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Smart Union

SMART UNION GROUP (HOLDINGS) LIMITED

(Provisional Liquidators Appointed)

合俊集團（控股）有限公司

（已委任臨時清盤人）

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2700)

ENTERING INTO THE PLACING AGREEMENT OF (I) PLACING OF PLACING SHARES; AND (II) PLACING OF CONVERTIBLE BONDS

Placing Agent



ASIAN CAPITAL
(CORPORATE FINANCE) LIMITED

卓亞(企業融資)有限公司

On 22 August 2011, as part of the Proposed Restructuring, the Company and the Placing Agent entered into the Placing Agreement whereby the Placing Agent has conditionally agreed with the Company, subject to the terms and conditions of the Placing Agreement, to procure (i) the Share Placees to subscribe for 27,020,000 New Shares at HK\$0.185 per Placing Share; and (ii) subscribers to subscribe for the Convertible Bonds in the aggregate principal amount of HK\$85,100,000 convertible into 460,000,000 New Shares at a conversion price of HK\$0.185 per Conversion Share on a fully underwritten basis.

The subscription price of each of the Placing Shares and the conversion price of each of the Conversion Shares represent (i) a discount of approximately 71.97% to the adjusted closing price of HK\$0.660 per New Share, based on the closing price of HK\$0.099 per Share as quoted on the Stock Exchange on the Last Trading Day and adjusted for the effects of the Capital Restructuring; (ii) a discount of approximately 77.63% to the adjusted average closing price of approximately HK\$0.827 per New Share, based on the average closing price of approximately HK\$0.124 per Share as quoted on the Stock Exchange for the five consecutive trading days up to and including the Last Trading Day and adjusted for the effects of the Capital Restructuring; and (iii) a discount of approximately 80.32% to the adjusted average closing price of HK\$0.940 per New Share, based on the average closing price of approximately HK\$0.141 per Share as quoted on the Stock Exchange for the ten consecutive trading days up to and including the Last Trading Day and adjusted for the effects of the Capital Restructuring.

The completion of the Placing Agreement is conditional upon (i) the fulfilment or waiver (as the case may be) of the Conditions Precedent as set out in the Restructuring Agreement; and (ii) the completion of the Restructuring Agreement taking place in accordance with the terms therein.

The transactions contemplated under the Placing Agreement are part of the Proposed Restructuring and therefore may or may not come into effect. Trading in the Shares has been suspended since 9:44 a.m. on 15 October 2008 at the request of the Company. The release of this announcement does not necessarily indicate that the Shares will be resumed for trading. Trading in the Shares will remain suspended until further notice.

Reference is made to the announcement of the Company dated 30 June 2011 (the “**Announcement**”) in relation to the Proposed Restructuring involving, among other things, the placing of Placing Shares and Convertible Bonds. Unless otherwise defined, capitalised terms used herein shall have the same meanings as defined in the Announcement.

On 22 August 2011, as part of the Proposed Restructuring, the Company and the Placing Agent entered into the Placing Agreement for the placing of Placing Shares and Convertible Bonds, details of which are set out below:

THE PLACING AGREEMENT

Date

22 August 2011 (after trading hours)

Parties

Issuer: the Company

Placing Agent: Asian Capital (Corporate Finance) Limited. Except for being the financial adviser of the Company, the Placing Agent is a third party independent of the Company and any of the Directors, chief executive, substantial shareholders of the Company and any of their respective associates. Save for the arrangements as disclosed in the Announcement, there is no agreement or arrangement between the Placing Agent and the Company or any member of the Concert Group.

The placing of the Placing Shares and the Convertible Bonds

The Placing Agent has conditionally agreed with the Company, subject to the terms and conditions of the Placing Agreement, to procure (i) the Share Placees to subscribe for 27,020,000 New Shares at HK\$0.185 per Placing Share; and (ii) subscribers to subscribe for the Convertible Bonds in the aggregate principal amount of HK\$85,100,000 convertible into 460,000,000 New Shares at a conversion price of HK\$0.185 per Conversion Share on a fully underwritten basis.

