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TONIC INDUSTRIES HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 978)

ANNOUNCEMENT PRICE-SENSITIVE INFORMATION RECENT LITIGATIONS OF THE GROUP AND RESUMPTION OF TRADING

This announcement is made pursuant to Rules 13.09 and 13.25(1)(b) of the Listing Rules.

WINDING-UP PETITION AGAINST A SUBSIDIARY OF THE COMPANY

The Board wishes to inform the Shareholders and potential investors of the Company that on 28 April 2010, a winding-up petition was filed against Tonic Electronics Limited (“TEL”), a wholly-owned subsidiary of the Company, by an ex-employee of TEL claiming for payment in the aggregate sum of HK\$1,235,810.61 together with interest thereon from TEL as stated in the award obtained by Ng Hing Wing and other ex-employees against TEL on 26 January 2010. The unsettled amount of HK\$1,235,810.61 is yet to be paid and was fully accrued in other payables. The hearing of the Winding-up Petition is scheduled to be held in the High Court of Hong Kong on 30 June 2010.

TEL was engaged in, among others, overseas trading of electronic products with customers in US and Europe, and its operation completely ceased in November 2009. The Board has proposed a settlement plan to the Ex-employee for settlement of the unsettled amount by instalments. However, the settlement plan was rejected by the Ex-employee. The Board is in negotiations with the Ex-employee to reach an accommodation. Due to the cessation of the overseas trading business, the Board considers that the filing of Winding-up Petition against TEL does not have a material adverse impact on the operations of the Group. As TEL is not a member of the Retained Subsidiaries as defined in the Joint Announcement, the Board considers that the filing of Winding-up Petition against TEL does not have a material adverse impact on the restructuring of the Group.

RECENT LITIGATIONS OF THE GROUP

The Group has been involved in a number of litigations recently, details of which are set out in the section headed “Other recent litigations of the Group” in this announcement.

WAIVER OF CONDITION PRECEDENT IN RELATION TO THE SUBSCRIPTION AGREEMENT

Given that trading in the Shares on the Stock Exchange was suspended at 9:30 a.m. on 17 May 2010 pending the release of this announcement, on 31 May 2010 the Subscriber has given its consent in writing to waive in part the non-satisfaction of the Condition Precedent for the purpose of the Subscription due to the one and single one period of temporary suspension of the Shares commencing on 17 May 2010 which will remain valid until the end of stock trading hours on 4 June 2010 without prejudice to any of the Subscriber's other rights as well as its rights as to future non-satisfaction of the Condition Precedent.

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 17 May 2010. The Company has applied to the Stock Exchange for the resumption of trading of the Shares with effect from 9:30 a.m. on 3 June 2010.

This announcement is made pursuant to Rules 13.09 and 13.25(1)(b) of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited.

Reference is made to the joint announcements dated 27 January 2010 and 26 February 2010 (the "Joint Announcements") made jointly by the Company and Skill China Limited, in respect of, among other things, the proposed capital reorganisation, the proposed group reorganisation and creditor scheme, the proposed subscription of new shares and the application for the granting of the whitewash waiver. Unless otherwise defined, capitalised terms used herein shall have the same meanings as in the Joint Announcements.

WINDING-UP PETITION AGAINST A SUBSIDIARY OF THE COMPANY

The Board wishes to inform the Shareholders and potential investors of the Company that on 28 April 2010, a winding-up petition (the "Winding-up Petition") was filed against Tonic Electronics Limited ("TEL"), a wholly owned subsidiary of the Company, by an ex-employee of TEL claiming for payment in the aggregate sum of HK\$1,235,810.61 together with interest thereon from TEL as stated in the award obtained by Ng Hing Wing (the "Ex-employee") and other ex-employees against TEL on 26 January 2010. The unsettled amount of HK\$1,235,810.61 is yet to be paid and was fully accrued in other payables as at 31 December 2009. The hearing of the Winding-up Petition is scheduled to be held in the High Court of Hong Kong on 30 June 2010.

TEL is a limited company incorporated in Hong Kong and a wholly-owned subsidiary of the Company. TEL was engaged in, among other things, overseas trading of electronic products with customers in US and Europe. However, its operation completely ceased in November 2009. The Board has proposed a settlement plan to the Ex-employee for settlement of the unsettled amount by instalments. However, the settlement plan was rejected by the Ex-employee. The Board is in negotiations with the Ex-employee to reach an accommodation.

As mentioned in the Company's announcement dated 10 January 2010, the Group's business strategy is to focus on domestic sales and to operate in an optimum scale. Due to the cessation of the overseas trading business, the Board considers that the filing of Winding-up Petition against TEL does not have a material adverse impact on the operations of the Group. As TEL is not a member of the Retained Subsidiaries as defined in the Joint Announcement, the Board considers that the filing of Winding-up Petition against TEL does not have a material adverse impact on the restructuring of the Group. The major assets of TEL are the principal office of the Company in Hung Hom (the "Office") and the car parks in the same building. The Office has been charged under the bank loan from Hang Seng Bank. The Company has secured a tenancy of another office located in Hung Hom. The Board expects that a provision will be made in the consolidated financial results of the Group mainly due to an asset impairment loss in respect of the Group's interests in TEL.

