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

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

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TONIC
TONIC INDUSTRIES HOLDINGS LIMITED
(Incorporated in the Cayman Islands with limited liability)
(Stock code: 978)

**DISCLOSEABLE AND CONNECTED TRANSACTION
AND
NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS**

Financial Adviser to the Company



**Independent Financial Adviser to the Independent Board Committee
and the Independent Shareholders**



Emperor Capital Limited

A letter of recommendation from the Independent Board Committee to the Independent Shareholders and a letter of advice from Emperor Capital Limited to the Independent Board Committee and the Independent Shareholders regarding the DK Digital Transactions as well as the PVL Sales Agreement and the transactions contemplated thereunder including the Caps (all as defined herein) are set out respectively on page 15 and pages 16 to 26 of this circular.

A notice convening an extraordinary general meeting of the Company which will be held at Unit B, 10th Floor, Summit Building, 30 Man Yue Street, Hung Hom, Kowloon, Hong Kong on Wednesday, 26 October 2005 at 11:00 a.m. is set out on pages 33 to 34 of this circular. If you are not able to attend the meeting, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return it to the principal place of business of the Company in Hong Kong at Unit B, 10th Floor, Summit Building, 30 Man Yue Street, Hung Hom, Kowloon, Hong Kong as soon as possible and in any event not later than forty-eight (48) hours before the time appointed for holding such meeting. Completion and return of the form of proxy will not preclude you from attending and voting at the meeting or any adjournment thereof, should you so wish.

10 October 2005

CONTENT

	<i>Page</i>
Definitions	1
Letter from the Board	
Introduction	4
The Master Agreement	5
The PVL Sales Agreement	11
Extraordinary General Meeting	13
Recommendation	13
Further information	14
Letter from the Independent Board Committee	15
Letter from Emperor Capital	16
Appendix – General information	27
Notice of Extraordinary General Meeting	33

DEFINITIONS

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

“associates”	has the meaning ascribed to it under the Listing Rules
“AV”	audio visual
“Banking Creditor”	a banking creditor of DK Digital which is a bank in Germany and a party to the Master Agreement and certain of the other related agreements for the debt compromise and restructuring arrangement for DK Digital
“Board”	the board of Directors
“Cap(s)”	the maximum aggregate annual amount of PVL Sales for each of the three years ending 31 March 2008
“Company”	Tonic Industries Holdings Limited, a company incorporated in the Cayman Islands with limited liability whose Shares are listed on the Main Board of the Stock Exchange
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Director(s)”	director(s) of the Company
“DK Digital”	DK Digital AG, a company incorporated in Germany
“DK Digital Shares”	bearer shares of EUR1.00 each in the capital stock of DK Digital
“DK Digital Transactions”	the transactions involved in the Master Agreement and the other related agreements for the debt compromise and restructuring arrangement for DK Digital
“Egana”	EganaGoldpfeil (Holdings) Limited, a company incorporated in the Cayman Islands with limited liability whose shares are listed on the Stock Exchange
“Egana Group”	Egana and its subsidiaries
“EGM”	the extraordinary general meeting to be held at Unit B, 10th Floor, Summit Building, 30 Man Yue Street, Hung Hom, Kowloon, Hong Kong on Wednesday, 26 October 2005 at 11:00 a.m. for the purpose of considering, and if thought fit, approving the DK Digital Transactions as well as the PVL Sales Agreement and the transactions contemplated thereunder including the Caps

DEFINITIONS

“Emperor Capital”	Emperor Capital Limited, the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders on the DK Digital Transactions as well as the PVL Sales Agreement and the transactions contemplated thereunder including the Caps
“Eurochron”	Eurochron GmbH, a wholly-owned subsidiary of Egana
“Finance Creditor”	a finance creditor of DK Digital which is an investment company in Germany and a party to the Master Agreement and certain of the other related agreements for the debt compromise and restructuring arrangement for DK Digital
“Group”	the Company and its subsidiaries
“Hong Kong”	Hong Kong Special Administrative Region of the People’s Republic of China
“Independent Board Committee”	the independent board committee of the Company comprising all independent non-executive Directors to advise the Independent Shareholders on the DK Digital Transactions as well as the PVL Sales Agreement and the transactions contemplated thereunder including the Caps
“Independent Shareholders”	Shareholders other than Egana and its associates
“Latest Practicable Date”	5 October 2005, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information for inclusion in this circular
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Master Agreement”	the master agreement dated 27 April 2005 and supplemented on 12 July 2005 in relation to, among other things, the waiver of account payables owed by DK Digital to its creditors including the Company
“Minority DK Shareholder”	the 10% shareholder of DK Digital immediately before completion of the share sale and transfer agreement as referred to in the letter from the Board in this circular
“Mr. Knaup”	Mr. Dietmar Knaup, the founding shareholder of DK Digital

DEFINITIONS

“PVL”	Pioneer Ventures Limited, a company incorporated in Hong Kong and a wholly-owned subsidiary of Egana
“PVL Sales”	the transactions between the Group and PVL whereby AV products are sold by the Group to PVL on a continuing basis
“PVL Sales Agreement”	the agreement entered into on 15 September 2005 between the Group as the supplier and PVL as the buyer to govern the PVL Sales for the three years ending 31 March 2008
“SFO”	Securities and Futures Ordinance (Cap 571 of the Laws of Hong Kong)
“Share(s)”	ordinary share(s) of HK\$0.10 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Trade Creditor”	a trade creditor of DK Digital principally engaged in the sale of batteries and technical watchmaker’s utensils and a party to the Master Agreement and certain of the other related agreements for the debt compromise and restructuring arrangement for DK Digital
“Waiver”	the conditional waiver granted by the Stock Exchange to the Company from further press announcement and Independent Shareholders’ approval requirements as stipulated in the then Listing Rules (which were effective prior to 31 March 2004) in respect of, among others, the PVL Sales for the three years ended 31 March 2005
“EUR”	Euro
“HK\$”	Hong Kong dollars
“US\$”	United States dollar(s)
“%”	per cent.

In this circular, the exchange rates of EUR1.0 = US\$1.2, EUR1.00 = HK\$9.36 and US\$1.0 = HK\$7.8 have been adopted for illustration purposes.

LETTER FROM THE BOARD

TONIC
TONIC INDUSTRIES HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 978)

Executive Directors:

Mr. LING Siu Man, Simon (*Chairman*)

Mr. LEE Ka Yue, Peter

Mr. WONG Ki Cheung

Ms. LI Fung Ching, Catherine

Mr. AU Wai Man

Mr. LIU Hoi Keung, Gary

Mr. LAM Kwai Wah

Registered office:

P.O. Box 309 GT

Ugland House

South Church Street

George Town

Grand Cayman

Cayman Islands

British West Indies

Non-executive Director:

Mr. WONG Wai Kwong, David

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

Unit B, 10th Floor

Summit Building

30 Man Yue Street

Hung Hom

Kowloon

Hong Kong

Independent non-executive Directors:

Mr. HO Fook Hong, Ferdinand

Mr. PANG Hon Chung

Mr. CHENG Tsang Wai

10 October 2005

To the Shareholders

Dear Sir or Madam,

**DISCLOSEABLE AND CONNECTED TRANSACTION
AND
NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS**

INTRODUCTION

On 16 September 2005, the Board announced the entering into of the Master Agreement and the other related agreements as well as the PVL Sales Agreement.

The DK Digital Transactions involved a debt compromise and restructuring arrangement for DK Digital (which is a debtor of the Company) whereby, among others, the Company agreed with DK Digital to waive the obligation of DK Digital to repay its account payables to the Company in the amount of US\$3.05 million (approximately HK\$23.8 million) and in return, the Company received an aggregate of 21,165 DK Digital Shares, representing approximately 19.05% of the issued share capital of DK Digital.

LETTER FROM THE BOARD

In addition, the PVL Sales Agreement has been entered into which involves the Company as supplier, PVL as buyer and Egana as guarantor in favour of the Company in relation to the sale of AV products on a continuing basis for the three years commenced on 1 April 2005 and ending on 31 March 2008.

The DK Digital Transactions and the PVL Sales both constitute connected transactions for the Company under the Listing Rules and are subject to the approval of the Independent Shareholders at the EGM where the voting on the resolutions will be taken on a poll. The DK Digital Transactions also constitute a discloseable transaction for the Company under the Listing Rules. The Independent Board Committee has been constituted to give a recommendation to the Independent Shareholders and Emperor Capital has been appointed to advise the Independent Board Committee and the Independent Shareholders in this regard.

This circular provides, among others, (i) information on the DK Digital Transactions as well as the PVL Sales Agreement and the Caps; (ii) the letter of recommendation from the Independent Board Committee and the letter of advice from Emperor Capital in respect of the terms thereof; and (iii) a notice of the EGM.

