

THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action you should take, you should consult your stockbroker or registered dealer in securities, bank manager, solicitor, professional accountant or other professional advisor.

If you have sold all your securities in Tonic Industries Holdings Limited, you should once hand this circular, together with the enclosed form of proxy, to the purchaser or to the bank, stockbroker or other agent through whom the sale was effected for transmission to the purchaser.

The Stock Exchange of Hong Kong Limited takes no responsibility for the contents of this circular, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this circular.

TONIC
TONIC INDUSTRIES HOLDINGS LIMITED
東力實業控股有限公司*
(Incorporated in the Cayman Islands with limited liability)

**CONNECTED TRADING TRANSACTIONS
WITH EGANAGOLDPFEIL GROUP**

**Independent Financial Advisor to the Independent Board Committee
of Tonic Industries Holdings Limited**



Upbest Securities Company Limited

A letter from the Independent Board Committee of Tonic Industries Holdings Limited dated 5 July, 2002 is set out on pages 10 to 11 of this circular.

A letter from Upbest Securities Company Limited containing its advice to the Independent Board Committee of Tonic Industries Holdings Limited dated 5 July, 2002 is set out on pages 12 to 17 of this circular.

A notice convening an extraordinary general meeting of Tonic Industries Holdings Limited to be held at Unit B, 10th Floor, Summit Building, 30 Man Yue Street, Hung Hom, Kowloon, Hong Kong on 2 August, 2002 at 10:00 a.m. is set out on pages 23 to 24 of this circular. Whether or not you are able to attend the extraordinary general meeting in person, you are requested to complete and return the form of proxy in accordance with the instructions printed thereon to the 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 less than 48 hours before the time appointed for the holding of the extraordinary general meeting or any adjourned meeting (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting at the extraordinary general meeting or at any adjourned meeting (as the case may be) should you so wish.

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DEFINITIONS

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

“Company”	Tonic Industries Holdings Limited, a company incorporated in the Cayman Islands with limited liability whose shares are listed on the Stock Exchange
“Directors”	the directors of the Company
“EganaGoldpfeil”	EganaGoldpfeil (Holdings) Limited, a company incorporated in the Cayman Islands with limited liability whose shares are listed on the Stock Exchange
“EganaGoldpfeil Group”	EganaGoldpfeil and its subsidiaries
“EGM”	the extraordinary general meeting of the Company to be held on 2 August, 2002, the notice of which is set out on pages 23 to 24 of this circular
“Group”	the Company and its subsidiaries
“HK\$” and “cents”	Hong Kong dollars and cents respectively
“Independent Shareholders”	Shareholders other than EganaGoldpfeil and their respective associates (as defined in the Listing Rules)
“JAL”	Junghans Asia Limited, a company incorporated in Hong Kong and wholly owned by EganaGoldpfeil
“Junghans”	Junghans Uhren GmbH, a company incorporated in Germany and wholly owned by EganaGoldpfeil
“Junghans Group”	Junghans and its subsidiaries
“Latest Practicable Date”	3 July, 2002, being the latest practicable date for ascertaining certain information referred to herein prior to the printing of this circular
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“ODM”	original design manufacturing, whereby manufacturer owns the design of the products and such products are marketed under the customer’s own brand name
“OEM”	original equipment manufacturing, whereby products are manufactured in accordance with the designs and instructions of a customer and are marketed by the customer under the customer’s own brand name

DEFINITIONS

“PVL”	Pioneer Ventures Limited, a company incorporated in Hong Kong and wholly owned by EganaGoldpfeil
“SDI Ordinance”	Securities (Disclosure of Interests) Ordinance (Chapter 396 of the laws of Hong Kong)
“Shareholder(s)”	registered holder(s) of shares of HK\$0.10 each in the capital of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Trading Transactions”	collectively the trading transactions entered into between the Group and EganaGoldpfeil Group which comprise of sales by the Group to PVL, sales by the Group to JAL and purchases by the Group from Junghans Group as detailed and fully described in this circular
“Upbest”	Upbest Securities Company Limited, a registered investment advisor and dealer in Hong Kong

TONIC

TONIC INDUSTRIES HOLDINGS LIMITED

東力實業控股有限公司*

(Incorporated in the Cayman Islands with limited liability)

Directors:

LING Siu Man, Simon

(Chairman and Managing Director)

LEE Ka Yue, Peter

WONG Ki Cheung

LI Fung Ching, Catherine

AU Wai Man

LIU Hoi Keung, Gary

WONG Wai Kwong, David*

HO Fook Hong, Ferdinand**

PANG Hon Chung**

* Non-executive Director

** Independent non-executive Director

Registered office:

Ugland House

South Church Street

P.O. Box 309

George Town

Grand Cayman

Cayman Islands

British West Indies

Principal place of business:

Unit B, 10th Floor

Summit Building

30 Man Yue Street

Hung Hom

Kowloon

Hong Kong

5 July, 2002

To the Shareholders

Dear Sir or Madam,

CONNECTED TRADING TRANSACTIONS WITH EGANAGOLDPFEIL GROUP

INTRODUCTION

It was announced on 14 June, 2002 that an extraordinary general meeting will be held to seek the approval of the Independent Shareholders of the Trading Transactions which constitute connected transactions of the Company under the Listing Rules and require, among others, independent shareholders' approval.

The Independent Board Committee comprising of Mr. Ho Fook Hong, Ferdinand and Mr. Pang Hon Chung who are independent non-executive Directors, has been formed to advise the Independent Shareholders on the Trading Transactions. Upbest has been appointed by the Company to advise the Independent Board Committee on the Trading Transactions.

