatkind Limited, a company wholly-owned by Mr. Ge Zhang; and (iii) as to 1% by Cheergreat Limited, a Company wholly-owned by the family trust of Mr. Chan Wai Dune, of which Mr. Chan Wai Dune is one of the beneficiaries. Each of Sinogrand Group Limited, Jointprofit Limited, Greatkind Limited and Cheergreat Limited is incorporated in the BVI with limited liability whose principal business is investment holding. The board of directors of the Subscriber comprises Dr. So, Mr. Ge, and Mr. Chan. Save for the entering into of the agreements as described in this announcement, the Subscriber has not conducted any business activities and has no other assets since its incorporation.

Dr. So is currently the Chairman of Shenzhen Super Perfect Optics Limited and a director of certain public listed companies in Hong Kong. Dr. So is a member of the 11th National Committee of CPPCC, the Honorary Consul of the Republic of Portugal in Hong Kong, as well as a member of the Economic Development Council and of the Cultural Consultative Council of the Macau Government.

Mr. Ge is one of the pioneers of 3D auto-stereo technology. He successfully started his own independent 3D display high technology research and development business in China in 2005. Mr. Ge is the Chief Executive Officer of Shenzhen Super Perfect Optics Limited, an accredited "Software and High-Tech Enterprise" in China, since its incorporation in 2007. Prior to beginning his 3D technology research and development business, Mr. Ge specialised in software technology and intellectual property. He has over 15 years of experience in the international technology business.

Mr. Chan has over 29 years of experience in the finance sector, particularly in auditing and taxation areas. He is a certified public accountant and is a fellow member of the Hong Kong Institute of Certified Public Accountants, the Association of Chartered Certified Accountants and the Taxation Institute of Hong Kong. Mr. Chan is currently a member of CPPCC of Guangzhou Municipal Committee and a member of the Executive Council of China Overseas Friendship Association. Mr. Chan was a member of the Selection Committee for the establishment of the First Government of the Hong Kong Special Administrative Region, and has served as an independent non-executive director for a few Hong Kong public listed companies before.

Save for the entering into of the Subscription Agreement, none of the members of the Concert Group has dealt in the Shares, outstanding options, derivatives, warrants or other securities convertible or exchangeable into the Shares during the period commencing on the date falling six months prior to the date of this announcement. As at the date of this announcement, there are no relevant securities in the Company which the Concert Group has borrowed or lent. The Subscriber also confirms that there are no (i) arrangements in relation to the Shares (whether by way of option, indemnity or otherwise) referred to in note 8 to Rule 22 of the Takeovers Code and which might be material to the Subscription Agreement and/or the Whitewash Waiver; and (ii) agreements or arrangements which relate to the circumstances in which it may or may not invoke or seek to invoke a pre-condition or a condition to the Subscription Agreement (other than those listed in the sub-section headed “3.6 Conditions Precedent”) and/or the Whitewash Waiver to which the Subscriber is a party to.

9. INTENTIONS OF THE SUBSCRIBER REGARDING THE GROUP

It is the intention of the Subscriber that following Completion, the Retained Group will continue with its existing principal activities of manufacturing and trading of consumer electronic products (subject to the finalisation of the Creditor Scheme by the Company, its creditors and the Subscriber). The Subscriber will conduct a detailed review of the business and operations of the Retained Group in order to formulate long term strategy for the Retained Group and explore other business or investment opportunities in enhancing its future business development and strengthening its revenue bases. As at the date of this announcement, the Subscriber does not have any concrete plan to inject any assets or businesses into the Retained Group or to procure the Company to acquire or dispose of any assets other than in the ordinary course of business following Completion. Any acquisition or disposal of assets or business of the Retained Group in the future, if any, will be in compliance with the Listing Rules and the Takeovers Code (if applicable). The Retained Group will continue to seek new business opportunities to improve its profitability and prospects, and may diversify into other business should suitable opportunities arise.

10. BOARD COMPOSITION OF THE COMPANY AND OTHER MEMBERS OF THE RETAINED GROUP

The Board currently comprises three executive Directors and three independent non-executive Directors. At Completion, the Subscriber may appoint Directors, subject to their being acceptable to the Stock Exchange, and may require the Company to procure

any existing Director to resign, in each case with effect from the completion date such that the new Directors designated by the Subscriber will constitute all or a majority in number of the Directors. Any arrangements regarding changes to the Board composition will be made in compliance with the relevant requirements of the Listing Rules and/or the Takeovers Code.