THE MASTER AGREEMENT

1. Dates

27 April 2005 and supplemented on 12 July 2005.

2. Parties

- (i) the Company as a creditor of DK Digital;
- (ii) PVL and Eurochron as creditors of DK Digital, both being wholly-owned subsidiaries of Egana, the issued shares of which are listed on the Stock Exchange. Egana is principally engaged in design, assembly, manufacturing and distribution of timepieces, jewellery and leather products; licensing or assignment of brandnames or trademarks to third parties; trading of timepiece components, jewellery and consumer electronic products; distribution of branded timepieces, jewellery and leather and lifestyle products through franchisees under the franchising arrangement; and holding of investments;
- (iii) DK Digital as a debtor of the Company, a company principally engaged in the trading and design of digital consumer electronic products;
- (iv) Mr. Knaup, the founding shareholder of DK Digital who was interested in approximately 90% of the entire issued share capital of DK Digital before completion of the share sale and transfer agreement detailed below;
- (v) the Minority DK Shareholder as a shareholder and creditor of DK Digital, which is an investment company;
- (vi) the Finance Creditor, which is an investment company;
- (vii) the Banking Creditor, which is a bank; and

LETTER FROM THE BOARD

- (viii) the Trade Creditor, which is principally engaged in the sale of batteries and technical watchmaker's utensils.

Egana is a substantial Shareholder interested in 20.4% of the existing issued share capital of the Company. By virtue of its equity interest in the Company, Egana and its subsidiaries constitute connected persons of the Company under the Listing Rules.

To the best of the Directors' knowledge, information and belief, and having made all reasonable enquiries, the parties to the Master Agreement and their respective ultimate beneficial owners, other than PVL and Eurochron, are third parties independent of the Company and its connected persons.

3. Principal terms of the Master Agreement

- (i) Pursuant to the Master Agreement, the Company, the Minority DK Shareholder, Eurochron and the Banking Creditor agreed with DK Digital to waive, irrevocably and finally, the obligation of DK Digital to repay its account payables to them in an aggregate amount of EUR12 million (approximately HK\$112.3 million), of which US\$3.05 million (approximately EUR2.54 million or HK\$23.8 million) was due to the Company and another EUR2.54 million (approximately HK\$23.8 million) was due to Eurochron;
- (ii) the Company and PVL have jointly agreed to grant to DK Digital the right to purchase from the Company (via PVL) and/or PVL goods, in particular electronic products, on credit up to a cumulative amount of EUR7.72 million (approximately HK\$72.3 million) up to and including 31 December 2006. The Company and PVL are free to decide whether they wish to accept or reject the orders from DK Digital; and
- (iii) the Finance Creditor and the Banking Creditor have also agreed to restructure the terms and/or interest rate of their advances to DK Digital.

4. Other related agreements

In conjunction with the Master Agreement, the following related agreements were also entered into on 27 April 2005:

- (i) *Share sale and transfer agreement*

As part and parcel of a debt compromise and restructuring arrangement among DK Digital and its major creditors:

- (a) Mr. Knaup, who was interested in 100,000 DK Digital Shares (representing approximately 90% of the then issued share capital of DK Digital), agreed to sell and transfer 48,890, 20,000 and 20,000 of his DK Digital Shares for EUR1.00 each lot to the Minority DK Shareholder, the Company and Eurochron respectively; and
- (b) the Minority DK Shareholder agreed to sell and transfer 1,165, 1,164 and 3,203 of its DK Digital Shares for EUR1.00 each lot to the Company, Eurochron and the Trade Creditor respectively.

LETTER FROM THE BOARD

Set out below are the shareholding structures of DK Digital immediately before and after completion of the share sale and transfer agreement:

	Immediately before completion of the share sale and transfer agreement		Immediately after completion of the share sale and transfer agreement	
	DK Digital Shares	Approximate %	DK Digital Shares	Approximate %
Mr. Knaup	100,000	90.0	11,110	10.00
Minority DK Shareholder	11,100	10.0	54,458	49.02
The Company	–	–	21,165	19.05
Eurochron	–	–	21,164	19.05
Trade Creditor	–	–	3,203	2.88
Total	<u>111,100</u>	<u>100.0</u>	<u>111,100</u>	<u>100.00</u>

DK Digital agreed to waive outstanding account payables of EUR12 million (approximately HK\$112.3 million) on a pro rata basis with a view to restoring an amount of EUR12 million (approximately HK\$112.3 million) in net shareholders' deficit of DK Digital as at 31 March 2005 and maintaining a shareholding of 10% in DK Digital for Mr. Knaup. Set out below is a summary of the proportion of account payables waived and the number of DK Digital Shares sold and transferred pursuant to the share sale and transfer agreement:

	Account payables waived EUR	Approximate %	DK Digital Shares	Approximate %
The Company	2,540,000	21.2	21,165	21.2
Eurochron	2,540,000	21.2	21,164	21.2
Minority DK Shareholder	3,800,000	31.6	54,458	54.4
Banking Creditor	3,120,000	26.0	–	–
Trade Creditor	–	–	3,203	3.2
Sub-total	<u>6,920,000</u>	<u>57.6</u>	<u>57,661</u>	<u>57.6</u>
Total	<u>12,000,000</u>	<u>100.0</u>	<u>99,990</u>	<u>100.0</u>

To the best of the Directors' knowledge, information and belief, and having made all reasonable enquiries, the Minority DK Shareholder, the Banking Creditor and the Trade Creditor are related. In addition, to the best of the Directors' knowledge, information and belief, the DK Digital Transactions involve the majority of creditors of DK Digital. The other creditors of DK Digital and amounts due to them are not subject to the settlement arrangements thereunder. Accordingly, DK Digital continues to be liable to repay debts to its other creditors. In the event that the remaining creditors file for the bankruptcy of DK Digital, the Company's equity interest in DK Digital will rank behind such creditors in respect of any distributions. However, taking into consideration the positive effect of the DK Digital Transactions on DK Digital, the Directors believe that the DK Digital Transactions are in the interests of the Company and the Shareholders as a whole.

LETTER FROM THE BOARD

(ii) Shareholders' agreement

A shareholders' agreement was also entered into among the Company, Mr. Knaup, the Minority DK Shareholder, Eurochron and the Trade Creditor to regulate their rights and duties with regard to their shareholding in DK Digital. Pursuant to the shareholders' agreement, any disposition of the DK Digital Shares by any of the shareholders will require approval by a majority of 60% of the cast votes whereby the shareholder making the disposition is entitled to vote. Any disposition of the DK Digital Shares has to be made in accordance with the shareholder's agreement.

Pursuant to the shareholder's agreement, Mr. Knaup has been granted by the other shareholders of DK Digital, the right to acquire from them 88,890 DK Digital Shares at a consideration of at least EUR12 million (approximately HK\$112.3 million) plus interest of 20% p.a. at any time commencing from the date of the Master Agreement and the other related agreements until 30 April 2010. On the other hand, in the event that DK Digital can fulfill the budgeted turnover and earnings before tax according to the approved business plans for the financial years 2006 and 2007 of DK Digital, Mr. Knaup will be entitled to acquire up to 5,555 DK Digital Shares at a total consideration of EUR1.00.

In the event that Mr. Knaup departs from the executive board of directors of DK Digital, each of the other shareholders shall have the option to acquire, pro rata to the existing shareholding, the DK Digital Shares held by him at a price to be determined by reference to the time lapsed since the entering into of the shareholders' agreement, the reason for his departure, the book value of such shares and the principles of corporate valuation recommended by the Institute of Auditors in Germany.

In this regard, the Company has been informed that Mr. Knaup has been removed from the executive board of directors of DK Digital. The Company has been requested by the board of directors of DK Digital to consider whether it will exercise the option to acquire its pro rata entitlement in the DK Digital Shares held by Mr. Knaup. The Directors are currently evaluating whether to acquire such DK Digital Shares. The exact price at which the said option is to be exercised has not yet been determined by the board of directors of DK Digital. In the event that the Directors decide to exercise the aforesaid option, further disclosure and approval procedures will be undertaken by the Board as may be required under the Listing Rules and such exercise may be aggregated with the DK Digital Transactions in complying with the Listing Rules.

(iii) Agreement for balancing accounts

This agreement was entered into among the Company, PVL and the Banking Creditor. Under this agreement, the parties agreed that in the case of insolvency or liquidation of DK Digital in the future, the residual amounts of payout by DK Digital attributable to such parties shall be divided among them in a determined ratio.

5. Information on DK Digital

DK Digital is a non-listed company incorporated in Germany which is principally engaged in the trading and design of digital consumer electronics products in Europe, in particular, Germany.

The "DK Digital" brand name is applied to major product groups of DVD players, surround sound systems, audio products, gift products, MP3 players and car radios. DK Digital has been a customer of the Group for over four years. During the past few years, sales by the Group, directly and indirectly, to DK Digital ranged from approximately HK\$32 million to HK\$310 million, representing approximately 1.2% to 11.6% of the Group's total turnover in the relevant year.

