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

DISCLOSEABLE TRANSACTION

DISPOSAL OF THE EQUITY INTEREST IN A SUBSIDIARY

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

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

The Disposal constitutes a discloseable transaction for the Company under Chapter 14 of the Listing Rules. A circular containing, among other matters, details of the Disposal will be despatched to Shareholders as soon as practicable.

THE SALE AND PURCHASE AGREEMENT

Date

28 November 2007 (after 4:15 p.m. Hong Kong time)

Parties

(i) The Company

(ii) The Purchaser

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

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

Asset to be Disposed

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

Consideration

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

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

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

Adjustment to the Consideration

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

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

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

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

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

Conditions

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

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

Completion of the Disposal

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

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

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

Covenant not to Compete

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

INFORMATION ON TONIC APPLIANCES

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

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

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

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

REASON FOR THE DISPOSAL

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

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

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

At present, Tonic Appliances is a wholly-owned subsidiary of the Company and its financial results are consolidated into the Group's financial statement. After Completion, Tonic Appliances will cease to be a subsidiary of the Company and the Group will cease to consolidate Tonic Appliances' financial result. The gain or loss arising from the Disposal is the difference between the consideration of Disposal and net asset value of Tonic Appliances as at the date of Completion. Based on the Management Accounts, the Group is expected to record a gain of approximately HK\$1,891,663. Nonetheless, such gain is subject to the adjustment to the consideration, the Completion Net Asset Value and the audit by the auditors of the Company. The Group will make relevant disclosure regarding such gain or loss arising from the Disposal as soon as the same can be ascertained in the forthcoming annual report for

the year ended 31 March 2008 or if the same can be ascertained before the issue of the annual report, in further announcement.

GENERAL

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

The Disposal constitutes a discloseable transaction for the Company under Chapter 14 of the Listing Rules. A circular containing, among other matters, details of the Disposal will be despatched to the Shareholders as soon as practicable.

DEFINITIONS

The following terms are used in this announcement with the meanings set opposite them:

“Board”	the board of directors of the Company;
“Bond Limited”	東莞豐匡家用電器有限公司, a company incorporated in the PRC (the English name “Bond Limited” is adopted for identification purpose);
“Claim”	the action in the High Court of Hong Kong initiated by Applica Consumer Products, Inc. and Applica Asia Limited, former customers of Tonic Appliances on 12 September 2006, against Tonic Appliances claiming for damages for breach of agreement for sale of goods in the sum of HK\$3,652,767 together with interest, detail of which can be referred to in note 35(b) of the section headed “Notes to Financial Statements” on page 112 of the Company’s annual report for the financial year ended 31 March 2007;
“Company”	Tonic Industries Holdings Limited, a company incorporated in the Cayman Islands, whose shares are listed on the Stock Exchange;
“Completion”	completion for the Disposal;
“Completion Accounts”	a balance sheet and a profit and loss account of the Company as of the date of Completion, which shall be prepared in accordance with the generally accepted accounting principles applied in Hong Kong;
“Completion Net Asset Value”	the difference between the amount of total assets, the amount of total liabilities and the amount of minority interest (if any) of Tonic Appliances set forth on the balance sheet of the Completion Accounts;

“Condition Date”	1 month from the date of the Sale and Purchase Agreement (or such other date as the parties shall agree in writing);
“Directors”	the directors of the Company;
“Disposal”	the disposal of the Sale Shares by the Company to the Purchaser subject to the terms and conditions of the Sale and Purchase Agreement;
“Group”	the Company and its subsidiaries;
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong;
“Hong Kong”	Hong Kong Special Administrative Region of the PRC;
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange;
“Management Accounts”	the management accounts of Tonic Appliances as at 30 September 2007 comprising the balance sheet and the profit and loss account, which have prepared in accordance with the generally accepted accounting principles applied in Hong Kong;
“Management Accounts Net Asset Value”	the difference between the amount of total assets, the amount of total liabilities and the amount of minority interest (if any) of Tonic Appliances set forth on the balance sheet of the Management Accounts;
“Purchaser”	Profit Cycle Investments Limited, a company incorporated in the British Virgin Islands with limited liability;
“PRC”	the People’s Republic of China;
“Sale and Purchase Agreement”	the sale and purchase agreement dated 28 November 2007 between the Company and the Purchaser in relation to the Disposal;
“Sale Shares”	2 ordinary shares of HK\$1.00 each in the share capital of Tonic Appliances, representing the entire issued share capital of Tonic Appliances;
“Shareholder(s)”	holder(s) of the ordinary share(s) of HK\$0.10 each in the share capital of the Company;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;

“TA Limited” TA Limited, a company incorporated in Hong Kong and is an indirectly wholly owned subsidiary of the Company;

“Tonic Appliances” Tonic Appliances Limited, a company incorporated in Hong Kong and is a direct wholly owned subsidiary of the Company.

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

Hong Kong, 29 November 2007

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