The purposes of this Circular are to provide you with further information on the Trading Transactions, to present the letter of advice from Upbest and the recommendation of the Independent Board Committee in respect of the Trading Transactions, to dispatch to you a notice of the EGM and to furnish certain information on the Group in compliance with the requirements of the Listing Rules.

* For identification purposes only

LETTER FROM THE CHAIRMAN AND MANAGING DIRECTOR

BACKGROUND

The Group is principally engaged in design, manufacture and marketing of high quality audio and visual (“AV”) products. It markets a wide range of AV products including Compact-Disc players, mini hi-fi music centers, Mini-Disc players and digital versatile disc (“DVD”) players to overseas importers in Europe and America as well as Japanese manufacturers on an OEM and ODM basis.

EganaGoldpfeil has been a substantial shareholder of the Company since the listing of the Company on the Stock Exchange in October 1997. Currently, EganaGoldpfeil is beneficially interested in approximately 24.77% of the issued share capital of the Company. EganaGoldpfeil is considered to be a connected person of the Company and accordingly any transaction entered into between the Group and EganaGoldpfeil Group will constitute a connected transaction under Chapter 14 of the Listing Rules.

ONGOING TRADING TRANSACTIONS

Since the listing of the Company on the Stock Exchange in 1997, PVL (a wholly owned subsidiary of EganaGoldpfeil) has been purchasing a variety of AV products from the Group in the ordinary and usual course of business of the Group (the “Ongoing Trading Transactions”). As EganaGoldpfeil is a substantial shareholder of the Company and accordingly a connected person of the Company under the Listing Rules, these Ongoing Trading Transactions constitute connected transactions of the Company under the Listing Rules. The Stock Exchange had granted on 17 October, 1997 a conditional waiver to the Company from compliance with the requirements stipulated in the Listing Rules in connection with the Ongoing Trading Transactions. Under the waiver, the cap amount of the aggregate value of the Ongoing Trading Transactions in each financial year shall not exceed 3% of the turnover of the Group for that year.

For the past three financial years ended 31 March, 2000, 2001 and 2002 the aggregate values of the Ongoing Trading Transactions are as follows:–

Period	Total Sales to PVL HK\$'000	Total Group Sales HK\$'000	Percentage to Total Group Sales
Year ended 31 March, 2000	408	2,038,700	0.02%
Year ended 31 March, 2001	10,192	2,625,533	0.39%
Year ended 31 March, 2002	2,100	2,018,000	0.10%

The significant increase of sales to PVL for the year ended 31 March, 2001 was the result of the Group’s launch of 3 new models of AV products which were positively received by PVL’s customers in that year. The drop in sales to PVL for the year ended 31 March, 2002 was due to shrinkage of sales in the midst of the global recession in 2001 which was further dampened by the “September 11” incident.

LETTER FROM THE CHAIRMAN AND MANAGING DIRECTOR

These Ongoing Trading Transactions for the past three financial years did not exceed the cap amount under the waiver granted by the Stock Exchange and details of the transactions were fully disclosed in the Company's interim and annual report of each relevant financial year.

The aggregate value of sales to PVL for the two months ended 31 May, 2002 amounted to approximately HK\$8 million, representing approximately 3% of the Group sales for the same period, reflecting the results of global economic recovery from the general recession in the year 2001 and the launch of new AV products e.g. DVD products as well as procurement of new customers by PVL in Germany.

The net tangible assets of the Group as of 31 March, 2000, 2001 and 2002 and as of 31 May, 2002 were approximately HK\$338 million (audited), HK\$372 million (audited), HK\$385 million (unaudited) and HK\$388 million (unaudited) respectively. The aggregate values of the sales of the Group to EganaGoldpfeil Group for the three financial years from 2000 to 2002 and the two months ended 31 May, 2002 represent respectively 0.12%, 2.74%, 0.55% and 2.06% of the net tangible assets of the Group as at the end of the relevant periods as shown above.

The aggregate values of the Ongoing Trading Transactions for the past three financial years were minimal as compared with the Group's total sales. However, in anticipation of business growth with EganaGoldpfeil Group in future years, the Directors of the Company consider that the current cap amount of 3% on the Group's total sales in each financial year should be increased. For the two months ended 31 May, 2002, the aggregate value of sales to PVL amounted to approximately HK\$8 million, representing approximately 3% of the Group's total sales for the same period. It is anticipated that the sales to PVL will be progressively increased and may reach HK\$100 million per year within the next three financial years ending 31 March, 2005 following the launch of new products e.g. DVD products and procurement of new customers by PVL in Germany. With reference to the current annual sales of the Group of HK\$2 billion, the estimated HK\$100 million represents 5%.

NEW TRADING TRANSACTIONS

On 28 May, 2002, the Company entered into an agreement with JAL pursuant to which the Company will act as a sourcing agent for sourcing of raw materials including but not limited to parts and movements for JAL's production of timepieces under "Eurochron" brand, and radio-controlled watches and clocks in Asia. In addition, Tonic Electronics Limited, a wholly owned subsidiary of the Company, will purchase parts and movements from Junghans in Europe (other than third party suppliers in Asia) for JAL's assembly of radio-controlled watches and clocks by capitalizing of the Group's expertise in electronics technology. These trading transactions (collectively the "New Trading Transactions") will be conducted in the ordinary and usual course of business of the Group.

The sales to JAL will be negotiated on an individual basis in accordance with the Group's pricing policy and on the terms no more favorable than those available to independent third parties, i.e. at a profit margin to the cost of the parts and movements acquired by the Group.

The purchases from Junghans Group will be negotiated on an individual and on an arm's length basis with reference to the then market price of similar products prevailing in the market and on the terms no more favorable than those available to independent third parties.