As the value of the revenue of TEL represented more than 5% of the total revenue of the Group as shown in the audited consolidated financial statements of the Group for the year ended 31 March 2009, being the latest published audited consolidated financial statements of the Group, TEL is deemed to be a "major subsidiary" of the Company for the purpose of Rule 13.25(2) of the Listing Rules.

OTHER RECENT LITIGATIONS OF THE GROUP

In addition to the litigations (the "Litigations") set out in the Company's interim report for the six months ended 30 September 2009 (the "2009 Interim Report"), the Group has been involved in a numbers of litigations recently, details of which are set out below:

On 30 November 2009, Skytech (Hong Kong) Limited issued a writ of summons in the High Court of Hong Kong against TEL in respect of goods sold and delivered in the amount of HK\$1,122,861.29 together with interest and costs. Judgment against TEL was obtained on 1 February 2010. Enforcement of judgment is yet to be made.

On 2 March 2010, Wang Fa Steel Company Limited issued a writ of summons in the District Court of Hong Kong against Gold Beam Developments Limited, a direct wholly-owned subsidiary of the Company, in respect of a debt in the amount of HK\$95,865.55 together with interest and costs. Pleadings closed on 14 May 2010.

On 11 January 2010, Edal Electronics Company Limited issued a writ of summons in the District Court of Hong Kong against TEL, in respect of goods sold and delivered in the amount of HK\$232,280 together with interest and costs. TEL has filed a defence on 22 March 2010.

On 2 February 2010, Strategic Financial Relations Limited issued a writ of summons in the District Court of Hong Kong against TEL, in respect of a contract sum in the amount of HK\$126,358.2 for public relations consultancy service. Pleadings closed on 15 April 2010 and documents have been filed for discovery.

On 5 February 2010, Sai Hing Plastic Bags Factory (Hong Kong) Limited issued a writ of summons in the District Court of Hong Kong against TEL, in respect of a debt in the amount of HK\$462,309.76 together with interest and costs. Pleadings closed on 17 May 2010.

On 14 May 2010, 深圳市長橋凱達貨運有限公司 (Shenzhen Changqiao Kaida Cargo Company Limited) issued a writ of summons in the District Court of Hong Kong against TEL, in respect of transportation services in the amount of RMB876,596 together with interest and costs.

On 27 November 2009, Skytec (Hong Kong) Limited issued a writ of summons in the District Court of Hong Kong against Tonic Trading Development Limited (“TTDL”), an indirect wholly-owned subsidiary of the Company, in respect of goods sold and delivered in the amount of HK\$938,098.61 together with interest and costs. TTDL has filed the defence on 14 January 2010.

On 11 January 2010, Edal Electronics Company Limited issued a writ of summons in the District Court of Hong Kong against TTDL, in respect of goods sold and delivered in the amount of HK\$442,926.00 together with interest and costs. TTDL has filed the defence on 22 March 2010.

On 10 February 2010, D-Plus Limited filed the form of claim in the Small Claims Tribunal against Tonic Technology Limited (“TTL”), a direct wholly-owned subsidiary of the Company, in respect of goods supplied in the amount of HK\$50,000 together with interest and costs. Order against TTL was obtained on 15 March 2010.

On 29 January 2010, Victor Company of Japan Ltd. (“JVC”) issued a summons in the United States District Court, Southern District of New York against Tonic Digital Products Limited (“TDPL”), an indirect wholly-owned subsidiary of the Company, in respect of breach of the settlement agreement between JVC and TDPL dated 1 January 2008 in the amount of Japanese Yen 58,592,400 and damages by reason of TDPL’s unauthorised use and infringement of JVC’s trademark rights in the VHS logo and infringement of JVC’s patent rights in the VHS recorder patents. The summons has been served on TDPL.

Tonic Technology (Shenzhen) Ltd. (“TTLSZ”) and Dongguan Tonic Electronic Co., Ltd. (“Dongguan TEL”), being two Scheme Subsidiaries, have suspended their businesses since December 2009. Up to the date of this announcement, certain of the Group’s suppliers (the “Creditors”) brought the legal actions in the local PRC courts against TTLSZ and Dongguan TEL (collectively the “Defendants”) for approximately RMB25,081,571 (approximately HK\$28,442,502) and approximately RMB19,144,496 (approximately HK\$21,709,858), being the outstanding balances of goods sold and services delivered to the Defendants up to 31 December 2009 together with interest, further and/or other relief and cost. Out of all the claimants, certain Creditors have been applying court orders to freeze the major assets of the Defendants. According to the updates from their PRC legal advisors, the major assets of the Defendants, including, but not limited to, bank balances, land and buildings with the equivalent value of approximately RMB9,066,306 (approximately HK\$10,281,191) against TTLSZ and approximately RMB1,992,416 (approximately HK\$2,259,400) against Dongguan TEL have been frozen or sequestered. Further details of these legal actions will be set out in the circular of the Restructuring Proposal. These legal actions are still in progress up to the date of this announcement.