LETTER FROM THE BOARD

For the year ended 30 April 2003, DK Digital recorded an audited net profit before taxation of approximately EUR3.3 million (or HK\$30.9 million) and an audited net profit after taxation of approximately EUR3.2 million (or HK\$30.0 million). Due to overspending on exhibition and promotion for new products, bad debts and the high interest and finance costs, the operations of DK Digital have deteriorated and faced a liquidity problem. For the year ended 30 April 2004, the audited net profit before taxation and net profit after taxation of DK Digital reduced significantly to approximately EUR178,000 (or HK\$1.7 million) and approximately EUR101,000 (or HK\$0.9 million) respectively. As disclosed in the Master Agreement, DK Digital had an unaudited net shareholders' deficit of approximately EUR12 million (or HK\$112.3 million) as at 31 March 2005. The Company has requested the financial information on DK Digital for the year ended 30 April 2005. However, the audited accounts of DK Digital for the year ended 30 April 2005 were not yet completed up to the Latest Practicable Date. The Board expects that it will be provided with such information once it is available.

6. Reasons for the entering into of the Master Agreement and the other related agreements

The DK Digital Transactions are part and parcel of a debt compromise and restructuring arrangement among DK Digital and its major creditors including the Company with a view to restoring the financial viability and supporting the recovery of DK Digital.

Immediately before completion of the Master Agreement and the other related agreements, DK Digital was indebted to the Group in the amount of approximately US\$3.8 million (or HK\$29.6 million) which arose from purchases of products by DK Digital from the Group. No provision has been made by the Group for its account receivables from DK Digital except for a product quality claim of approximately US\$1.1 million (or HK\$8.6 million) made in 2003. In light of the significant shareholders' deficit and the liquidity problem faced by DK Digital, the Directors believe that it would be slow to recover the amount due from DK Digital and the debt compromise and restructuring arrangement represents the best alternative available to the Group. Moreover, the investment in DK Digital Shares would enable the Group to gain exposure in retail marketing of AV products in the European market which would be useful for the Group if it is to develop its own retail business in Europe in the future.

The Directors are of the view that given the established brand name of DK Digital and the existing market presence being enjoyed by DK Digital, the core business of DK Digital remains viable. After implementation of the debt compromise and restructuring arrangement under the Master Agreement and the other related agreements, DK Digital would have a healthier financial footing to revamp its operations. In addition, new management has been introduced at DK Digital to improve control and operation of its business. The continuous supply of products to DK Digital pursuant to the Master Agreement serves to provide continuing support to DK Digital in its turnaround plan which, if successfully implemented, would in turn benefit the Group through its shareholding in DK Digital.

Immediately after completion of the Master Agreement and the other related agreements, DK Digital was indebted to the Group in the amount of approximately US\$750,000 (or HK\$5.9 million). As at the Latest Practicable Date, the Company is interested in approximately 19.05% of the issued share capital of DK Digital which is accounted for as a long term investment of the Group. In the event that the Master Agreement and the other related agreements are not approved at the EGM, the relevant DK Digital Transactions will be reversed and the amount of account receivables from DK Digital will be reinstated by the amount waived of US\$3.05 million (approximately HK\$23.8 million). Such amount will, in such event, remain as account receivables and the Group will pursue the recovery of such amount accordingly. In the audited consolidated financial statements of the Group for the year ended 31 March

LETTER FROM THE BOARD

2005, no provision was made against the account receivables from DK Digital as the Board was of the view that the value of such amount was subject to negotiations which led to the Master Agreement and the other related agreements. The DK Digital Transactions are not expected to have any material adverse financial impact on the Group.

The terms of the Master Agreement and the other related agreements were arrived at after arm's length negotiations among the Company and the other parties thereto. Based on the above, the Directors (including the independent non-executive Directors) consider the terms of the Master Agreement and the other related agreements are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

7. Condition subsequent

Completion of the Master Agreement and the other related agreements took place on 29 April 2005. Subsequently, the Company and DK Digital agreed that in the event that the Company is not able to obtain the Independent Shareholders' approval at the EGM required under the Listing Rules on or before 26 October 2005, the interest, benefits, burdens and obligation attributable to the Company under the Master Agreement and the other related agreements will be treated as rescinded and the position of the Company will be reinstated to that as of 27 April 2005 insofar as each of the aforesaid agreements are concerned.

Given that Eurochron and PVL are parties to the Master Agreement and certain of the other related agreements and are also wholly-owned subsidiaries of Egana which is a substantial Shareholder, the DK Digital Transactions constitute connected transactions for the Company under the Listing Rules and are subject to the approval of the Independent Shareholders at the EGM where Egana and its associates will be required to abstain from voting on the relevant resolution. Such transactions also constitute a discloseable transaction for the Company under the Listing Rules.

8. Non-compliance with the Listing Rules

Pursuant to Rules 14.34 and 14A.47 of the Listing Rules, the Company is required to make an announcement as soon as the terms of the Master Agreement and the other related agreements have been finalised. In addition, pursuant to Rule 14A.18, the DK Digital Transactions are required to be made conditional on prior approval by the Shareholders in general meeting. For the purposes of the debt compromise and restructuring arrangement for DK Digital, the Company, as one of the creditors participating in such arrangement and a minority shareholder of DK Digital upon completion thereof, executed relevant powers of attorney to appoint a representative in Germany to facilitate the negotiations of the terms of the Master Agreement and the other related agreements on its behalf. However, due to the fact that the Company was not promptly informed of the results of the finalisation of the terms of the Master Agreement and the other related agreements, it was not able to ascertain the implications of the Listing Rules as a result of the entering into of such agreements on a timely basis. Accordingly, the Company has not fully complied with the aforesaid requirements of the Listing Rules. The Board has taken appropriate remedial action so as to avoid future breaches of the Listing Rules. The Stock Exchange has expressed that it will reserve its rights to take appropriate action against the Company and/or the Directors in this regard.

LETTER FROM THE BOARD

THE PVL SALES AGREEMENT

1. Date

15 September 2005

2. Parties

- (i) the Company, as the supplier;
- (ii) PVL, as the buyer; and
- (iii) Egana, as the guarantor to PVL in favour of the Company.

3. Background

The Group is principally engaged in the design, manufacture and trading of consumer electronic products and components and home appliance products.

PVL, a wholly-owned subsidiary of Egana, is engaged in the trading of a variety of products in Germany and acts as the distribution agent of the Group in Germany. As such, PVL has been purchasing a variety of AV products from the Group in the ordinary and usual course of business of the Group. Egana has been a substantial Shareholder since listing of the Shares on the Stock Exchange in 1997 and is interested in approximately 20.4% of the issued share capital of the Company as at the Latest Practicable Date. PVL is therefore a connected person of the Company and the PVL Sales therefore constitute continuing connected transactions for the Company under the Listing Rules.

On 16 August 2002, the Company was granted the conditional Waiver by the Stock Exchange from the further press announcement and Independent Shareholders' approval requirements as stipulated in the then Listing Rules (which were effective prior to 31 March 2004) in respect of, among others, the PVL Sales for the three years ended 31 March 2005 provided that the aggregate value of the PVL Sales does not exceed a cap amount of 5% of the Group's total annual sales for the respective year. According to the audited consolidated financial statements of the Group for the three years ended 31 March 2005, the aggregate value of the PVL Sales amounted to approximately HK\$19.0 million, HK\$24.6 million and HK\$23.5 million respectively, which represented approximately 0.7%, 1.2% and 0.9% of the total turnover of the Group in the relevant financial year. The Group has not exceeded any of the limits set out in the Waiver. Details of the PVL Sales for the three years ended 31 March 2005 were disclosed in each of the annual reports of the Company for the relevant financial years. For the period from 1 April 2005 up to the Latest Practicable Date, PVL Sales amounting to approximately US\$0.4 million (or HK\$3.1 million) have been recorded. The Directors will ensure that up to the date of the EGM, the aggregate amount of PVL Sales will not exceed the amount of HK\$10,000,000 and each of the applicable percentage ratios (other than the profits ratio) as set out in the Listing Rules will not exceed 25%.

LETTER FROM THE BOARD

4. Reasons for the entering into of the PVL Sales Agreement

As the Waiver expired on 31 March 2005 and it is expected that the PVL Sales will continue in the years to come with value exceeding HK\$10,000,000 per annum, the future PVL Sales will constitute non-exempt continuing connected transactions for the Company under Rule 14A.35 of the Listing Rules and are subject to the reporting, announcement and Independent Shareholders' approval requirements of the Listing Rules. The Group and PVL therefore entered into the PVL Sales Agreement on 15 September 2005 setting out the basic terms and conditions of the PVL Sales for a term of three years ending on 31 March 2008, including the basis for calculation of the sales value and the payment terms.