LETTER FROM THE CHAIRMAN AND MANAGING DIRECTOR

It is estimated that the annual purchases from Junghans Group by the Group would amount to approximately HK\$100 million, representing approximately 4% of the Group's total cost of sales of HK\$2,483 million in 2000/01 and that the annual sales by the Group to JAL would amount to approximately HK\$180 million, representing approximately 7% of the Group's total sales of HK\$2,626 million in 2000/01. These estimates are calculated with reference to the actual sales and costs of sales of Junghans Group in 2002. The values of estimated purchases of HK\$100 million from Junghans Group and estimated sales of HK\$180 million to JAL represents respectively 26.9% and 48.4% of the Group's audited net tangible assets of HK\$372 million as of 31 March, 2001.

Both JAL and Junghans are wholly owned by EganaGoldpfeil and therefore are considered to be connected persons of the Company by virtue of EganaGoldpfeil's 24.77% beneficial interest in the Company. Accordingly the New Trading Transactions will constitute connected transactions of the Company under Chapter 14 of the Listing Rules. The Directors of the Company consider that strict compliance with disclosure and shareholders' approval requirements of the Listing Rules for these New Trading Transactions would be impractical and burdensome to the Company. Hence, the Company has applied to the Stock Exchange for waivers from full compliance with the relevant Listing Rules requirements for the New Trading Transactions.

BENEFITS OF THE TRADING TRANSACTIONS

The Trading Transactions which include sales to PVL (as mentioned in the "Ongoing Trading Transactions" section above), sales to JAL and purchases from Junghans Group (as mentioned in the "New Trading Transactions" section above) are of recurring nature and are conducted in the ordinary and usual course of the business of the Group and on normal commercial terms. The Directors including the non-executive Directors consider that their terms are fair and reasonable as far as the Shareholders are concerned and the transactions are beneficial to the Group in terms of enhancing the profitability and improving the cash flow position of the Group.

APPLICATION FOR WAIVERS

It is prima facie that the Trading Transactions are of recurring nature and conducted in the ordinary and usual course of the business of the Group. Hence, strict compliance with the connected transactions requirements as set out in Chapter 14 of the Listing Rules on each occasion they arise would be impractical and burdensome to the Company and the costs to be incurred would not be beneficial to the Company and respectively its Shareholders. Accordingly, the Company has applied to the Stock Exchange for three waivers from having to comply with the requirements of the Listing Rules which include further press announcement, and shareholders' approval in respect of the Trading Transactions for the three financial years ending 31 March, 2003, 2004 and 2005 on the following conditions that:-

1. the Trading Transactions shall be:
 - (i) entered into by the Company in the ordinary and usual course of its business;
 - (ii) conducted either (a) on normal commercial terms (which expression will be applied by reference to transactions of a similar nature and to be made by similar entities) or (b) (where there is no available comparison) on terms that are fair and reasonable so far as the shareholders of the Company are concerned; and

LETTER FROM THE CHAIRMAN AND MANAGING DIRECTOR

- (iii) entered into either (a) in accordance with the terms of the agreements governing such Trading Transactions or (b) (where there are no such agreements) on terms no less favorable than those available to or from independent third parties.
2. the aggregate amounts of the Trading Transactions for each financial year of the Company shall not exceed the respective cap amounts (the “Cap Amounts”) as follows:–

Trading Transactions	Cap Amounts
(i) Sales to PVL	5% of audited consolidated turnover of the Group of the respective financial year
(ii) Sales to JAL	10% of audited consolidated turnover of the Group of the respective financial year
(iii) Purchases from Junghans	7% of the audited consolidated cost of sales of the Group of the respective financial year

3. the independent non-executive Directors of the Company shall review the Trading Transactions annually and confirm in the Company’s next annual report that these were conducted in the manner as stated in paragraphs 1 and 2 above;
4. the Company’s auditors shall review the Trading Transactions annually and confirm in a letter (the “Letter”) to the Directors (a copy of which shall be provided to the Listing Division of the Stock Exchange) stating whether:
- (i) the Trading Transactions have received the approval of the Company’s board of Directors;
 - (ii) the Trading Transactions are in accordance with the pricing policies as stated in the Company’s financial statements;
 - (iii) the Trading Transactions have been entered into in accordance with the terms of the agreements governing the Trading Transactions or, if there are no such agreements, on terms no less favorable than those available to or from independent third parties; and
 - (iv) the Cap Amounts have been exceeded.

Where, for whatever reason, the auditors decline to accept the engagement or are unable to provide the Letter, the Directors shall contact the Listing Division of the Stock Exchange immediately;

5. details of the Trading Transactions in each financial year shall be disclosed as required under Rule 14.25(1)(A) to (D) of the Listing Rules in the annual report of the Company for that financial year together with a statement of the opinion of the independent non-executive Directors and the auditors of the Company referred to in paragraphs 3 and 4 above; and

LETTER FROM THE CHAIRMAN AND MANAGING DIRECTOR

6. the Company and its subsidiaries have provided to the Stock Exchange an undertaking that, for so long as the Company's shares are listed on the Stock Exchange, it will provide the Company's auditors with full access to its relevant records for the purpose of the auditors' review of the Trading Transactions referred to in paragraph 4 above.

If any terms of the Trading Transactions as mentioned above are altered or if the Company enters into any new agreements with any connected persons (within the meaning of the Listing Rules) in the future, the Company must comply with the provisions of Chapter 14 of the Listing Rules governing connected transactions unless it applies for and obtains a separate waiver from the Stock Exchange.

The Cap Amounts specified in the Paragraph 2 above are arrived at with reference to the market conditions and the anticipated respective amounts of sales or purchases in the following three financial years in question.