As at 31 December 2009, trade and other payables of approximately HK\$96 million have been recorded for the outstanding litigations of the Group as per management accounts of the Group. Such accrual covered all claims arising from the Litigations and the litigations set out in this announcement (except for the litigation initiated by Thomson Hong Kong Holdings Limited against the Company, TEL and TTDL, which is considered having a defense to the claim). The parties are to attend to resolve interlocutory matters before the cases are to be fixed. The Group has also been in discussion and negotiations with certain plaintiffs to reach an accommodation with those claimants and to explore the possibility of seeking a forbearance of the Group's payables. Accordingly, in the opinion of the Directors, no additional provision for litigation is considered necessary.

Save for the litigation initiated by Thomson Hong Kong Holdings Limited, a former customer of the Company, against the Company (which is a member of the Retained Group), TEL and TTDL on 11 November 2008 in respect of disputes relating to, inter alia, goods returned for refund by Thomson Hong Kong Holdings Limited, claiming damages in the sum of US\$4,289,664.15 (approximately HK\$33,244,897.16) together with interest, details of which have been disclosed in the 2009 Interim Report, there is no other litigation proceeding filed against any members of the Retained Group as at the date of this announcement.

Save as disclosed above, 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 and the litigations set out in this announcement, the Group is 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.

STATUS OF THE GROUP

Reference is made to the Joint Announcements in respect of, among other things, the Restructuring Proposal.

The Group has decided to consolidate and streamline its businesses while scaling down the operations, in particular its exports sales, in order to alleviate the financial difficulties of the Group. The Group is currently running its business and operations in the Shi Pai Factory which is principally engaged 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. Despite the keen competition of the electronic manufacturing industry in the region and the current financial difficulties of the Group, the Group has been able to carry on the manufacturing and domestic sales of set top boxes, though the scale of production has been decreased.

In mid December 2009, certain employees of Dongguan Tonic Electronics Limited made complaints to the Tangxia Government regarding outstanding salaries. As a result, the Tangxia Government took over all the stock located in Dongguan Tonic Electronics Limited with a book value of approximately HK\$156 million. Tangxia Government, at its own discretion, arranged a disposal of those stocks for a total value of RMB 3.7 million. The sales proceeds were used for settlement of outstanding salaries and compensations due to the aforesaid employees.

According to the management account of the Group, as at 31 March 2010, the total balance due to the trade and other creditors by the Group was approximately HK\$404 million (an increase of 12% as compared with approximately HK\$359 million as at 30 September 2009), among which almost all overdue. The Group has been 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.

According to the management account of the Group, the total outstanding bank and other borrowings of the Group (excluding accrued interest) as at 31 March 2010 was approximately HK\$419 million, representing an increase of approximately 8% as compared with the outstanding bank and other borrowings of the Group as at 30 September 2009 of approximately HK\$385 million.

As mentioned in the Joint Announcements, 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. Such sum has been advanced on 19 January 2010. The proceed of the Facility has been used for repayment of some outstanding salaries to certain workers and staff of the Group, and for general working capital purposes. The working capital pressure of the Group has been lessened upon the receipt of such proceed from the Subscriber. Upon the receipt of the proceed of the Facility, the operation level of the Group has been recovering. The Group had received confirmed orders of manufacturing of set top boxes which amounted to over HK\$10 million in April and May 2010.

The Board considers that the Group Reorganisation, the Creditor Scheme and the Subscription 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.

The Company is still in the process of preparing the circular of the Restructuring Proposal containing, among other things, the financial information of the Group, the pro forma financial information of the Retained Group upon Completion. The Company will make further announcements to update Shareholders on the developments of the status of the Group.

WAIVER OF CONDITION PRECEDENT IN RELATION TO THE SUBSCRIPTION AGREEMENT

As disclosed in the Joint Announcement, Completion shall be conditional upon various conditions precedent being fulfilled or waived (as the case may be), including but not limited to, the Shares remaining listed and traded on the Stock Exchange at all times prior to the 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 to the Subscription Agreement by the Stock Exchange and the SFC (the "**Condition Precedent**"). Given that trading in the Shares on the Stock Exchange was suspended at 9:30 a.m. on 17 May 2010 pending the release of this announcement, on 31 May 2010 the Subscriber has given its consent in writing to waive in part the non-satisfaction of the Condition Precedent for the purpose of the Subscription due to the one and single one period of temporary suspension of the Shares commencing on 17 May 2010 which will remain valid until the end of stock trading hours on 4 June 2010 without prejudice to any of the Subscriber's other rights as well as its rights as to future non-satisfaction of the Condition Precedent.

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 17 May 2010. The Company has applied to the Stock Exchange for the resumption of trading of the Shares with effect from 9:30 a.m. on 3 June 2010.

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

Hong Kong, 2 June 2010

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.

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 such statements in this announcement misleading.