11. MAINTAINING THE LISTING STATUS OF THE COMPANY

The Subscriber intends that the Company will maintain the listing status of the Shares on the Main Board of the Stock Exchange after the Completion. **If, at the Completion, less than 25% of the Shares are held in public hands or if the Stock Exchange believes that (i) a false market exists or may exist in the Shares; or (ii) there are insufficient Shares in public hands to maintain an orderly market, then the Stock Exchange will consider exercising its discretion to suspend trading in the Shares. Each of the Subscriber, the existing Directors and the new Directors to be appointed to the Board will undertake to the Stock Exchange to take appropriate steps as soon as possible following the Completion to ensure that not less than 25% of the Shares will be held by the public.**

If the Company remains a listed company on the Stock Exchange, the Stock Exchange will closely monitor all future acquisitions or disposals of assets by the Company. Any acquisitions or disposals of assets by the Company will be subject to the provisions of the Listing Rules. Pursuant to the Listing Rules, the Stock Exchange has the discretion to require the Company to issue an announcement and/or a circular to the Shareholders irrespective of the size of any proposed transaction, particularly when such proposed transaction represents a departure from the principal activities of the Company. The Stock Exchange also has the power pursuant to the Listing Rules to aggregate a series of acquisitions of assets by the Company and any such acquisitions may result in the Company being treated as if it were a new listing applicant and subject to the requirements of new listing applications as set out in the Listing Rules.

12. EGM

The Company will convene the EGM for the purpose of considering, and if thought fit, approving the Capital Reorganisation, the Group Reorganisation, the Subscription Agreement and the Whitewash Waiver. An independent board committee comprising the independent non-executive Directors will be formed to advise the Independent Shareholders on the Capital Reorganisation, the Group Reorganisation, the Subscription Agreement and Whitewash Waiver. An independent financial adviser will also be appointed to advise the independent board committee and the Independent Shareholders on the Capital Reorganisation, the Group Reorganisation, the Subscription Agreement and the Whitewash Waiver. The Company will issue a further announcement regarding the appointment of the independent financial adviser in due course.

A circular containing, among other things, details of the Capital Reorganisation, the Group Reorganisation, the Creditor Scheme, the Subscription Agreement, the Whitewash Waiver, the financial information of the Group, the pro forma financial information of the Retained Group upon Completion, the recommendation of the independent board committee, the advice of the independent financial adviser on the Capital Reorganisation, the Group Reorganisation, the Subscription Agreement and the Whitewash Waiver and a notice convening the EGM will be despatched to the Shareholders as soon as practicable and in compliance with the Takeovers Code and the Listing Rules.

Pursuant to Rule 8.2 of the Takeovers Code, the Company is required to despatch a circular in relation to, among other things, the proposed Subscription involving the application for the Whitewash Waiver by the Subscriber to the Shareholders within 21 days after the date of the announcement, which is on or before 17 February 2010. Since the circular will include the financial information of the Group as well as the unaudited pro forma financial statements of the Retained Group and accordingly, it is expected that more time will be needed for the preparation of such financial information. As such, the Company will make an application to the Executive for an extension of deadline for the despatch of the circular of the Company. Further announcement will be made as and when appropriate.

The completion of the Capital Reorganisation, Group Reorganisation and the Subscription, and the Creditor Scheme becoming effective are inter-conditional upon each other.

The Concert Group does not hold any existing Shares as at the date of this announcement. Under the Takeovers Code, the Concert Group shall not acquire or dispose of any Shares until Completion, and hence the members of the Concert Group will not vote on any resolutions at the EGM. The resolutions in relation to the Capital Reorganisation, the Group Reorganisation and the Subscription Agreement will be subject to approval by the Shareholders by way of poll. For the avoidance of doubt, Mr. Ling and parties acting in concert with him are allowed to vote on the resolutions to approve the Capital Reorganisation, the Group Reorganisation and the Subscription Agreement at the EGM. Only the Independent Shareholders will vote on the resolution to approve the Whitewash Waiver at the EGM.

In accordance with Rule 25 of the Takeovers Code, if there is any Creditor(s) who is a Shareholder and holds the relevant Shares as beneficial owner, the transactions contemplated under the Group Reorganisation may constitute a special deal which is subject to the Executive's consent and approval by the relevant Creditor(s) will be required to abstain from voting at the EGM. As at the date of this announcement, the Company is still enquiring whether any of the Creditors beneficially own any Shares. In the event that the transactions contemplated under the Group Reorganisation and the Creditor Scheme constitute a special deal under the Takeovers Code, the circular to be despatched to the Shareholders will be prepared in accordance with the relevant provisions, including but not limited to, notes 4 and 5 of rule 25 of the Takeovers Code (if applicable) and include all the relevant disclosure. Further details will be set out in the circular.