The Company will seek the approval by the Independent Shareholders by way of a poll at the EGM of the PVL Sales Agreement and the transactions contemplated thereunder on the following conditions:

- (i) the amount of PVL Sales for each of the financial years ending 31 March 2006, 2007 and 2008 shall not exceed HK\$50 million, HK\$120 million and HK\$200 million respectively;
- (ii) the PVL Sales will be in compliance with the following:
 - (a) the PVL Sales will be entered into in the ordinary and usual course of business of the Group;
 - (b) the PVL Sales will be conducted either on normal commercial terms, or if there is no available comparison, on terms no less favourable to the Group than terms available from independent third parties; and
 - (c) the PVL Sales will be entered into in accordance with the terms of the PVL Sales Agreement that are fair and reasonable and in the interests of the Shareholders as a whole; and
- (iii) compliance by the Company with all other relevant requirements under the Listing Rules including Rules 14A.36, 14A.38 to 14A.40 and 14A.45 to 14A.48 of the Listing Rules.

5. Basis of the Caps

The annual Cap for each of the years ending 31 March 2006, 2007 and 2008 was determined after taking into consideration (i) the actual volumes of the PVL Sales recorded in the last three financial years; (ii) the estimated pricing trends in the market for the AV products sold to PVL; (iii) the estimated market volume trends for the AV products under the PVL Sales; and (iv) the projected and forecast sales information from PVL. The amount of the Caps represents a significant increment on previously transacted amounts. As mentioned in term (ii) under the sub-section headed "Principal terms of the Master Agreement" above, the Group's sales previously transacted directly with DK Digital will now be conducted through PVL. For each of the three financial years ended 31 March 2003, 2004 and 2005, sales by the Group, directly and indirectly, to DK Digital were approximately HK\$310 million, HK\$112 million and HK\$32 million, representing approximately 11.6%, 5.4% and 1.2% of the Group's total turnover in the relevant year, respectively. Though sales by the Group to DK Digital dropped in the last two years, the Directors believe that sales to DK Digital will increase in light of the Group's continuing support to supply products to it in its turnaround plan as mentioned above.

LETTER FROM THE BOARD

The Directors consider that the PVL Sales are beneficial to the Group in terms of their contribution to the Group's profitability and cash flow and the entering into of the PVL Sales Agreement serves to maintain the long-term business relationship with PVL and is in the interests of the Company and the Shareholders as a whole. The Directors (including the independent non-executive Directors) also consider that the PVL Sales are entered into in the ordinary and usual course of business of the Group, the terms of the PVL Sales Agreement are on normal commercial terms, and the Caps are fair and reasonable so far as the Company and the Shareholders as a whole are concerned.

EXTRAORDINARY GENERAL MEETING

A notice convening the EGM, at which ordinary resolutions will be proposed to the Independent Shareholders to consider, and if thought fit, approve the DK Digital Transactions as well as the PVL Sales Agreement and the transactions contemplated thereunder including the Caps, is set out on pages 33 to 34 of this circular. At the EGM, votes of the Independent Shareholders for both resolutions will be taken on a poll where Egana and its associates, including Eco-Haru Mfr. Holdings Limited which held 181,651,303 Shares and Glorious Concept Limited which held 12,753,000 Shares representing approximately 19.06% and 1.34% of the issued share capital of the Company as at the Latest Practicable Date respectively, will abstain from voting thereon. As at the Latest Practicable Date, Egana and its associates controlled the voting right in respect of an aggregate of 194,404,303 Shares, representing approximately 20.4% of the issued share capital of the Company.

The results of voting at the EGM will be announced by the Company following the conclusion thereof.

If you are not able to attend the EGM, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return it to the head office and principal place of business of the Company at Unit B, 10th Floor, Summit Building, 30 Man Yue Street, Hung Hom, Kowloon, Hong Kong as soon as possible and in any event not later than forty-eight (48) hours before the time appointed for holding the EGM. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof, should you so wish.

RECOMMENDATION

The Independent Board Committee comprising Messrs. Pang Hon Chung, Ho Fook Hong, Ferdinand and Cheng Tsang Wai has been constituted to advise the Independent Shareholders on the DK Digital Transactions as well as the PVL Sales Agreement and the transactions contemplated thereunder including the Caps. None of the members of the Independent Board Committee has any interest in the DK Digital Transactions and the PVL Sales Agreement. Your attention is drawn to their letter of recommendation set out on page 15 of this circular.

LETTER FROM THE BOARD

Emperor Capital has been appointed to advise the Independent Board Committee and the Independent Shareholders on the DK Digital Transactions as well as the PVL Sales Agreement and the transactions contemplated thereunder including the Caps. Your attention is drawn to their letter of advice set out on pages 16 to 26 of this circular.

FURTHER INFORMATION

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

Yours faithfully,
For and on behalf of the Board
Tonic Industries Holdings Limited
LING Siu Man, Simon
Chairman & Managing Director

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

The following is the text of the letter of recommendation from the Independent Board Committee which has been prepared for the purpose of inclusion in this circular:

TONIC

TONIC INDUSTRIES HOLDINGS LIMITED

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

10 October 2005

To the Independent Shareholders

Dear Sir or Madam,

DISCLOSEABLE AND CONNECTED TRANSACTION AND NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

We refer to the circular of the Company dated 10 October 2005 (the "Circular"), of which this letter forms part. Unless specified otherwise, capitalised terms used herein have the same meanings as those defined in the Circular.

We have been appointed by the Board to advise you on the DK Digital Transactions as well as the PVL Sales Agreement and the transactions contemplated thereunder including the Caps. Emperor Capital has been appointed as the independent financial adviser to advise you and us in this regard. Details of their advice, together with the principal factors and reasons they have taken into consideration in giving such advice, are set out on pages 16 to 26 of the Circular. Your attention is also drawn to the letter from the Board in the Circular and the additional information set out in the appendix thereto.

Having considered the independent advice of Emperor Capital, we consider that the terms of the transactions under the Master Agreement and the other related agreements as well as the PVL Sales Agreement and the transactions contemplated thereunder including the Caps are fair and reasonable, and the entering into of such agreements is in the interest of the Company and the Shareholders as a whole. We also consider that the PVL Sales are entered into in the ordinary and usual course of business of the Group, the terms of the PVL Sales Agreement are on normal commercial terms, and the Caps are fair and reasonable so far as the Company and the Independent Shareholders are concerned. Accordingly, we recommend that you vote in favour of the ordinary resolutions to be proposed at the EGM to approve the DK Digital Transactions as well as the PVL Sales Agreement and the transactions contemplated thereunder including the Caps.

Yours faithfully,

Independent Board Committee

PANG Hon Chung

HO Fook Hong, Ferdinand

CHENG Tsang Wai

Independent non-executive Directors

LETTER FROM EMPEROR CAPITAL

The following is the text of the letter of advice from Emperor Capital which has been prepared for the purpose of inclusion in this circular:



Emperor Capital Limited

28/F, Emperor Group Centre
288 Hennessy Road
Wanchai, Hong Kong

10 October 2005

*To the Independent Board Committee and Independent Shareholders of
Tonic Industries Holdings Limited*

Dear Sirs,

DISCLOSEABLE AND CONNECTED TRANSACTION AND NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

INTRODUCTION

We refer to our engagement under which Emperor Capital has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders regarding the DK Digital Transactions as well as the PVL Sales Agreement and the transactions contemplated thereunder including the Caps, details of which are contained in the letter from the Board (the “Letter from the Board”) set out on pages 4 to 14 of the circular of the Company dated 10 October 2005 (the “Circular”), of which this letter forms part. Terms defined in the Circular have the same meaning herein unless the context requires otherwise.

As set out in the Letter from the Board, given that Eurochron and PVL are parties to the Master Agreement and the other related agreements and are also wholly-owned subsidiaries of Egana which is a substantial Shareholder, the relevant transactions thereunder constitute connected transactions for the Company under the Listing Rules and are subject to the approval of the Independent Shareholders at the EGM where Egana and its associates will be required to abstain from voting on the relevant resolution. Such transactions also constitute a discloseable transaction for the Company under the Listing Rules.

With regard to the PVL Sales Agreement, as set out in the Letter from the Board, it is expected that the PVL Sales will continue in the years to come with value exceeding HK\$10,000,000 per annum, the future PVL Sales will constitute non-exempt continuing connected transactions for the Company under Rule 14A.35 of the Listing Rules and are subject to the reporting, announcement and Independent Shareholders’ approval requirements of the Listing Rules.

LETTER FROM EMPEROR CAPITAL

Accordingly, the Independent Board Committee comprising Messrs. Pang Hon Chung, Ho Fook Hong, Ferdinand and Cheng Tsang Wai has been constituted to advise the Independent Shareholders on the DK Digital Transactions as well as the PVL Sales Agreement and the transactions contemplated thereunder including the Caps. Emperor Capital has been appointed to advise the Independent Board Committee and the Independent Shareholders in this respect.

BASIS OF OUR ADVICE

In formulating our advice, we have relied on, among other things, the accuracy of the information and representations contained in the Circular. We have assumed that all information and representations made or referred to in the Circular were true, accurate and could be relied upon in all respects at the time they were made and continue to be so as at the date of the Circular. We have also relied upon information supplied and opinions expressed by the Directors. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors and have been advised by the Directors that no material facts have been omitted from the information provided and referred to in the Circular, the omission of which would make any statement herein misleading. We consider that we have reviewed sufficient information to enable us to reach an informed view and to justify reliance on the accuracy of the information contained in the Circular and to provide a reasonable basis for our recommendation.