EXTRAORDINARY GENERAL MEETING

An extraordinary general meeting is scheduled to be held on 2 August, 2002 at which ordinary resolutions will be proposed and, if thought fit, passed to approve the Trading Transactions.

A form of proxy for use at the EGM is enclosed. Whether or not you are able to attend the EGM in person, you are requested to complete and return the form of proxy in accordance with the instructions printed thereon to the 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 less than 48 hours before the time appointed for the holding of the EGM or any adjourned meeting (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting at the EGM or at any adjourned meeting (as the case may be) should you so wish.

In view of its interest in the Trading Transactions, EganaGoldpfeil and its associates (as defined in the Listing Rules) will abstain from voting on the relevant ordinary resolutions to be proposed at the EGM.

RECOMMENDATION OF THE INDEPENDENT BOARD COMMITTEE

The Independent Board Committee comprising of the independent non-executive Directors has been formed to advise the Independent Shareholders on the Trading Transactions. Upbest has been appointed to act as independent financial advisor to the Independent Board Committee.

Your attention is drawn to (a) the letter from the Independent Board Committee set out on pages 10 to 11 of this circular which contains the recommendations of the Independent Board Committee to the Independent Shareholders concerning the Trading Transactions; and (b) the letter from Upbest to the Independent Board Committee set out on pages 12 to 17 of this circular in relation to the Trading Transactions and the principal factors and reasons considered by Upbest in arriving at its recommendations.

The Independent Board Committee, having taken into account the advice of Upbest, consider that the Trading Transactions is in the interest of the Company and the Shareholders as a whole. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favor of the ordinary resolutions to be proposed to approve the Trading Transactions at the EGM.

LETTER FROM THE CHAIRMAN AND MANAGING DIRECTOR

ADDITIONAL INFORMATION

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

Yours faithfully,
For and on behalf of the Board
Simon Ling Siu Man
Chairman and Managing Director

TONIC

TONIC INDUSTRIES HOLDINGS LIMITED

東力實業控股有限公司*

(Incorporated in the Cayman Islands with limited liability)

The Independent Board Committee:

HO Fook Hong, Ferdinand
PANG Hon Chung

Registered office:

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

Principal place of business:

Unit B, 10th Floor
Summit Building
30 Man Yue Street
Hung Hom
Kowloon
Hong Kong

5 July, 2002

To the Independent Shareholders

Dear Sir or Madam,

CONNECTED TRADING TRANSACTIONS WITH EGANAGOLDPFEIL GROUP

As the Independent Board Committee, we have been appointed to advise you in connection with the Trading Transactions with EganaGoldpfeil Group, details of which are set out in the letter from the Chairman and Managing Director contained in the circular dated 5 July, 2002 (the “Circular”), of which this letter forms a part. The terms used in this letter shall have the same meanings as given to them in the Circular unless the context otherwise requires.

Pursuant to the Listing Rules, the Trading Transactions constitute connected transactions of the Company and will require, among others, the approval of the Independent Shareholders.

We wish to draw your attention to the “Letter from Independent Financial Advisor” containing its advice regarding the Trading Transactions as set out on pages 12 to 17 of the Circular. Having considered the advice given by Upbest and the principal factors and reasons taken into consideration by it in arriving at its advice, we are of the opinion that the Trading Transactions are carried out in the ordinary and usual course of business of the Group and are entered into on normal commercial terms. As far as the Shareholders are concerned, the terms of the Trading Transactions are fair and reasonable and that the continuation of the Trading Transactions will provide the Group with

* *For identification purposes only*

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

enhancement in profitability and improvement in cash flow position which is beneficial to the Group. With reference to the aggregate values of sales to PVL and the anticipated sales to JAL and purchases from Junghans having regard to expansion of the Group's business with EganaGoldpfeil Group, we consider that the annual Cap Amounts as stated in the letter from the Chairman and Managing Director contained in the Circular for the Trading Transactions as specified in the ordinary resolutions to be proposed at the EGM are reasonable and justifiable. Accordingly, the Trading Transactions including the annual Cap Amounts are in the interests of the Company and the Shareholders. We therefore recommend the Independent Shareholders to vote for the resolutions to approve the Trading Transactions to be proposed at the EGM.

Yours faithfully,

The Independent Board Committee of

Tonic Industries Holdings Limited

Ho Fook Hong, Ferdinand

Pang Hon Chung

LETTER FROM INDEPENDENT FINANCIAL ADVISOR

The following is the text of a letter received from Upbest Securities on 5 July, 2002 regarding the connected trading transactions prepared for the purpose of incorporation into this circular:



UPBEST SECURITIES COMPANY LIMITED

2nd Floor, Wah Kit Commercial Centre
302 Des Voeux Road Central, Hong Kong

5 July, 2002

The Independent Board Committee of
Tonic Industries Holdings Limited
Unit B, 10th Floor, Summit Building
30 Man Yue Street
Hung Hom
Kowloon
Hong Kong

Dear Sirs,

CONNECTED TRADING TRANSACTIONS

We refer to our appointment to advise the Independent Board Committee in respect of the Trading Transactions, details of which are set out in the circular to Shareholders dated 5 July, 2002 (the "Circular"), of which this letter forms a part. Terms used in this letter have the same meanings as defined in the Circular unless the context requires otherwise.

In formulating our opinion, we have relied on the statements, information, opinions and representations contained or referred to in the Circular and the information and representations as provided to us by the Directors. We have assumed that all information and representations contained or referred to in the Circular and all information and representation which have been provided by the Directors, for which they are solely and wholly responsible, are true and accurate at the time when they were made and continue to be so at the date hereof. We have also assumed that all statements of belief, opinion and intention made by the Directors in the Circular were reasonably made after due enquiry. We consider that the information reviewed by us is sufficient for the purpose of our recommendations set out in this letter and we have no reason to doubt the truth, accuracy, or completeness of the information provided to us by the Company or the Directors. We have not, however, conducted any form of in-depth investigation into the businesses and affairs of the Group.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion as to whether the terms of the Trading Transactions are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders, we have considered the following principal factors and reasons.