13. RESUMPTION OF TRADING OF THE SHARES OF THE COMPANY

At the request of the Company, trading in the Shares on the Main Board of the Stock Exchange was suspended with effect from 9:30 a.m. on 15 January 2010 pending the release of this announcement. Application for the resumption of trading in the Shares on the Main Board of the Stock Exchange with effect from 9:30 a.m. on 28 January 2010 has been made by the Company.

Shareholders and investors should be aware that the Subscription is subject to certain conditions being fulfilled or waived (if applicable) and may or may not be completed and hence Shareholders and investors are advised to exercise caution when dealing in the securities of the Company.

14. DEALING DISCLOSURE

In accordance with Rule 3.8 of the Takeovers Code, associates of the Company are hereby reminded to disclose their dealings in the securities of the Company pursuant to the requirements of the Takeovers Code.

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 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 the Subscriber are reminded to disclose their respective dealings in any securities of the Company in compliance with the Takeovers Code.

15. DEFINITIONS

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

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| “acting in concert” | the same meaning ascribed to it under the Takeovers Code |
| “Administrators” | the administrators to be sanctioned by the court(s) of competent jurisdiction in respect of the Creditor Scheme |
| “associate” | the same meaning ascribed to it under the Listing Rules |
| “Board” | the board of Directors |
| “Business Day” | a day (other than Saturday days on which a tropical cyclone warning number 8 or above or a “black rainstorm warning signal” is hoisted in Hong Kong at any time between 9:00 a.m. and 5:00 p.m.) on which banks are open for general banking business |
| “BVI” | the British Virgin Islands |
| “Capital Reduction” | the reduction of the par value of each issued Share from HK\$0.10 to HK\$0.001 by the cancellation of HK\$0.099 of the paid-up capital on each existing Share pursuant to the Capital Reorganisation |
| “Capital Reorganisation” | the meaning as described under section headed “1. Proposed Capital Reorganisation” in this announcement |
| “Capital Reorganisation Resolution” | the resolution to be considered by the Shareholders to approve the Capital Reorganisation |
| “Cayman Companies Law” | the Companies Law (2009 Revision) of the Cayman Islands |

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| “Claim” | any debt, liability, or obligation of the Company, whether known or unknown, whether present or future, whether certain or contingent, whether liquidated or unliquidated, and which includes without limitation a debt or liability to pay money or money’s worth, any liability under any statute or enactment, any liability for breach of trust, any liability in contract, tort or bailment and any liability arising out of an obligation to make restitution which would be admissible to proof in a compulsory winding up of the Company under the Companies Ordinance and Cayman Companies Law |
| “Companies Ordinance” | the Companies Ordinance (Cap 32) of Hong Kong |
| “Company” or “Issuer” | Tonic Industries Holdings Limited (Stock Code: 978), a company incorporated in the Cayman Islands with limited liability, the Shares of which are listed on the Main Board of the Stock Exchange |
| “Completion” | the date on which all the conditions precedent set out in the Subscription Agreement are satisfied or waived whereupon the obligations set out in the Subscription Agreement shall be performed by the respective parties provided that such date shall not be later than 31 December 2010 or such later time and/or date as the Company and the Subscriber may agree in writing |
| “Concert Group” | the Subscriber and parties acting in concert with it |
| “Connected Person(s)” | the meaning ascribed to it under the Listing Rules |
| “Court” | the Grand Court of the Cayman Islands |
| “Creditor Scheme” | the meaning as described under sub-section headed “2.3 Proposed Creditor Scheme” in this announcement |
| “Creditors” | any person to whom or which the Company owes a Claim other than the Preferential Creditors and the Subscriber |
| “Custodian” | Leader Up Holding Limited (威陞控股有限公司), a company incorporated in Hong Kong with limited liability and the custodian for the Custodian Shares |

