

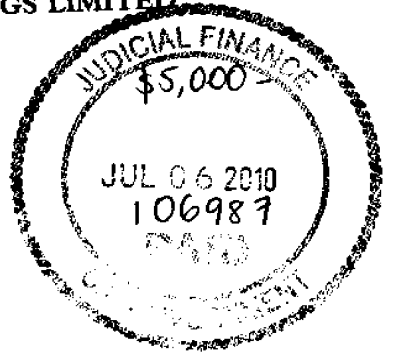
**IN THE GRAND COURT OF THE CAYMAN ISLANDS
FINANCIAL SERVICES DIVISION**

CAUSE NO. FSD 168 OF 2010

**IN THE MATTER OF SECTIONS 15 & 86 OF THE COMPANIES LAW
(2009 REVISION)**

AND IN THE MATTER OF TONIC INDUSTRIES HOLDINGS LIMITED

PETITION



To: The Grand Court

THE HUMBLE PETITION OF TONIC INDUSTRIES HOLDINGS LIMITED
C/O P.O. Box 309GT, Ugland House, South Church Street, George Town, Grand
Cayman, Cayman Islands (the "Company") SHOWS THAT:

1. The objects of this Petition are to seek:
 - a. the sanction of the Court pursuant to section 86 of the Companies Law (2009 Revision) to a proposed scheme of arrangement between the Company and a class of its creditors as enumerated in a printed composite document containing, amongst other things, the proposed scheme (the "Scheme Document"); and
 - b. the confirmation of the Court, pursuant to section 16 of the Companies Law (2009 Revision), of the intended resolution of the Company's shareholders to reduce the Company's issued share capital in order to facilitate future fund

raising exercises by the Company through the issuance of new shares, which is to be put to the Company's shareholders as a special resolution on or about 26 July 2010, as further set out at paragraph 15 below.

Background

2. The Company was incorporated on 24 April 1997 with limited liability in the Cayman Islands under the name "Tonic Electronics Holdings Limited". With effect from 20 May 1997, the Company's name was changed from "Tonic Electronics Holdings Limited" to its present name.
 3. The objects for which the Company was established was to perform all functions of a holding company in all its branches, to act as an investment company, and other objects set forth in the Memorandum of Association of the Company. The principal activity of the Company is investment holding. Its operating subsidiaries are primarily engaged in the design, manufacture and trading of consumer electronic products and components and home appliance products in the People's Republic of China.
 4. The authorised share capital of the Company is HK\$300,000,000 divided into 3,000,000,000 ordinary shares of HK\$0.10 each, of which 1,057,889,962 shares of HK\$0.10 have been issued and are fully paid or credited as fully paid. The shares of the Company have been listed on Main Board of The Stock Exchange of Hong Kong Limited ("the Stock Exchange") since 16 October 1997.
 5. As a result of the recent financial turmoil, tightened credit environment and the cancellation of consumer subsidies provided by the United States Government for the purchase of digital set top boxes, recent sales of the Group have declined significantly which has caused serious cash flow problem to the Group.
 6. Based on the unaudited consolidated financial statements of the Group, as at 31 December 2009, the Group had total assets of approximately HK\$426.2 million and total liabilities of approximately HK\$826.4 million. Total equity drastically decreased from approximately HK\$386.7 million as at 31 March 2009 to approximately negative HK\$400.2 million as at 31 December 2009, mainly due
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to significant losses incurred during the nine months period ended 31 December 2009.

7. The Group's net current liabilities of approximately HK\$705.2 million as at 31 December 2009 indicate that the Group has limited internal financial resources to finance its short-term liabilities. During October and November 2009 the Group received a series of letters of demand from its banks, demanding repayments of various bank loans, including but not limited to, US\$235,358.55, HK\$20,816,711.35, US\$396,809.11, HK\$57,854,325.82, US\$5,301,366.02, US\$150,000, HK\$29,887,818.10, US\$1,820,664.01 respectively, which the Group was unable to meet. Details are set out in the paragraphs under "2.2 Background to the Scheme" of the Explanatory Statement in the Scheme Document.

Scheme of Arrangement

8. The Company wishes to put to a scheme of arrangement to a class of its creditors for the purpose of restructuring the existing indebtedness of the Company ("the Scheme").
9. The "class of creditors" of the Company for the purposes of the Scheme and section 86 of the Companies Law (2009 Revision) are those falling within the definition of "Creditor" in the Scheme Document which include all persons who have a non-preferential claim, whether known or unknown, present or future, actual or contingent, which would be admissible to proof under the laws of the Cayman Islands or Hong Kong in a compulsory liquidation of the Company ("the Class Creditors"). Excluded from the Class Creditors are preferential creditors such as employees (of which the Company has none and if there are any, those preferential claims are to be paid out in full by the Company before the Effective Date of the Scheme).
10. The terms and conditions of the proposed Scheme are contained in the Scheme Document. Following are the key terms of the proposed Scheme:
 - a. A new company will be incorporated ("Schemeco");