Placing Commission

The Placing Agent will receive a placing commission of 3.0% on the gross consideration of the placing of Placing Shares and Convertible Bonds.

Conditions precedent of the Placing Agreement

The completion of the Placing Agreement is conditional upon (i) the fulfilment or waiver (as the case may be) of the Conditions Precedent as set out in the Restructuring Agreement; and (ii) the completion of the Restructuring Agreement taking place in accordance with the terms therein.

Share Placees

The Placing Agent will place the Placing Shares to not less than six (6) independent Share Placees, failing which the Company will disclose their identities in an announcement upon completion of the placing of Placing Shares pursuant to the Listing Rules. Nevertheless, the Share Placees and their ultimate beneficial owners shall not be connected persons of the Company pursuant to the Listing Rules and not members of the Concert Group under the Takeovers Code. It is expected that none of the Share Placees will become a substantial Shareholder (as defined in the Listing Rules) immediately after the completion of the placing of Placing Shares.

CB Placees

Pursuant to the Restructuring Agreement, the Investor has committed to take up an amount up to HK\$63,825,000 out of the aggregate principal amount of HK\$85,100,000 of the Convertible Bonds.

Apart from the Convertible Bonds that may be placed to the Investor, the Placing Agent will place the remaining portion of the Convertible Bonds to not less than six (6) independent CB Placees, failing which the Company will disclose their identities in an announcement upon completion pursuant to the Listing Rules. Nevertheless, the CB Placees and their ultimate beneficial owners shall not be connected persons of the Company pursuant to the Listing Rules and not members of the Concert Group under the Takeovers Code.

Subscription price of the Placing Shares and conversion price of the Conversion Shares

The subscription price of each of the Placing Shares and the conversion price of each of the Conversion Shares are both HK\$0.185 per New Share, which represent:

- (i) a discount of approximately 71.97% to the adjusted closing price of HK\$0.660 per New Share, based on the closing price of HK\$0.099 per Share as quoted on the Stock Exchange on the Last Trading Day and adjusted for the effects of the Capital Restructuring;
- (ii) a discount of approximately 77.63% to the adjusted average closing price of approximately HK\$0.827 per New Share, based on the average closing price of approximately HK\$0.124 per Share as quoted on the Stock Exchange for the five consecutive trading days up to and including the Last Trading Day and adjusted for the effects of the Capital Restructuring; and
- (iii) a discount of approximately 80.32% to the adjusted average closing price of HK\$0.940 per New Share, based on the average closing price of approximately HK\$0.141 per Share as quoted on the Stock Exchange for the ten consecutive trading days up to and including the Last Trading Day and adjusted for the effects of the Capital Restructuring.

The Placing Agreement was arrived at after arm's length negotiation between the Provisional Liquidators and the Placing Agent. The Provisional Liquidators considers that the Placing Agreement is on normal commercial terms and is fair and reasonable based on the current market conditions and is in the interests of the Company and the Shareholders as a whole.

Termination

If any of the Conditions Precedent of the Restructuring Agreement is not fulfilled or waived (as the case may be) by the Long Stop Date or if the completion of the Restructuring Agreement fails to take place in accordance with its terms, either party to the Placing Agreement may by way of giving written notice to the other party to terminate the Placing Agreement, in which case, parties to the Placing Agreement shall be released and discharged from their obligations under the Placing Agreement.

Sub-underwriting arrangement

The Company understands that the Placing Agent has entered into sub-underwriting arrangements of even date with sub-underwriters, with respect to the Placing Shares and the Convertible Bonds, which include the commitment of the Investor in respect of the Convertible Bonds in the principal amount of HK\$63,825,000.