We have not, however, carried out any independent verification of the opinions expressed by the Directors and information contained in the Circular or supplied to us by the Directors. Moreover, we have not made any independent evaluation or appraisal of, or conducted any in-depth investigation into, the business affairs, the assets and liabilities, or the future prospects of the Group and DK Digital.

PRINCIPAL FACTORS AND REASONS CONSIDERED FOR THE MASTER AGREEMENT AND THE OTHER RELATED AGREEMENTS

In arriving at our recommendation, we have considered, among other things, the following principal factors and reasons:

Background for the entering into of the Master Agreement and the other related agreements

As set out in the Company's announcement dated 16 September 2005, as part and parcel of a debt compromise and restructuring arrangement for DK Digital (which is a debtor of the Company), the Company, PVL, Eurochron, DK Digital, Mr. Knaup, the Minority DK Shareholder and three other creditors of DK Digital entered into the Master Agreement on 27 April 2005 (supplemented on 12 July 2005) and certain of the parties entered into the other related agreements.

Pursuant to the Master Agreement:

- (i) the Company, the Minority DK Shareholder, Eurochron and the Banking Creditor agreed with DK Digital to waive, irrevocably and finally, the obligation of DK Digital to repay its account payables to them in an aggregate amount of EUR12 million (approximately HK\$112.3 million), of which US\$3.05 million (approximately EUR2.54 million or HK\$23.8 million) was due to the Company and another EUR2.54 million (approximately HK\$23.8 million) was due to Eurochron;

LETTER FROM EMPEROR CAPITAL

- (ii) the Company and PVL have jointly agreed to grant to DK Digital the right to purchase from the Company (via PVL) and/or PVL goods, in particular electronic products, on credit up to a cumulative amount of EUR7.72 million (approximately HK\$72.3 million) up to and including 31 December 2006. The Company and PVL are free to decide whether they wish to accept or reject the orders from DK Digital; and
- (iii) the Finance Creditor and the Banking Creditor have also agreed to restructure the terms and/or interest rate of their advances to DK Digital.

Pursuant to the share sale and transfer agreement:

- (a) Mr Knaup, who was interested in 100,000 DK Digital Shares (representing approximately 90% of the then issued share capital of DK Digital), agreed to sell and transfer 48,890, 20,000 and 20,000 of his DK Digital Shares for EUR1.00 each lot to the Minority DK Shareholder, the Company and Eurochron respectively; and
- (b) the Minority DK Shareholder agreed to sell and transfer 1,165, 1,164 and 3,203 of its DK Digital Shares for EUR1.00 each lot to the Company, Eurochron and the Trade Creditor respectively.

DK Digital agreed to waive outstanding account payables of EUR12 million (approximately HK\$112.3 million) on a pro rata basis with a view to restoring an amount of EUR12 million (approximately HK\$112.3 million) in net shareholders' deficit of DK Digital as at 31 March 2005 and maintaining a shareholding of 10% in DK Digital for Mr. Knaup. Set out below are the shareholding structures of DK Digital immediately before and after completion of the share sale and transfer agreement:

	Immediately before completion of the share sale and transfer agreement		Immediately after completion of the share sale and transfer agreement	
	DK Digital Shares	Approximate %	DK Digital Shares	Approximate %
Mr Knaup	100,000	90.00	11,100	10.00
Minority DK Shareholder	11,100	10.00	54,458	49.02
The Company	–	–	21,165	19.05
Eurochron	–	–	21,164	19.05
Trade Creditor	–	–	3,203	2.88
	111,100	100.00	111,100	100.00

Pursuant to the shareholders' agreement:

- (a) any disposition of the DK Digital Shares by any of the shareholders will require approval by a majority of 60% of the cast votes whereby the shareholder making the disposition is entitled to vote. Any disposition of the DK Digital Shares has to be made in accordance with the shareholder's agreement;

LETTER FROM EMPEROR CAPITAL

- (b) Mr Knaup has been granted by the other shareholders of DK Digital the right to acquire from them 88,890 DK Digital Shares at a consideration of at least EUR12 million (approximately HK\$112.3 million) plus interest of 20% p.a. at any time commencing from the date of the Master Agreement and the other related agreements until 30 April 2010;
- (c) in the event that DK Digital can fulfill the budgeted turnover and earnings before tax according to the approved business plans for the financial years 2006 and 2007 of DK Digital, Mr. Knaup will be entitled to acquire up to 5,555 DK Digital Shares at a total consideration of EUR1.00; and
- (d) in the event that Mr. Knaup departs from the executive board of directors of DK Digital, each of the other shareholders shall have the option to acquire, pro rata to the existing shareholding, the DK Digital Shares held by him at a price to be determined by reference to the time lapsed since the entering into of the shareholders' agreement, the reason for his departure, the book value of such shares and the principles of corporate valuation recommended by the Institute of Auditors in Germany.

According to the Letter from the Board, the Company has been informed that Mr. Knaup has been removed from the executive board of directors of DK Digital. The Company has been requested by the board of directors of DK Digital to consider whether it will exercise the option to acquire its pro rata entitlement in the DK Digital Shares held by Mr. Knaup. The Directors are currently evaluating whether to acquire such DK Digital Shares. The exact price at which the said option is to be exercised has not yet been determined by the directors of DK Digital. In the event that the Directors decide to exercise the aforesaid option, further disclosure and approval procedures will be undertaken by the Board as may be required under the Listing Rules and such exercise may be aggregated with the DK Digital Transactions in complying with the Listing Rules.

Pursuant to the agreement for balancing accounts, the parties agreed that in the case of insolvency or liquidation of DK Digital in the future, the residual amounts of payout by DK Digital attributable to such parties shall be divided among them in a determined ratio.

Reasons for the entering into of the Master Agreement and the other related agreements

Good alternative to recover the debt

Immediately before completion of the Master Agreement and the other related agreements, DK Digital was indebted to the Group in the amount of approximately US\$3.8 million (or HK\$29.6 million) which arose from purchases of products by DK Digital from the Group during the period from April 2004 to September 2004. Such indebtedness has been outstanding from over 1 year. In light of the significant shareholders' deficit and the liquidity problem faced by DK Digital, the Directors believe that it would be slow to recover the amount due from DK Digital and the debt compromise and restructuring arrangement represents the best alternative available to the Group. For the year ended 30 April 2004, the audited net profit before taxation and net profit after taxation of DK Digital was approximately EUR178,000 (or HK\$1.7 million) and approximately EUR101,000 (or HK\$0.9 million) respectively. As disclosed in the Master Agreement, DK Digital had an unaudited net shareholders' deficit of approximately EUR12 million (or HK\$112.3 million) as at 31 March 2005. We cannot obtain the latest financial information of

LETTER FROM EMPEROR CAPITAL

DK Digital and the information in relation to the ranking of the DK Digital's indebtednesses from the Directors. The Company has requested the financial information on DK Digital for the year ended 30 April 2005. However, the audited accounts of DK Digital for the year ended 30 April 2005 have not yet been completed up to the Latest Practicable Date. The Board expects that it will be provided with such information once it is available. Therefore we cannot assess how much the Group can recover on its amount due from DK Digital and how long it will take the Group to recover such amount and we are unable to perform a liquidation analysis of DK Digital if the Group tenders a winding up petition against DK Digital. However, given that the indebtedness due from DK Digital to the Group has been long outstanding, the profits of DK Digital for the year ended 30 April 2004 is relatively minimal and the net shareholders' deficit is large in amount, we concur with the Directors' view that it would be slow to recover the amount due from DK Digital and it would be remote to recover the amount due from DK Digital plus the return is likely to be zero without the debt compromise and restructuring arrangement. If DK Digital can revitalise its core business, the DK Digital Transactions may offer a chance to the Group to recover its amount due from DK Digital through its shareholding interest in DK Digital. Therefore the debt compromise and restructuring arrangement represents a good alternative available to the Group to recover the debt. Having said that, we would like to emphasize that we are uncertain whether the Group can recover its amount due from DK Digital in lack of the latest financial information of DK Digital and the information in relation to the ranking of the DK Digital's indebtednesses as aforesaid. Therefore, the Group may still be able to recover its amount due from DK Digital if the Company does not enter into the DK Digital Transactions though we consider it remote and the Company may end up in getting a worse position if DK Digital fails to revitalise its core business.

As set out in the Letter from the Board, to the best of the Directors' knowledge, information and belief, the DK Digital Transactions involve the majority of the creditors of DK Digital. The other creditors of DK Digital and amounts due to them are not subject to the settlement arrangements thereunder. Accordingly, DK Digital continues to be liable to repay debts to its other creditors. However, taking into consideration the positive effect of the DK Digital Transactions on DK Digital, we agree with the Directors that the DK Digital Transactions are in the interests of the Company and the Independent Shareholders as a whole. In the event that the remaining creditors file for the bankruptcy of DK Digital, the Company's equity interest will rank behind such creditors in respect of any distributions. However, as mentioned in the paragraph above, since the likelihood of recovering the amount due to the Group by DK Digital is remote, the Company seems to have no other choice other than entering into the DK Digital Transactions at the moment in spite of the presence of such risk.