LETTER FROM INDEPENDENT FINANCIAL ADVISOR

BACKGROUND

The Group is principally engaged in design, manufacture and marketing of high quality audio and visual (“AV”) products. It markets a wide range of AV products including Compact-Disc players, mini hi-fi music centers, Mini-Disc players and digital versatile disc (“DVD”) players to overseas importers in Europe and America as well as Japanese manufacturers on an OEM and ODM basis.

EganaGoldpfeil has been a substantial shareholder of the Company since the listing of the Company on the Stock Exchange in October 1997. Currently, EganaGoldpfeil is beneficially interested in approximately 24.77% of the issued share capital of the Company. EganaGoldpfeil is considered to be a connected person of the Company and accordingly any transaction entered into between the Group and EganaGoldpfeil Group will constitute a connected transaction under Chapter 14 of the Listing Rules.

The PVL Transactions

Since the listing of the Company on the Stock Exchange in 1997, PVL (a wholly owned subsidiary of EganaGoldpfeil) has been purchasing a variety of AV products from the Group in the ordinary and usual course of business of the Group (the “Ongoing Trading Transactions”). As EganaGoldpfeil is a substantial shareholder of the Company and accordingly a connected person of the Company under the Listing Rules, these Ongoing Trading Transactions constitute connected transactions of the Company under the Listing Rules. The Stock Exchange had granted on 17 October, 1997 a conditional waiver to the Company from compliance with the requirements stipulated in the Listing Rules in connection with the Ongoing Trading Transactions. Under the waiver, the cap amount of the aggregate value of the Ongoing Trading Transactions in each financial year shall not exceed 3% of the turnover of the Group for that year.

For the past three financial years ended 31 March, 2000, 2001 and 2002 the aggregate values of the Ongoing Trading Transactions are as follows:–

Period	Total Sales to PVL HK\$'000	Total Group Sales HK\$'000	Percentage to Total Group Sales
Year ended 31 March, 2000	408	2,038,700	0.02%
Year ended 31 March, 2001	10,192	2,625,533	0.39%
Year ended 31 March, 2002	2,100	2,018,000	0.10%

The significant increase of sales to PVL for the year ended 31 March, 2001 was the result of the Group’s launch of 3 new models of AV products which were positively received by PVL’s customers in that year. The drop in sales to PVL for the year ended 31 March, 2002 was due to shrinkage of sales in the midst of the global recession in 2001 which was further dampened by the “September 11” incident.

These Ongoing Trading Transactions for the past three financial years did not exceed the cap amount under the waiver granted by the Stock Exchange and details of the transactions were fully disclosed in the Company’s interim and annual report of each relevant financial year.

LETTER FROM INDEPENDENT FINANCIAL ADVISOR

The aggregate value of sales to PVL for the two months ended 31 May, 2002 amounted to approximately HK\$8 million, representing approximately 3% of the Group sales for the same period, reflecting the results of global economic recovery from the general recession in the year 2001 and the launch of new AV products e.g. DVD products as well as procurement of new customers by PVL in Germany.

The net tangible assets of the Group as of 31 March, 2000, 2001 and 2002 and as of 31 May, 2002 were approximately HK\$338 million (audited), HK\$372 million (audited), HK\$385 million (unaudited) and HK\$388 million (unaudited) respectively. The aggregate values of the sales of the Group to EganaGoldpfeil Group for the three financial years from 2000 to 2002 and the two months ended 31 May, 2002 represent respectively 0.12%, 2.74%, 0.55% and 2.06% of the net tangible assets of the Group as at the end of the relevant periods as shown above.

The JAL Transactions

On 28 May, 2002, the Company entered into an agreement with JAL pursuant to which the Company will act as a sourcing agent for sourcing of raw materials including but not limited to parts and movements for JAL's production of timepieces under "Eurochron" brand, and radio-controlled watches and clocks in Asia. In addition, Tonic Electronics Limited, a wholly owned subsidiary of the Company, will purchase parts and movements from Junghans in Europe (other than third party suppliers in Asia) for JAL's assembly of radio-controlled watches and clocks by capitalizing of the Group's expertise in electronics technology. These trading transactions (collectively the "JAL Transactions") will be conducted in the ordinary and usual course of business of the Group.

The sales to JAL will be negotiated on an individual basis in accordance with the Group's pricing policy and on the terms no more favorable than those available to independent third parties, i.e. at a profit margin to the cost of the parts and movements acquired by the Group.

The purchases from Junghans Group will be negotiated on an individual and on an arm's length basis with reference to the then market price of similar products prevailing in the market and on the terms no more favorable than those available to independent third parties.

BENEFITS OF THE TRADING TRANSACTIONS

The Trading Transactions which include sales to PVL (as mentioned in the "The PVL Transactions" section above), sales to JAL and purchases from Junghans Group (as mentioned in the "The JAL Transactions" section above) are of recurring nature and are conducted in the ordinary and usual course of the business of the Group and on normal commercial terms. The Directors consider that the Trading Transactions are beneficial to the Group in terms of enhancing the profitability and improving the cash position of the Group.