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| “Custodian Securities” | mean the Custodian Shares together with certificates and other documents of title or evidence of ownership in respect of the Custodian Shares |
| “Custodian Shares” | (a) 618,492,476 Shares Success Forever is obligated to place with the Custodian in accordance with the terms of the Custody Agreement; and (b) all shares, rights or other interests in the Company issued by reference to the number of Custodian Shares held by the Custodian immediately prior to such issue arising as a result of a capitalisation of reserves or share premium, a consolidation or sub-division or reclassification of its shares or arising as a result of a merger or demerger |
| “Custody Agreement” | the custody agreement dated 15 January 2010 entered into among the Custodian, the Subscriber and Success Forever in relation to the custody of the Custodian Shares |
| “Debenture” | a deed of debenture creating fixed and floating charges over the assets of GGP executed by GGP in favour of the Subscriber on 15 January 2010 |
| “Directors” | the directors of the Company |
| “Dr. So” | Dr. So Shu Fai, one of the ultimate beneficial owners of the Subscriber |
| “Effective Date” | the date on which the Creditor Scheme becoming effective |
| “EGM” | the extraordinary general meeting of the Shareholders to be convened by the Company to consider and, if thought fit, approve the Resolutions |
| “Escrow Agent” | Rays Chan & Co., a certified public accountant practising in Hong Kong and the escrow agent pursuant to the Escrow Agreement |
| “Escrow Agreement” | the escrow agreement dated 15 January 2010 entered into among the Escrow Agent, the Company and the Subscriber in relation to the escrow of the earnest money paid by the Subscriber |

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| “Executive” | the Executive Director of the Corporate Finance Division of the SFC from time to time or any of its delegate |
| “Facility” | the loan facility in the principal amount of HK\$40,000,000 made available to the Group under the Loan Agreement |
| “General Mandate” | the existing general mandate sought at the annual general meeting held on 18 September 2009 to issue up to 21,157,799 Shares (assuming the Capital Reorganisation becoming effective) |
| “GGP” | Grand Golden Profit Limited (創金利有限公司), a company incorporated under the laws of Hong Kong with limited liabilities and one of the Retained Subsidiaries |
| “Group” | the Company and all its subsidiaries before completion of the Group Reorganisation |
| “Group Reorganisation” | the meaning as described under sub-section headed “2.1 Proposed Group Reorganisation” in this announcement |
| “HK\$” | Hong Kong dollars, the lawful currency of Hong Kong |
| “Hong Kong” | The Hong Kong Special Administrative Region of the PRC |
| “Independent Shareholder(s)” | Shareholder(s), other than (i) Mr. Ling and parties acting in concert with him; (ii) the Concert Group; and (iii) those who are involved in or interested in the Subscription and the Whitewash Waiver |
| “Last Trading Day” | 14 January 2010, being the last trading date prior to the signing of the Subscription Agreement |
| “Listing Rules” | the Rules Governing the Listing of Securities on the Stock Exchange |
| “Loan” | the amount of loan under the Facility which is outstanding, owing and/or payable to the Subscriber from time to time under the Loan Agreement |

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| “Loan Agreement” | the loan agreement dated 15 January 2010 entered into between GGP (as borrower) and the Subscriber (as lender) in relation to the advance of the Loan |
| “Main Board” | the securities market operated by the Stock Exchange prior to the establishment of growth enterprise market (“GEM”) (excluding the options market) which stock market continues to be operated by the Stock Exchange in parallel with GEM. For the avoidance of doubt, the Main Board excludes GEM |
| “Mr. Ling” | Mr. Ling Siu Man, Simon, the Director, the chairman of the Company and the controlling Shareholder |
| “Option Shares” | 63,473,398 Shares, representing approximately 6.0% of the enlarged share capital of the Company to be held by the Subscriber which will be transferred to Schemeco for the purposes of the Creditor Scheme |
| “PRC” | the People’s Republic of China |
| “Preferential Creditors” | creditor of the Company with a Claim which would be treated as a preferential claim and which would have priority in a winding up in Hong Kong pursuant to section 265 of the Companies Ordinance or a winding up in the Cayman Islands pursuant to s141 of the Cayman Companies Law |
| “Remuneration Shares” | 21,157,799 Shares, representing approximately 2% of the issued share capital of the Company as enlarged by the issue of the Subscription Shares and the Remuneration Shares, to be issued to Somerley as settlement of professional fees |

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| “Resolutions” | the resolutions to be considered by the Shareholders (or, where applicable, the Independent Shareholders) which are necessary to give effect to the transactions contemplated under the Subscription Agreement and comply with the Listing Rules and the Takeovers Code and, including: <ol style="list-style-type: none"> (1) the Capital Reorganisation Resolution; (2) the approval of the Group Reorganisation; (3) the Subscription Resolution; and (4) the Whitewash Waiver Resolution. |
| “Retained Group” | the Company and the Retained Subsidiaries |
| “Retained Subsidiaries” | The group of subsidiaries comprising Tonic Electronic (B.V.I.) Limited, Tonic Marketing Limited, Dongguan Xin Lian Digital Technology Co., Ltd. (東莞鑫聯數碼科技有限公司), Grand Golden Profit Limited (創金利有限公司) and 東莞悅金數碼科技有限公司 (Dongguan Yuejin Digital Technology Company Limited*) |
| “Scheme Document” | the scheme document to be issued by the Company in respect of the Creditor Scheme |
| “Scheme Subsidiaries” | the subsidiaries of the Company other than the Retained Subsidiaries |
| “Schemeco” | a special purpose vehicle wholly-owned by the Administrators, to be incorporated and established under laws of Hong Kong solely for the purposes of the Creditor Scheme |
| “SFC” | the Securities and Future Commission of Hong Kong |
| “Share Charge” | a share charge executed on 15 January 2010 by the Company as chargor in favour of the Subscriber as chargee over 100 % of the shareholdings in GGP |