Viable core business

DK Digital is a non-listed company incorporated in Germany which is principally engaged in the trading and design of digital consumer electronics products in Europe, in particular, Germany. The "DK Digital" brand name is applied to major product groups of DVD players, surround sound systems, audio products, gift products, MP3 players and car radios. The Letter from the Board mentioned that the investment in DK Digital Shares would enable the Group to gain exposure in retail marketing of audio and visual ("AV") products in the European market which would be useful for the Group if it is to develop its own retail business in Europe in the future. According to a business plan prepared by DK Digital which has been reviewed by the Directors, DK Digital was ranked one of the top local brands in the DVD players and loudspeakers market. The Directors are of the view that given the established brand name of DK Digital and the existing market presence being enjoyed by DK Digital, the core business of

LETTER FROM EMPEROR CAPITAL

DK Digital remains viable. The audited turnovers of DK Digital for the years ended 30 April 2004 and 2003 were EUR39 million and EUR40 million respectively which represented an established sales performance of DK Digital.

DK Digital has been a customer of the Group for over four years. During the past few years, sales by the Group, directly and indirectly, to DK Digital ranged from approximately HK\$32 million to HK\$310 million, representing approximately 1.2% to 11.6% of the Group's total turnover in the relevant year. The indebtedness of US\$3.8 million (or HK\$29.6 million) due by DK Digital to the Group mentioned in the subsection headed "Good Alternative to Recover the Debt" above was attributable to the sales of the Group made to DK Digital in 2004 and 2005. All the sales made by the Group to DK Digital before 2004 have been settled by DK Digital and the Directors confirmed to us that DK Digital has a good repayment record before 2004.

For the year ended 30 April 2003, DK Digital recorded an audited net profit before taxation of approximately EUR3.3 million (or HK\$30.9 million) and an audited net profit after taxation of approximately EUR3.2 million (or HK\$30.0 million). For the year ended 30 April 2004, the audited net profit before taxation and net profit after taxation of DK Digital was approximately EUR178,000 (or HK\$1.7 million) and approximately EUR101,000 (or HK\$0.9 million) respectively. As disclosed in the Master Agreement, DK Digital had an unaudited net shareholders' deficit of approximately EUR12 million (or HK\$112.3 million) as at 31 March 2005. The Letter from the Board states that due to overspending on exhibition and promotion for new products, bad debts and the high interest and finance costs, the operations of DK Digital have deteriorated and faced a liquidity problem. The Directors advised that these problems would be remedied as (i) according to the aforesaid business plan prepared by DK Digital, DK Digital would re-focus on its core business and new management has been introduced to monitor its accounts receivables, costs and expenses including interest and finance costs after the implementation of the debt compromise and restructuring arrangement pursuant to the Master Agreement; and (ii) after the capitalisation of the EUR12 million indebtedness, DK Digital's liquidity could be substantially improved and would not be necessary to resort to high interest and finance costs.

In view of the (i) established brand name of DK Digital; (ii) its past sales performance; (iii) its good past repayment history of the sales by the Group; and (iv) its good profits record for the year ended 30 April 2003, we consider that the core business of DK Digital excluding the aforesaid new products business remains viable.

New management introduced

New management has been introduced at DK Digital to improve control and operation of the business of DK Digital. The new management team consists of 3 board members, Mr. Rainer Grosch, Mr. Wolfgang Horn and Mr. Robert Klein.

Mr. Rainer Grosch, aged 45, has over 15 years of experience in accounting and administration in several medium sized public companies. He will be responsible for the finance, accounting, human resources, risk management, etc at DK Digital.

LETTER FROM EMPEROR CAPITAL

Mr. Wolfgang Horn, aged 47, has 17 years of experience in purchasing, products and project management. He will be responsible for the purchasing, logistic, supply chain management, project management, etc at DK Digital.

Mr. Robert Klein, aged 44, has 18 years of experience in sales and marketing. He will be responsible for the sales, marketing, business development, etc at DK Digital.

We consider that the experiences of the new management of DK Digital are sufficient to improve the control and operation of the business of DK Digital.

Turnaround plan

As set out in the Letter from the Board, the transactions under the Master Agreement and the other related agreements are part and parcel of a debt compromise and restructuring arrangement among DK Digital and its major creditors including the Company with a view to restoring the financial viability and supporting the recovery of DK Digital. In light of the significant shareholders' deficit and the liquidity problem faced by DK Digital, DK Digital would have a healthier financial footing to revamp its operations after the implementation of the debt compromise and restructuring arrangement under the Master Agreement and the other related agreements. The continuous supply of products to DK Digital pursuant to the Master Agreement serves to provide continuing support to DK Digital in its turnaround plan which, if successfully implemented, would in turn benefit the Group through its shareholding in DK Digital. According to the Directors, the Company will only sell goods to DK Digital in the future via PVL which must provide letters of credit to the Company for the Company to accept the orders from DK Digital. As such, the Company does not need to incur additional funding for the continuous supply of products to DK Digital in participating in the turnaround plan. On the contrary, DK Digital will have a much better chance in improving its business performance and thus the Company will have a much better chance in recovering the receivables due from DK Digital to the Group through returns from the shareholding investment in DK Digital if its turnaround plan succeeds. The Directors also believed that the high interest and finance costs previously incurred by DK Digital could be reduced after the implementation of the debt compromise and restructuring arrangement. Therefore, even if the Company is unable to recover the receivables due from DK Digital to the Group through returns from the shareholding investment in DK Digital, we do not see any additional sufferings will be incurred for the Company in this regard. In addition, the Company has the right to reject the orders from DK Digital as set out in the Master Agreement.

No material adverse financial impact on the Group

The Letter from the Board states that the DK Digital Transactions are not expected to have any material adverse financial impact on the Group. The terms of the Master Agreement and the other related agreements were arrived at after arm's length negotiations among the Company and the other parties thereto. According to the shareholding table on page 7 of the Circular, the proportion of shareholding interests in DK Digital held by the creditors of DK Digital is determined based on the proportion of the account payables waived by them (i.e. on a pro-rata basis). Therefore we consider the shareholding stake of 19.05% taken by the Company fair and reasonable.

LETTER FROM EMPEROR CAPITAL

Based on the above, the Directors (including the independent non-executive Directors) consider the terms of the Master Agreement and the other related agreements are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Given that (i) it would be slow or even remote to recover the amount due from DK Digital and the debt compromise and restructuring arrangement represents a good alternative available to the Group to recover the debt (being the key factor we base on to give our opinion as below); (ii) the core business of DK Digital excluding the abovementioned new products business remains viable; (iii) the experiences of the new management of DK Digital are sufficient to improve the control and operation of the business of DK Digital; (iv) the turnaround plan of DK Digital, if successfully implemented, may in turn benefit the Group through its shareholding in DK Digital; and (v) the DK Digital Transactions are not expected to have any material adverse financial impact on the Group, we are of the opinion that entering into of the Master Agreement and the other related agreements fair and reasonable so far as the interests of the Independent Shareholders are concerned and is in the interest of the Company and the Independent Shareholders as a whole.

PRINCIPAL FACTORS AND REASONS CONSIDERED FOR THE PVL SALES AGREEMENT

In arriving at our recommendation, we have considered, among other things, the following principal factors and reasons:

Background for the entering into of the PVL Sales Agreement

The Group is principally engaged in the design, manufacture and trading of consumer electronic products and components and home appliance products.

PVL, a wholly-owned subsidiary of Egana, is engaged in the trading of a variety of products in Germany and acts as the distribution agent of the Group in Germany. As such, PVL has been purchasing a variety of AV products from the Group in the ordinary and usual course of business of the Group. Egana has been a substantial Shareholder since listing of the Shares on the Stock Exchange in 1997 and is interested in approximately 20.4% of the issued share capital of the Company as at the Latest Practicable Date. PVL is therefore a connected person of the Company and the PVL Sales therefore constitute continuing connected transactions for the Company under the Listing Rules.

On 16 August 2002, the Company was granted the conditional Waiver by the Stock Exchange from the further press announcement and Independent Shareholders' approval requirements as stipulated in the then Listing Rules (which were effective prior to 31 March 2004) in respect of, among others, the PVL Sales for the three years ended 31 March 2005 provided that the aggregate value of the PVL Sales does not exceed a cap amount of 5% of the Group's total annual sales for the respective year. According to the audited consolidated financial statements of the Group for the three years ended 31 March 2005, the aggregate value of the PVL Sales amounted to approximately HK\$19.0 million, HK\$24.6 million and HK\$23.5 million respectively, which represented approximately 0.7%, 1.2% and 0.9% of the total turnover of the Group in the relevant financial year. The Group has not exceeded any of the limits set out in the Waiver. Details of the PVL Sales for the three years ended 31 March 2005 were disclosed in each of the annual reports of the Company for the relevant financial years. For the period from 1 April 2005 to 31 August 2005, no PVL Sales have been recorded. The Directors will ensure that up to the date of the EGM, the aggregate amount of PVL Sales will not exceed the amount of HK\$10,000,000.