PRINCIPAL TERMS OF THE CONVERTIBLE BONDS

Details of the principal terms of the Convertible Bonds are as follows:

Aggregate principal amount	HK\$85,100,000
Interest	Five per cent per annum on the principal amount of the Convertible Bonds payable quarterly in arrears
Maturity	Two years from (and excluding) the date of Completion
Redemption	<p>Subject to mutual agreement by the Company and the respective holder(s) of the Convertible Bonds, the Convertible Bonds may be early redeemed at 100% of the outstanding principal amount of the Convertible Bonds (in whole or in part) together with any accrued interest at any time and from time to time at the request of either party prior to the maturity date of the Convertible Bonds with written notice.</p> <p>Early redemption at the face value of the Convertible Bonds together with any accrued interest at the option of the holders of the Convertible Bonds if:–</p> <ol style="list-style-type: none">(1) there is a change of control (as defined under the Takeovers Code) of the Company after the date of Completion;(2) the Company consolidates with or merges into or sells or transfers all or substantially all of its assets to any other person, unless the consolidation, merger, sale or transfer will not result in the other person or persons acquiring control over the Company or the successor entity; or(3) the Shares cease to be listed or admitted to trading on the Stock Exchange or, if applicable, any alternative stock exchange

Listing	No listing of the Convertible Bonds will be sought on the Stock Exchange or any other stock exchange
Conversion	<p>(a) A holder of Convertible Bonds shall have the right to convert all or part of his holding of Convertible Bonds into ordinary shares in the capital of the Company at any time from the date of the successful resumption of trading of shares in the Company and ending on the second anniversary of the date of Completion or such other date as may be required by the Stock Exchange</p> <p>(b) A holder of Convertible Bonds shall not convert any Convertible Bonds if such conversion would result in less than 25% of the ordinary shares in the Company being held by persons who are deemed by the Stock Exchange to be public Shareholders for the purposes of the Public Float</p>
Conversion price	The initial price at which the Conversion Shares will be issued is HK\$0.185 per Conversion Share. Such initial conversion price will be subject to adjustment for consolidations or subdivisions or reclassification of shares, capitalisation of profits or reserves, capital distributions, rights issues and other events which may have a diluting effect on the holders of the Convertible Bonds
As to further participation	The Convertible Bonds shall not carry any right to participate in profits or assets of the Company beyond such rights as are set out above

Ranking of the Placing Shares and the Conversion Shares

The Placing Shares and the Conversion Shares will rank pari passu in all aspects with the New Shares to be issued as at its date of issue and allotment.

Issue under specific mandate

The Placing Shares and the Conversion Shares upon conversion of the Convertible Bonds will be issued pursuant to a specific mandate to be obtained upon approval by the Independent Shareholders at the EGM.

Undertaking of the Investor

The Investor has undertaken to and covenanted with the Company and the Placing Agent that, unless with the prior written consents of the Company and the Placing Agent, in the event that any of the Convertible Bonds is placed to the Investor (or its associates or nominees), the Investor (including its associates or nominees) will not within the first 12 months after the resumption of trading in the Shares (1) convert any part of the Convertible Bonds into Conversion Shares or (2) transfer the Convertible Bonds or any part thereof to any third party except by a transfer to the subsidiaries (as defined in the Listing Rules) or the holding company (as defined in the Companies Ordinance) of the Investor.

FUND RAISING ACTIVITIES IN THE PAST TWELVE MONTHS

The Company had not carried any equity fund raising exercise in the 12-month period immediately preceding the date of this announcement.

REASONS FOR THE PLACING AND USE OF THE PROCEEDS

The Company is an investment holding company incorporated in the Cayman Islands. Its subsidiaries are principally engaged in manufacturing and trading of toys with its production lines in the PRC.

The net proceeds from the placing of Placing Shares and Convertible Bonds will be approximately HK\$4.85 million and HK\$2.55 million respectively. The net proceeds raised per Placing Share upon the completion of the Placing will be approximately HK\$0.179 per Placing Shares.

Given the financial situation of the Group, the Provisional Liquidators consider that it is in the best interests of the Company to raise funds by way of, inter alia, the placing of the Placing Shares and the Convertible Bonds. The proceeds from the placing of the Placing Shares and the Convertible Bonds should, along with other components of the Proposed Restructuring, enable the Company to strengthen its financial position and to discharge the indebtedness of the Company. It will also provide the Restructured Group with new funds to enhance its existing business operations and flexibility to make investments in new acquisitions or business ventures when suitable opportunities arise in the future.