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| “Share Consolidation” | the proposed consolidation of every 10 issued and unissued shares in the share capital of the Company after the Capital Reduction into one Share pursuant to the Capital Reorganisation |
| “Share Sub-division” | The proposed sub-division where each authorised but unissued Share of par value HK\$0.10 each will be sub-divided into 100 Shares of par value HK\$0.001 each |
| “Shareholders” | shareholders of the Company |
| “Shares” | ordinary shares of a par value of HK\$0.10 in the existing share capital of the Company on the date of the Subscription Agreement and before Capital Reorganisation, or ordinary shares of a par value of HK\$0.01 in the share capital of the Company after the completion of the Capital Reorganisation, and all other (if any) stock or shares from time to time and for the time being ranking <i>pari passu</i> therewith and all other (if any) stock or shares in the share capital of the Company resulting from any sub-division, consolidation or re-classification thereof, as the case may be |
| “Somerley” | Somerley Limited, the financial adviser to the Company |
| “Stock Exchange” | The Stock Exchange of Hong Kong Limited |
| “Subscriber” | Skill China Limited, a company incorporated in the BVI with limited liability which is ultimately beneficially owned as to 59.5% by Dr. So, 39.5% by Mr. Ge Zhang and 1.0% by the family trust of Mr. Chan Wai Dune |
| “Subscription” | the subscription of the Subscription Shares by the Subscriber pursuant to the Subscription Agreement |
| “Subscription Agreement” | the subscription agreement dated 15 January 2010 entered into among the Company (as issuer), the Subscriber (as subscriber) and Dr. So (as guarantor) in relation to the Subscription |
| “Subscription Price” | the sum of HK\$80,000,000 (i.e. approximately HK\$0.0859 per Subscription Share) payable by the Subscriber pursuant to the Subscription Agreement |

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| “Subscription Resolution” | the resolution to be considered by the Shareholders in the EGM to approve the Subscription |
| “Subscription Shares” | the 930,943,165 Shares of par value of HK\$0.01 each to be subscribed for by the Subscriber, representing approximately 88.0% of the issued share capital of the Company as enlarged by the allotment and issue of the Subscription Shares and the Remuneration Shares immediately upon Completion |
| “Success Forever” | Success Forever Limited, a company incorporated in the BVI with limited liability and the beneficial owner of 618,492,476 existing Shares, representing approximately 58.46% of the issued Shares as at the date of this announcement |
| “Takeovers Code” | the Hong Kong Code on Takeovers and Mergers |
| “Whitewash Waiver” | the whitewash waiver pursuant to Note 1 on Dispensations from Rule 26 of the Takeovers Code in respect of any obligation of the Concert Group to make a general offer for all the issued Shares not already owned or agreed to be acquired by the Concert Group which might otherwise arise as a result of the Subscriber subscribing for the Subscription Shares under the Subscription Agreement |
| “Whitewash Waiver Resolution” | the resolution to be considered by the Independent Shareholders in the EGM to approve the Whitewash Waiver |
| “%” | per cent. |

By order of the Board
Tonic Industries Holdings Limited
LING Siu Man, Simon
Chairman & Managing Director

By order of the board of directors of
Skill China Limited
Chan Wai Dune
Director

Hong Kong, 27 January 2010

* *for identification only*

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

As at the date of this announcement, there are three directors of the Subscriber namely Dr. So Shu Fai, Mr. Ge Zhang and Mr. Chan Wai Dune.

The Directors jointly and severally accept full responsibility for the accuracy of the information contained in this announcement (other than information relating to the Concert Group) and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this announcement (other than opinions expressed by the Concert Group) 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 such statements in this announcement misleading.

The directors of the Subscriber jointly and severally accept full responsibility for the accuracy of the information contained in this announcement (other than information relating to the Group) and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this announcement (other than opinions expressed by the Group) 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 such statements in this announcement misleading.