LETTER FROM EMPEROR CAPITAL

Reasons for the entering into of the PVL Sales Agreement

As the Waiver expired on 31 March 2005 and it is expected that the PVL Sales will continue in the years to come with value exceeding HK\$10,000,000 per annum, the future PVL Sales will constitute nonexempt continuing connected transactions for the Company under Rule 14A.35 of the Listing Rules and are subject to the reporting, announcement and Independent Shareholders' approval requirements of the Listing Rules. The Group and PVL therefore entered into the PVL Sales Agreement on 15 September 2005 setting out the basic terms and conditions of the PVL Sales for a term of three years ending on 31 March 2008, including the basis for calculation of the sales value and the payment terms.

According to the Directors, PVL has been a customer of the Group since 1997 and no bad debt has ever been incurred for the PVL Sales. The Board is of the opinion that the PVL Sales is beneficial to the Group because it will enhance the Group's earnings. In this respect, we concur with the view of the Board that it is beneficial to the Group and the Shareholders as a whole to continue the PVL Sales.

Normal commercial terms for ordinary and usual course of business of the Group

Since the Group is principally engaged in the design, manufacture and trading of consumer electronic products and components and home appliance products, the PVL Sales fall within the ordinary and usual course of business of the Group.

We have reviewed the PVL Sales Agreement. The PVL Sales Agreement states that all sales of the products under the PVL Sales Agreement shall be subject to the Group's standard terms of sale from time to time, the purchase price payable by PVL to the Group shall be determined with reference to the market price of the products and payment shall be made by letter of credit by PVL to the Group in accordance with the payment terms of the Group's standard terms of sale from time to time. We have also reviewed and compared the sales and payment terms of the invoices made between the Group and PVL as well as those made between the Group and other independent third party customers of the Group, provided by the Company, for the same category of products and have found that the terms are similar. It is therefore our view that the PVL Sales Agreement has been entered into on normal commercial terms and PVL has not been treated more favorably than other independent third party customers of the Group. In addition, as set out in the Letter from the Board, the approval of the Independent Shareholders of the PVL Sales Agreement and the transactions contemplated thereunder is conditional on the fact that the PVL Sales will be in compliance with the following:

- (a) the PVL Sales will be entered into in the ordinary and usual course of business of the Group;
- (b) the PVL Sales will be conducted either on normal commercial terms, or if there is no available comparison, on terms no less favourable to the Group than terms available from independent third parties; and
- (c) the PVL Sales will be entered into in accordance with the terms of the PVL Sales Agreement.

LETTER FROM EMPEROR CAPITAL

Based on the above, we consider that the PVL Sales Agreement has been entered into on normal commercial terms in the ordinary and usual course of business of the Group and the terms of the PVL Sales Agreement are fair and reasonable insofar as the Independent Shareholders are concerned.

Basis of the Caps

As set out in the Letter from the Board, the approval of the Independent Shareholders of the PVL Sales Agreement and the transactions contemplated thereunder is conditional on the fact that the amount of PVL Sales for each of the financial years ending 31 March 2006, 2007 and 2008 shall not exceed HK\$50 million (being an estimate of the half year sales figure according to the Directors), HK\$120 million and HK\$200 million respectively.

The annual Cap for each of the years ending 31 March 2006, 2007 and 2008 was determined after taking into consideration (i) the actual volumes of the PVL Sales recorded in the last three financial years; (ii) the estimated pricing trends in the market for the AV products sold to PVL; (iii) the estimated market volume trends for the AV products under the PVL Sales; and (iv) the projected and forecast sales information from PVL. The amount of the Caps represents a significant increment on previously transacted amounts. As mentioned in term (ii) under the subsection headed "Principal terms of the Master Agreement" in the Letter from the Board, the Group's sales previously transacted directly with DK Digital will now be conducted through PVL. As disclosed under the subsection headed "Basis of the Caps" in the Letter from the Board, for each of the three financial years ended 31 March 2003, 2004 and 2005, sales by the Group, directly and indirectly, to DK Digital were approximately HK\$310 million, HK\$112 million and HK\$32 million (being half year sales figure according to the Directors). As suggested by the Directors, the sales forecast of DK Digital for the years ending 30 April 2006, 2007 and 2008 will be similar to the sales achieved by DK Digital for the financial years ended 30 April 2003 and 2004 according to the aforesaid business plan prepared by DK Digital and reviewed by the Directors. According to the Directors, the yearly sales by the Group to DK Digital in the previous years was on average around HK\$180 million. Based on this average yearly sales figure to DK Digital and the aggregate value of the PVL Sales for the three years ended 31 March 2005 of approximately HK\$19.0 million, HK\$24.6 million and HK\$23.5 million respectively, the Directors set the Caps at HK\$50 million (being half year sales figure according to the Directors), HK\$120 million and HK\$200 million respectively for each of the financial years ending 31 March 2006, 2007 and 2008 assuming a growth in DK Digital's business size from 2006 to 2008. We would like to draw your attention that the Caps are determined on the assumption that the core business of DK Digital can be revitalised and the sales of DK Digital for the years ending 30 April 2006, 2007 and 2008 can attain the sales achieved by DK Digital for the financial years ended 30 April 2003 and 2004. As discussed in the subsection headed "Viable Core Business", we consider the core business of DK Digital is viable. In addition, we consider that the assumption that the sales of DK Digital for the years ending 30 April 2006, 2007 and 2008 can attain the sales achieved by DK Digital for the financial years ended 30 April 2003 and 2004 is not unreasonable given that DK Digital's liquidity problem occurred in the financial year of 2004 during which its sales level did not drop significantly though its profits did. Based on the above, we consider that the Caps are fair and reasonable.

LETTER FROM EMPEROR CAPITAL

Compliance of the Listing Rules

As set out in the Letter from the Board, the approval of the Independent Shareholders of the PVL Sales Agreement and the transactions contemplated thereunder is conditional on compliance by the Company with all other relevant requirements under the Listing Rules including Rules 14A.36, 14A.38 to 14A.40 and 14A.45 to 14A.48 of the Listing Rules.

In our opinion, these requirements under the Listing Rules will serve to monitor the transactions contemplated under the PVL Sales Agreement to ensure that they will be conducted on fair and reasonable terms and that the interests of the Group and the Shareholders as a whole will be properly safeguarded.

Given that (i) the PVL Sales will enhance the Group's earnings; (ii) the PVL Sales Agreement has been entered into on normal commercial terms in the ordinary and usual course of business of the Group; (iii) the Caps are fair and reasonable; and (iv) the relevant requirements under the Listing Rules will serve to monitor the transactions contemplated under the PVL Sales Agreement to ensure that they will be conducted on fair and reasonable terms and that the interests of the Group and the Shareholders as a whole will be properly safeguarded, we are of the opinion that the entering into of the PVL Sales Agreement is fair and reasonable so far as the interests of the Independent Shareholders are concerned and is in the interest of the Company and the Independent Shareholders as a whole.

RECOMMENDATION

Having considered the above principal factors and reasons, we consider that the entering into of the Master Agreement and the other related agreements as well as the PVL Sales Agreement fair and reasonable so far as the interests of the Independent Shareholders are concerned and is in the interest of the Company and the Independent Shareholders as a whole. Accordingly, we advise the Independent Shareholders, as well as the Independent Board Committee to recommend the Independent Shareholders, to vote in favour of the ordinary resolutions in relation to the Master Agreement and the other related agreements as well as the PVL Sales Agreement to be proposed at the EGM.

Yours faithfully,
For and on behalf of
Emperor Capital Limited
Vanessa Fan
Director

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts not contained herein the omission of which would make any statement contained in this circular misleading.

2. INTERESTS OF DIRECTORS

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

(i) Long position in Shares

Directors	Nature of interests	Number of Shares held	Approximate % of the Company's issued share capital
LING Siu Man, Simon	Corporate (<i>Note</i>)	476,830,173	50.04
WONG Ki Cheung	Personal	1,749,000	0.18
LI Fung Ching, Catherine	Personal	2,142,000	0.22
LIU Hoi Keung, Gary	Personal	8,000	–
PANG Hon Chung	Personal	2,000,000	0.21

Note:

These Shares were held by Success Forever Limited, a company incorporated in the British Virgin Islands, the entire issued share capital of which is beneficially owned by Mr. LING Siu Man, Simon.