APPLICATION TO THE STOCK EXCHANGE FOR WAIVERS

The Trading Transactions are of recurring nature and conducted in the ordinary and usual course of the business of the Group and are on normal commercial terms. Hence, strict compliance with the connected transactions requirements as set out in Chapter 14 of the Listing Rules on each occasion they arise would be impractical and unduly burdensome to the Company and the costs to be incurred would not be beneficial to the Company and respectively its Shareholders. Accordingly, the Company has applied to the Stock Exchange for three waivers from having to comply with the

LETTER FROM INDEPENDENT FINANCIAL ADVISOR

requirements of the Listing Rules which include further press announcement, and shareholders' approval in respect of the Trading Transactions for the three financial years ending 31 March, 2003, 2004 and 2005 on the following conditions that:–

1. the Trading Transactions shall be:
 - (i) entered into by the Company in the ordinary and usual course of its business;
 - (ii) conducted either (a) on normal commercial terms (which expression will be applied by reference to transactions of a similar nature and to be made by similar entities) or (b) (where there is no available comparison) on terms that are fair and reasonable so far as the shareholders of the Company are concerned; and
 - (iii) entered into either (a) in accordance with the terms of the agreements governing such Trading Transactions or (b) (where there are no such agreements) on terms no less favorable than those available to or from independent third parties.
2. the aggregate amounts of the Trading Transactions for each financial year of the Company shall not exceed the respective cap amounts (the "Cap Amounts") as follows:–

Trading Transactions

Cap Amounts

- | | |
|-------------------------------|--|
| (i) Sales to PVL | 5% of audited consolidated turnover of the Group of the respective financial year |
| (ii) Sales to JAL | 10% of audited consolidated turnover of the Group of the respective financial year |
| (iii) Purchases from Junghans | 7% of the audited consolidated cost of sales of the Group of the respective financial year |
3. the independent non-executive Directors of the Company shall review the Trading Transactions annually and confirm in the Company's next annual report that these were conducted in the manner as stated in paragraphs 1 and 2 above;
 4. the Company's auditors shall review the Trading Transactions annually and confirm in a letter (the "Letter") to the Directors (a copy of which shall be provided to the Listing Division of the Stock Exchange) stating whether:
 - (i) the Trading Transactions have received the approval of the Company's board of Directors;
 - (ii) the Trading Transactions are in accordance with the pricing policies as stated in the Company's financial statements;
 - (iii) the Trading Transactions have been entered into in accordance with the terms of the agreements governing the Trading Transactions or, if there are no such agreements, on terms no less favorable than those available to or from independent third parties; and

LETTER FROM INDEPENDENT FINANCIAL ADVISOR

(iv) the Cap Amounts have been exceeded.

Where, for whatever reason, the auditors decline to accept the engagement or are unable to provide the Letter, the Directors shall contact the Listing Division of the Stock Exchange immediately;

5. details of the Trading Transactions in each financial year shall be disclosed as required under Rule 14.25(1)(A) to (D) of the Listing Rules in the annual report of the Company for that financial year together with a statement of the opinion of the independent non-executive Directors and the auditors of the Company referred to in paragraphs 3 and 4 above; and
6. the Company and its subsidiaries have provided to the Stock Exchange an undertaking that, for so long as the Company's shares are listed on the Stock Exchange, it will provide the Company's auditors with full access to its relevant records for the purpose of the auditors' review of the Trading Transactions referred to in paragraph 4 above.

If any terms of the Trading Transactions as mentioned above are altered or if the Company enters into any new agreements with any connected persons (within the meaning of the Listing Rules) in the future, the Company must comply with the provisions of Chapter 14 of the Listing Rules governing connected transactions unless it applies for and obtains a separate waiver from the Stock Exchange.

BASIS OF SETTING THE ANNUAL CAP

The Cap Amounts are arrived at with reference to the market conditions and the anticipated respective amounts of sales or purchases in the next three financial years in question.

The PVL Transactions

The aggregate values of the Ongoing Trading Transactions for the past three financial years were minimal as compared with the Group's total sales. However, in anticipation of business growth with EganaGoldpfeil Group in future years, the Directors of the Company consider that the current cap amount of 3% on the Group's total sales in each financial year should be increased. For the two months ended 31 May, 2002, the aggregate value of sales to PVL amounted to approximately HK\$8 million, representing approximately 3% of the Group's total sales for the same period. It is anticipated that the sales to PVL will be progressively increased following the launch of new products such as DVD products and procurement of new customers by PVL in Germany. It is anticipated that sales to PVL may reach HK\$100 million per year within the next three financial years ending 31 March, 2005. With reference to the current annual sales of the Group of approximately HK\$2 billion, the estimated HK\$100 million represents approximately 5%.

The JAL Transactions

It is estimated that the annual purchases from Junghans Group by the Group would amount to approximately HK\$100 million, representing approximately 4% of the Group's total cost of sales of HK\$2,483 million in 2000/01 and that the annual sales by the Group to JAL would amount to approximately HK\$180 million, representing approximately 9% of the Group's current annual sales of approximately HK\$2 billion in 2001/02. These estimates are calculated with reference to

LETTER FROM INDEPENDENT FINANCIAL ADVISOR

the actual sales and costs of sales of Junghans Group in 2002. The values of estimated purchases of HK\$100 million from Junghans Group and estimated sales of HK\$180 million to JAL represents respectively 26.9% and 48.4% of the Group's audited net tangible assets of HK\$372 million as of 31 March, 2001.

RECOMMENDATION

Having considered the above principal factors and reasons, we are of the opinion that the Trading Transactions have been entered into in the ordinary and usual course of business of the Group, are in the interests of the Company and its Shareholders as a whole, and are fair and reasonable so far as the Shareholders are concerned.