As the placing of Placing Shares and Convertible Bonds forms part of the Proposed Restructuring, the proceeds will provide capital to the Company and as a result, significantly improve the financial position of the Group. The proceeds from the placing of Placing Shares and Convertible Bonds will enable the Group to enhance its existing business operations and seek for possible opportunities which may arise in the future.

EFFECTS ON SHAREHOLDING STRUCTURE

The existing shareholding structure of the Company and the effect on the shareholding structure of the Company upon Completion (of which the completion of the placing of Placing Shares and Convertible Bonds form part) is set out below:

Shareholders	As at the date of this announcement		Immediately following the completion of the Capital Restructuring		Immediately following the completion of the Capital Restructuring, the Scheme, the Subscription, and placing of Placing Shares and Convertible Bonds but before any of its conversion		Immediately following the Completion and full conversion of Convertible Bonds taken up by CB Placees and/or Placing Agent (Note 4)		Immediately following the Completion and full conversion of Convertible Bonds taken up by the Investor only (Note 5,6)		Immediately following the Completion and full conversion of the Convertible Bonds (Note 5)	
	No. of Existing Shares	%	No. of New Shares	%	No. of New Shares	%	No. of New Shares	%	No. of New Shares	%	No. of New Shares	%
Existing Shareholders												
Smart Place and its associates (Note 1)	181,604,000	32.86	27,240,600	32.86	27,240,600	4.73	27,240,600	2.63	27,240,600	2.96	27,240,600	2.63
Mr. Tang (Note 2)	118,000,000	21.35	17,700,000	21.35	17,700,000	3.07	17,700,000	1.71	17,700,000	1.92	17,700,000	1.71
Sky Metro Limited and its associates	92,096,000	16.67	13,814,400	16.67	13,814,400	2.40	13,814,400	1.33	13,814,400	1.50	13,814,400	1.33
Other existing public Shareholders	160,886,000	29.12	24,132,900	29.12	24,132,900	4.19	24,132,900	2.33	24,132,900	2.62	24,132,900	2.33
Sub-total	552,586,000	100.00	82,887,900	100.00	82,887,900	14.39	82,887,900	8.00	82,887,900	9.00	82,887,900	8.00
The Investor and its concert parties	-	-	-	-	432,000,000	75.00	432,000,000	41.70	777,000,000	84.36	777,000,000	75.00
Placees and/or Placing Agent	-	-	-	-	27,020,000	4.69	27,020,000	2.61	27,020,000	2.93	27,020,000	2.61
CB Placees and/or Placing Agent (Note 3)	-	-	-	-	-	-	460,000,000	44.40	-	-	115,000,000	11.10
Scheme Creditors	-	-	-	-	34,100,000	5.92	34,100,000	3.29	34,100,000	3.70	34,100,000	3.29
Total	552,586,000	100.00	82,887,900	100.00	576,007,900	100.00	1,036,007,900	100.00	921,007,900	100.00	1,036,007,900	100.00

Notes:

- Based on the information available to the Provisional Liquidators as at the date of this announcement, the Shares held by Smart Place are pledged to two Creditors, who have not yet exercised any of their purported security interest over the Existing Shares held by Smart Place. As such, Smart Place, being the registered Shareholder, has the voting rights attached to these Existing Shares. Further announcement will be made by the Company in the event any such Creditors exercise any of their purported security interest over the Existing Shares held by Smart Place.
- This line represents the Escrow Shares currently registered under the name of Mr. Tang and held in safe custody by SU Mining for realization for the satisfaction of the debt owing by Mr. Tang as a result of his breach of the Undertakings under the Mining Agreement.
- Pursuant to the Placing Agreement, neither the Placing Agent nor the CB Placees will be allotted an amount of Convertible Bonds which, upon full conversion, would give rise to an obligation on the part of the Placing Agent, CB Placees or parties acting in concert with any of them to make a mandatory general offer for all the New Shares (not already owned by any of them) under the Takeovers Code.
- In this scenario, the Convertible Bonds in aggregate principal amount of HK\$85,100,000, representing the entire amount of the Convertible Bonds to be issued, will be taken up by the CB Placees (and/or the Placing Agent under the underwriting arrangement).