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

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

(iii) Long position in shares of associated corporation

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

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

(iv) Other Directors' interests

- (a) None of the Directors has, or has had, any direct or indirect interest in any assets which have been since 31 March 2005 (being the date to which the latest published audited consolidated financial statements of the Group were made up) acquired or disposed of by or leased to, or are proposed to be acquired or disposed of by or leased to any member of the Group.
- (b) None of the Directors was materially interested in any contract or arrangement subsisting at the date of this circular which is significant in relation to the business of the Group.

3. INTERESTS OF SUBSTANTIAL SHAREHOLDERS

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

Long position in Shares

Name	Nature of interests	Number of Shares held	Approximate % of the Company's issued share capital
Success Forever Limited (<i>Note 1</i>)	Beneficially owned	476,830,173	50.04
Eco-Haru Mfr. Holdings Limited ("Eco-Haru") (<i>Note 2</i>)	Beneficially owned	181,651,303	19.06
Glorious Concept Limited ("Glorious Concept") (<i>Note 2</i>)	Beneficially owned	12,753,000	1.34
Egana (<i>Note 2</i>)	Interests held by controlled corporations	194,404,303	20.40
Peninsula International Limited ("Peninsula") (<i>Note 3</i>)	Interests held by controlled corporations	194,404,303	20.40

Notes:

- The entire issued share capital of Success Forever Limited is beneficially owned by Mr. LING Siu Man, Simon.
- The entire issued share capital of each of Eco-Haru and Glorious Concept is beneficially owned by Egana.
- The entire issued share capital of Egana is owned as to 37.49% by Peninsula.

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

4. MATERIAL ADVERSE CHANGES

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 March 2005 (being the date to which the latest published audited consolidated financial statements of the Group were made up).

5. PROCEDURES FOR DEMANDING A POLL BY SHAREHOLDERS

Pursuant to Article 80 of the articles of association of the Company, at any general meeting a resolution put to the vote of the meeting shall be decided on a show of hands unless (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is demanded by:

- (i) the chairman of such meeting; or
- (ii) at least five shareholders present in person or by proxy and entitled to vote; or
- (iii) any Shareholder or Shareholders present in person or by proxy and representing in the aggregate not less than one-tenth of the total voting rights of all Shareholders having the right to attend and vote at the meeting; or
- (iv) any Shareholder or Shareholders present in person or by proxy and holding Shares conferring a right to attend and vote at the meeting on which there have been paid up sums in the aggregate equal to not less than one-tenth of the total sum paid up on all Shares conferring that right.

As stated in the letter from the Board in this circular, the ordinary resolutions to be proposed at the EGM to consider and, if thought fit, approve the DK Digital Transactions as well as the PVL Sales Agreements and the transactions contemplated thereunder including the Caps will be taken on a poll. Accordingly, the chairman of the EGM will demand a poll at the EGM.

6. EXPERT AND CONSENT

The following is the qualification of the expert who has given its advice which is contained in this circular:

Name	Qualification
Emperor Capital	Licensed corporation under the SFO to conduct types 1 (dealing in securities), 4 (advising on securities) and 6 (advising on corporate finance) regulated activities under the SFO

Emperor Capital has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter and references to its name in the form and context in which they respectively appear.

As at the Latest Practicable Date, Emperor Capital was not beneficially interested in the share capital of any member of the Group nor did it have any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group, nor did it have any interest, either direct or indirect, in any assets which have been since 31 March 2005 (being the date to which the latest published audited consolidated financial statements of the Group were made up) acquired or disposed of by or leased to, or are proposed to be acquired or disposed of by or leased to, any member of the Group.

7. SERVICE CONTRACTS

As at the Latest Practicable Date, no Director had a service contract with any member of the Group which is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

8. COMPETING INTERESTS

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

9. LITIGATION

As at the Latest Practicable Date, no member of the Group was engaged in any litigation or arbitration of material importance and there was no litigation or claim of material importance known to the Directors to be pending or threatened by or against any member of the Group.

10. MISCELLANEOUS

- (i) The Company's branch share registrar in Hong Kong is Tengis Limited at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong;
- (ii) The Company's secretary and qualified accountant is Mr. LIU Hoi Keung, Gary, an executive Director, who holds a Master of Science degree from The University of Hong Kong and is an associate member of the Hong Kong Institute of Certified Public Accountants and a fellow of the Association of the Chartered Certified Accountants; and
- (iii) In the event of inconsistency, the English text of this circular and the accompanying form of proxy shall prevail over the Chinese text thereof.

11. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during normal business hours at the head office and principal place of business of the Company at Unit B, 10th Floor, Summit Building, 30 Man Yue Street, Hung Hom, Kowloon, Hong Kong from the date of this circular up to and including 26 October 2005 (being the date of the EGM to be held).

- (i) the Master Agreement;
- (ii) the share sale and transfer agreement dated 27 April 2005 as referred to in this circular;
- (iii) the shareholders' agreement dated 27 April 2005 as referred to in this circular;
- (iv) the agreement for balancing accounts dated 27 April 2005 as referred to in this circular;
- (v) the supplemental agreement dated 12 July 2005 relating to the condition subsequent as referred to in this circular;
- (vi) the PVL Sales Agreement;
- (vii) the letter of recommendation from the Independent Board Committee, the text of which is set out on page 15 of this circular;
- (viii) the letter of advice from Emperor Capital, the text of which is set out on pages 16 to 26 of this circular; and
- (ix) the written consent from Emperor Capital as referred to in the section headed "Expert and consent" in this appendix.

NOTICE OF EXTRAORDINARY GENERAL MEETING

TONIC

TONIC INDUSTRIES HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 978)

NOTICE IS HEREBY GIVEN that an extraordinary general meeting of Tonic Industries Holdings Limited (the “**Company**”) will be held at Unit B, 10th Floor, Summit Building, 30 Man Yue Street, Hung Hom, Kowloon, Hong Kong on Wednesday, 26 October 2005 at 11:00 a.m., for the purpose of considering and, if thought fit, passing the following resolutions, with or without amendments, as ordinary resolutions of the Company:

ORDINARY RESOLUTIONS

1. “**THAT** the master agreement, share sale and transfer agreement, shareholders’ agreement and agreement for balancing accounts all dated 27 April 2005 and as described in the circular of the Company dated 10 October 2005 and despatched to the shareholders of the Company (the “**Circular**”), a copy of which has been produced to this meeting marked “A” and signed by the chairman of this meeting for the purpose of identification, and the supplemental agreement dated 12 July 2005 relating to the condition subsequent as described in the Circular (together, the “**Agreements**”), a copy of each of the Agreements has been produced to this meeting marked “B” and signed by the chairman of this meeting for the purpose of identification, and the transactions thereunder, be and are hereby generally and unconditionally approved, ratified and confirmed and that the directors of the Company (the “**Directors**”) be and are hereby authorised to take such actions as may in the opinion of the Directors be necessary or desirable to give effect to the Agreements.”
2. “**THAT** (i) the agreement dated 15 September 2005 (the “**PVL Sales Agreement**”), a copy of which has been produced to this meeting marked “C” and signed by the chairman of this meeting for the purpose of identification, and the transactions contemplated thereunder; and (ii) the Caps as described and defined in the Circular, be and are hereby generally and unconditionally approved, ratified and confirmed and that the Directors be and are hereby authorised to take such actions as may in the opinion of the Directors be necessary or desirable to give effect to the PVL Sales Agreement.”

By Order of the Board
Tonic Industries Holdings Limited
LIU Hoi Keung, Gary
Company Secretary

Hong Kong, 10 October 2005

NOTICE OF EXTRAORDINARY GENERAL MEETING

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

*Head office and principal place
of business in Hong Kong:*
Unit B, 10th Floor
Summit Building
30 Man Yue Street
Hung Hom
Kowloon
Hong Kong

Notes:

1. Any member of the Company entitled to attend and vote at the meeting of the Company is entitled to appoint a proxy to attend and vote instead of him. A proxy need not be a member of the Company. A member who is the holder of two or more shares of the Company may appoint more than one proxy to represent him to attend and vote on his behalf. If more than one proxy is so appointed, the appointment shall specify the number and class of shares in respect of which each such proxy is so appointed.
2. To be effective, a form of proxy together with the power of attorney or other authority, if any, under which it is signed or a certified copy of that power or authority, must be deposited at the Company's branch share registrar in Hong Kong, Tengis Limited at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong, not less than forty-eight (48) hours before the time appointed for the holding of the meeting or any adjournment thereof. Delivery of the form of proxy shall not preclude a member of the Company from attending and voting in person at the meeting and, in such event, the instrument appointing a proxy shall be deemed to be revoked.

As at the date of this notice, the Board comprises Mr. LING Siu Man, Simon, Mr. LEE Ka Yue, Peter, Mr. WONG Ki Cheung, Ms. LI Fung Ching, Catherine, Mr. AU Wai Man, Mr. LIU Hoi Keung, Gary and Mr. LAM Kwai Wah who are executive Directors, Mr. WONG Wai Kwong, David who is a non-executive Director, Mr. HO Fook Hong, Ferdinand, Mr. PANG Hon Chung and Mr. CHENG Tsang Wai who are independent non-executive Directors.