In addition, the aggregate amounts of the Trading Transactions for each of the three financial years ending 31 March, 2003, 2004 and 2005 of the Company shall not exceed the respective cap amounts (the "Cap Amounts") as follows:-

Trading Transactions	Cap Amounts
(i) Sales to PVL	5% of audited consolidated turnover of the Group of the respective financial year
(ii) Sales to JAL	10% of audited consolidated turnover of the Group of the respective financial year
(iii) Purchases from Junghans	7% of the audited consolidated cost of sales of the Group of the respective financial year

and are considered reasonable, justifiable and in the best interests of its Shareholders.

According, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the resolutions to approve the Trading Transactions to be proposed at the EGM.

Yours faithfully,
For and on behalf of
Upbest Securities Company Limited
Li Kwok Cheung, George
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 Company. 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 the omission of which would make any statement herein misleading.

2. DISCLOSURE OF DIRECTORS' INTERESTS

(a) Directors' Interests in Securities

As at the Latest Practicable Date, the interests of each of the Directors, chief executive and their associates in the securities of the Company or its associated corporations (within the meaning of the SDI Ordinance) which were required to be notified to the Company and the Stock Exchange pursuant to section 28 of the SDI Ordinance (including interests which they were deemed or taken to have under section 31 or Part I of the Schedule to the SDI Ordinance) or were required, pursuant to section 29 of the SDI Ordinance, to be entered in the register referred to therein, or which were required pursuant to the Model Code for Securities Transactions by Directors of Listed Companies to be notified to the Company and the Stock Exchange were as follows:

The Company

Name of Director	Personal interests	Number of shares		Number of options Personal interests
		Corporate interests	Total	
Ling Siu Man, Simon	–	317,886,782 (Note 1)	317,886,782	10,000,000 (Note 2)
Lee Ka Yue, Peter	–	–	–	1,810,000 (Note 2)
Wong Ki Cheung	938,000	–	938,000	1,810,000 (Note 2)
Li Fung Ching, Catherine	1,200,000	–	1,200,000	1,810,000 (Note 2)
Au Wai Man	–	–	–	1,810,000 (Note 2)
Liu Hoi Keung, Gary	3,920	–	3,920	1,810,000 (Note 2)
Pang Hon Chung	1,412,000	–	1,412,000	–

Notes:

1. These shares were registered in the name of Success Forever Limited, a company incorporated in British Virgin Islands, the entire issued share capital of which is beneficially owned by Ling Siu Man, Simon.
2. The options, exercisable at HK\$0.70 per share, were granted to the directors on 10th April, 2000 pursuant to the Company's Share Option Scheme.

Associated corporations

As at the Latest Practicable Date, Ling Siu Man, Simon personally held 2,850 non-voting deferred shares of HK\$100 each of Tonic Electronics Limited, a subsidiary of the Company.

Except that certain Directors held certain nominee shares in subsidiaries in trust for the Company or its subsidiaries as at the Latest Practicable Date, no Directors held an interest in the share capital of the Company or any of its subsidiaries other than those as disclosed above.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or chief executive or their associates had any personal, family, corporate or other interests in the securities of the Company or any of its associated corporations which are required to be notified to the Company and the Stock Exchange pursuant to section 28 of the SDI Ordinance (including interests which are deemed or taken to have under section 31 or Part I of the Schedule to the SDI Ordinance) or which are required, pursuant to section 29 of the SDI Ordinance, to be entered in the register referred to therein, and none of the Directors or chief executive had any right to subscribe for the securities of the Company or had exercised any such right at the date of this circular.

(b) Directors' Interests in Contracts

Save as disclosed in paragraph 4 of this Appendix, none of the Directors is interested in any contract or arrangement in which they are materially interested and which is significant in relation to the business of the Company, at the date of this circular.

3. SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, so far as is known to the Directors or the chief executive of the Company, the following persons, other than a director or chief executive of the Company, were directly or indirectly interested in 10% or more in the issued share capital of the Company carrying rights to vote in all circumstances at general meetings of the Company. The amount of each of such persons' interests in the share capital of the Company is set out below:

Name	Number of shares held	Percentage of issued share capital (%)
Success Forever Limited (<i>Note 1</i>)	317,886,782	50.04
Eco-Haru Mfr. Holdings Limited (<i>Note 2</i>)	121,100,869	19.06
Glorious Concept Limited (<i>Note 2</i>)	36,274,000	5.71
EganaGoldpfeil (Holdings) Limited (<i>Note 2</i>)	157,374,869	24.77
Peninsula International Limited (<i>Note 3</i>)	157,374,869	24.77

Notes:

1. The entire issued share capital of Success Forever Limited is beneficially owned by Ling Siu Man, Simon as disclosed in "Disclosure of Directors' Interests" above.
2. The entire issued share capital of Eco-Haru Mfr. Holdings Limited and Glorious Concept Limited are beneficially owned by EganaGoldpfeil.
3. The entire issued share capital of EganaGoldpfeil is held as to 38.47% by Peninsula International Limited.

4. PARTICULARS OF DIRECTORS' SERVICE CONTRACTS

All the executive directors, other than Lee Ka Yue, Peter, have entered into service contracts with the Company and brief particulars of the principal terms of such agreements are set out below:—

Name of Director	Date of service contract	Service term	Annual Remuneration <i>HK\$</i>
Ling Siu Man, Simon	1 October 2000	3 years	3,888,000
Wong Ki Cheung	1 October 2000	3 years	1,944,000
Li Fung Ching, Catherine	1 October 2000	3 years	1,944,000
Au Wai Man	1 October 2000	3 years	1,620,000
Liu Hoi Keung, Gary	1 October 2000	3 years	1,620,000

The directors are also entitled to a discretionary bonus at a rate to be determined by the board of Directors. The Company also provide rent free accommodation to Ling Siu Man, Simon.

Save as disclosed above, none of the Directors has entered into any service contracts with any member of the Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation other than statutory compensation).