- b. Schemeco will become liable for claims of the Class Creditors;
 - c. Skill China Limited (the "Investor") will subscribe for 930,943,165 shares in Company with a par value of 1¢ for a price of HK\$80m (the capital reduction referred to below will allow for this);
 - d. The Investor will transfer 63,473,398 shares in the Company to Schemeco, and grant a put option to Schemeco to sell all or any number of those shares back to the Investor for HK\$40m (or pro rata amount);
 - e. The Company will pay the HK\$80m subscription monies received from the Investor to Schemeco for distribution to the Class Creditors. This amount will be augmented by the HK\$40m to be received from the put option (if it is exercised), hence resulting in funds of at least HK\$120m being available to the Class Creditors ("the Schemeco Funds");
 - f. The Schemeco Funds will be paid out *pari passu* to the Class Creditors with admitted claims, and such claims will thereupon be discharged; and
 - g. The Company will transfer the Scheme Subsidiaries (as defined in the Scheme) to Schemeco.
11. The Scheme is such that an intelligent and honest man, being a member of the Class Creditors and acting in respect of his interests, might reasonably approve it.
12. In relation to the proposed Scheme, the Company intends to make an application for directions herein for an order that, amongst other things:
- a. the Company be at liberty to convene a meeting of the Class Creditors (the "Court Meeting") for the purpose of considering and, if thought fit, approving the Scheme (with or without modification);
 - b. directions as to the mode of delivery of the Scheme Document (including an explanatory statement) and proxy form to the Class Creditors; and
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- c. the appointment of a chairman of the Court Meeting, and for directions that the chairman should report the result of such Court Meeting to the Court.

13. The resolution intended to be submitted to the Class Creditors at the Court Meeting is:

“THAT this Court Meeting approves without modification the proposed Scheme of Arrangement, a print of which has been submitted to this Court Meeting and, for the purpose of identification, signed by the Chairman of this Court Meeting.”

Capital Reduction

14. In relation to the proposed capital reduction, Article 63(b) of the Company's Articles of Association provides that the Company may, by special resolution, reduce its share capital in any manner authorised and subject to any conditions prescribed by the Companies Law (2009 Revision) of Cayman Islands.

15. The Company intends to convene an Extraordinary General Meeting (“EGM”) to take place on 26 July 2010 which is before the Court Meeting. The special resolution intended to be submitted to the EGM is as follows:

“THAT, subject to the passing of resolutions no. 2 and 3 set out in the notice convening this meeting and the Listing Committee of The Stock Exchange of Hong Kong Limited approving the listing of, and granting the permission to deal in, the new shares of the Company with a par value of HK\$0.01 each in issue arising from and pursuant to this resolution and the payment by the Subscriber of the subscription price for the Subscription Shares as referred to in resolution no.3 set out in the notice convening this meeting,

(a) the par value of each issued share of the Company be reduced from HK\$0.10 to HK\$0.001 by the cancellation of HK\$0.099 of the paid-up capital on each issued share of the Company (the “Capital Reduction”);

(b) each authorised but unissued share with a par value of HK\$0.10 in the share capital of the Company be sub-divided into 100 shares with a par value of HK\$0.001 each;

(c) every ten issued and unissued shares with a par value of HK\$0.001 each in the share capital of the Company be consolidated into one share with a par value of HK\$0.01 each;

(d) any one or more of the directors of the Company be and is/are hereby authorised to do all such acts and things and execute all such documents or make such arrangement as he/they consider necessary, desirable or expedient for the purpose of, or in connection with, the implementation of and giving effect to the foregoing."

16. The reduction of the Company's share capital intended to be effected by the said special resolution would neither involve the diminution of liability in respect of any unpaid share capital nor the payment to any shareholder of any paid up capital.
17. The Capital Reduction is for a discernable purpose, and its terms and effects will be properly explained to shareholders a sufficient time prior to the EGM so as to ensure that shareholders are treated equitably.
18. The form of minute proposed to be registered with the Registrar of Companies is as follows:

"The issued share capital of TONIC INDUSTRIES HOLDINGS LIMITED (the "Company") was by virtue of a special resolution of the Company dated [] 2010 (the "Special Resolution") and with the confirmation of an order of the Grand Court of the Cayman Islands dated [] 2010 (the "Order") reduced from HK\$[] divided into [] shares of HK\$0.10 each to HK\$[] divided into [] shares of HK\$0.001 each.

By virtue of the Order and the Special Resolution, the issued share capital of the Company at the time of the registration of this minute is accordingly HK\$[] divided into [] shares of HK\$0.01 each."

19. It is appropriate for the Court to confirm the Capital Reduction and sanction the Scheme.

YOUR PETITIONER THEREFORE HUMBLY PRAYS:

1. That the Scheme be sanctioned by the Court so as to be binding on the Company and the Class Creditors.
2. That the reduction of the issued share capital of the Company proposed to be affected by special resolution set out in paragraph 15 above be confirmed and that the abovementioned minute be approved by the Court.
3. Such further or other relief as the Court shall see fit.

And your Petitioner will pray etc.

Dated this 6th day of July 2010



APPLEBY

Note: It is not intended that this Petition be served on anyone.

This Petition was presented by Appleby, Clifton House, 75 Fort Street, P.O. Box 190, Grand Cayman KY1-1104, Attorneys-at-Law for the Petitioner.