5. LITIGATION

So far as is known to the Directors and the chief executive of the Company, there was no litigation or claims of material importance pending or threatened against any member of the Group.

6. CONSENT

Upbest has given and has not withdrawn his written consent to the issue of this circular with a copy of its letter of advice included in the form and context in which it is included. The letter of advice was dated 5 July, 2002 and was made by Upbest for incorporation in this circular.

Upbest is a registered investment advisor and dealer in Hong Kong.

7. MATERIAL CHANGES

The Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 March, 2001, the date to which the latest published audited accounts of the Company have been made up.

8. GENERAL

- (i) The registered office of the Company is situated at Ugland House, South Church Street, P.O. Box 309, George Town, Grand Cayman, Cayman Islands, British West Indies and its principal place of business is at Unit B, 10th Floor, Summit Building, 30 Man Yue Street, Hung Hom, Kowloon, Hong Kong;
- (ii) The Company's branch share registrars and transfer office in Hong Kong is Tengis Limited of 4th Floor, Hutchison House, 10 Harcourt Road, Central, Hong Kong;
- (iii) The secretary of the Company is Liu Hoi Keung, Gary, FCCA, AHKSA;
- (iv) The qualifications of the expert who has given opinion or advice which are contained in this circular;

Name**Qualifications**

Upbest Securities Company Limited

Registered investment advisor and dealer

- (v) Upbest has no beneficial shareholding in the Company or in any of its subsidiaries and does not have the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for any securities in the Company or in any of its subsidiaries.
- (vi) Since 31 March, 2001, the date to which the latest published audited accounts of the Company have been made up, none of the Directors or Upbest has or has had any direct or indirect interest in any assets which have been acquired or disposed of by or leased to any member of the Group;
- (vii) The English text of this circular shall prevail over the Chinese text.

9. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at the principal place of business of the Company at Unit B, 10th Floor, Summit Building, 30 Man Yue Street, Hung Hom, Kowloon, Hong Kong, during normal business hours until 1 August, 2002.

- (i) the Memorandum and Articles of Association of the Company;
- (ii) the audited consolidated financial statements of the Company for the year ended 31 March, 2001;
- (iii) the letter from Upbest, the text of which is set out on pages 12 to 17 of this circular;
- (iv) the written consent referred to in paragraph 6 of this Appendix;
- (v) the service contracts referred to in paragraph 4 of this Appendix;

- (vi) the agreement dated 28 May, 2002 entered into between the Company and JAL;
- (vii) the minutes of the meeting of the board of Directors held on 14 June, 2002 approving the Trading Transactions; and
- (viii) the letter from Upbest confirming the matters referred to paragraph 8(v) of this Appendix.



TONIC INDUSTRIES HOLDINGS LIMITED

東力實業控股有限公司*

(Incorporated in the Cayman Islands with limited liability)

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 2 August, 2002 at 10:00 a.m. for the purpose of considering and, if thought fit, passing the following resolutions as ordinary resolutions:

ORDINARY RESOLUTIONS

1. “THAT the directors of the Company be and are hereby authorized to enter into the transactions with Pioneer Ventures Limited in relation to the sales of audio and visual products by the Company and its subsidiaries to Pioneer Ventures Limited for each of the financial years ending 31 March, 2003, 2004 and 2005 provided that the aggregate value of the sales in any financial year shall not exceed 5% of the total sales of the Company and its subsidiaries for the relevant financial year in question and that the directors of the Company be and are hereby authorized to do such things and acts as they consider necessary or appropriate to give effect to the same.”
2. “THAT the directors of the Company be and are hereby authorized to enter into the transactions with Junghans Asia Limited in relation to the sales of raw materials including but not limited to parts and movements by the Company and its subsidiaries to Junghans Asia Limited for each of the financial years ending 31 March, 2003, 2004 and 2005 provided that the aggregate value of the sales in any financial year shall not exceed 10% of the total sales of the Company and its subsidiaries for the relevant financial year in question and that the directors of the Company be and are hereby authorized to do such things and acts as they consider necessary or appropriate to give effect to the same.”
3. “THAT the directors of the Company be and are hereby authorized to enter into the transactions with Junghans Uhren GmbH in relation to the purchases of parts and movements from Junghans Uhren GmbH by the Company and its subsidiaries for each of the financial years ending 31 March, 2003, 2004 and 2005 provided that the aggregate value of the purchases in any financial year shall not exceed 7% of the total cost of sales of the Company and its subsidiaries for the relevant financial year in question and that the directors of the Company be and are hereby authorized to do such things and acts as they consider necessary or appropriate to give effect to the same.”

By Order of the Board
Liu Hoi Keung, Gary
Company Secretary

Hong Kong, 5 July, 2002

* For identification purposes only

NOTICE OF EXTRAORDINARY GENERAL MEETING

Principal Place of Business:

Unit B, 10th Floor
Summit Building
30 Man Yue Street
Hung Hom, Kowloon
Hong Kong

Notes:

- (a) A circular containing details regarding the ordinary resolutions set out in this Notice of the Meeting will be sent, together with a form of proxy for use at the Meeting, to the shareholders of the Company as soon as practicable.
- (b) A shareholder of the Company who is the holder of two or more shares may appoint more than one proxy to represent him on his behalf. A proxy need not be a shareholder of the Company. 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.
- (c) The instrument appointing a proxy and the power of attorney or other authority, if any, under which it is signed, or a notarially certified copy of such power of authority, must be lodged with the Company's principal place of business at Unit B, 10th Floor, Summit Building, 30 Man Yue Street, Hung Hom, Kowloon, Hong Kong not less than 48 hours before the time fixed for holding the Meeting.