5. In this scenario, the Investor will subscribe for the Convertible Bonds in the principal amount of HK\$63,825,000, which is the maximum amount the Investor can subscribe under the Restructuring Agreement representing 75% of the aggregate principal amount of Convertible Bonds to be issued with the remaining Convertible Bonds in principal amount of HK\$21,275,000 being taken up by the CB Placees (and/or the Placing Agent under the underwriting arrangement).
6. Given that it does not meet the Public Float requirement as stipulated in the Listing Rules, this scenario is for illustrative purposes only.

GENERAL

The EGM will be convened and held for the purpose of considering and if thought fit, approving, among others, the grant of the specific mandate in respect of the placing of Placing Shares and Convertible Bonds, which forms part of the Proposed Restructuring under the Restructuring Agreement.

To the best of the knowledge, information available to and belief of the Provisional Liquidators as at the date of this announcement, none of the Shareholders has direct or indirect material interest (other than solely as a Shareholder) nor any involvement in the Proposed Restructuring (including the placing of Placing Shares and Convertible Bonds). As such, no Shareholder is required to abstain from voting in respect of any of the resolutions at the EGM.

A circular containing, among other things, further details of the placing of Placing Shares and Convertible Bonds and a notice convening the EGM will be despatched to the Shareholders on or before 26 August 2011.

CONTINUED SUSPENSION OF TRADING IN THE SHARES

The transactions contemplated under the Placing Agreement are part of the Proposed Restructuring and therefore may or may not come into effect.

Trading in the Shares has been suspended since 9:44 a.m. on 15 October 2008 at the request of the Company. The release of this announcement does not necessarily indicate that the Shares will be resumed for trading. Trading in the Shares will remain suspended until further notice.

DEFINITIONS

In this announcement, unless the context otherwise requires, the following terms shall have the following meanings:

- | | |
|---------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| “CB Placees” | subscribers other than the Investor to whom the Convertible Bonds are placed pursuant to the Restructuring Agreement and the Placing Agreement |
| “Placees” | any individual, institutional or professional investors who are public shareholders for the purpose of the Public Float |
| “Placing Agreement” | the placing agreement dated 22 August 2011 entered into between the Company and the Placing Agent in respect of the placing of Placing Shares and Convertible Bonds |

“Share Placees”

Placees to whom the Placing Shares are placed pursuant to the Restructuring Agreement and the Placing Agreement

For and on behalf of
Smart Union Group (Holdings) Limited
(Provisional Liquidators Appointed)

John Robert Lees

Mat Ng

*Joint and Several Provisional Liquidators
acting as agents for and on behalf of the Company
without personal liability*

Hong Kong, 22 August 2011

As at the date of this announcement, the board of Directors comprises three executive Directors: Mr. Wu Kam Bun, Mr. Ho Wai Wah and Mr. Wong Wai Chuen.

The Directors jointly and severally accept full responsibility for the accuracy of the information contained in this announcement, save for the information relating to the Provisional Liquidators and the Investor (collectively, the “Excluded Information”). The Directors confirm, having made all reasonable enquiries, that to the best of their knowledge, the opinions expressed in this announcement, other than those expressed by the Provisional Liquidators and the Investor, have been arrived at after due and careful consideration and there are no other facts not contained in this announcement, the omission of which would make any statement not relating to the Excluded Information in this announcement misleading.

The Provisional Liquidators jointly and severally accept full responsibility for the accuracy of the information contained in this announcement and confirm, having made all reasonable enquiries, that to the best of their knowledge, the opinions expressed in this announcement have been arrived at after due and careful consideration and there are no other facts not contained in this announcement, the omission of which would make any statement in this announcement misleading.

The sole director of the Investor accepts full responsibility for the accuracy of the information contained in this announcement, save for the information relating to the Company before Completion, the Excluded Companies or the Provisional Liquidators, and confirm, having made all reasonable enquiries, that to the best of his knowledge, the opinions expressed in this announcement other than those expressed by the Provisional Liquidators, have been arrived at after due and careful consideration and there are no other facts not contained in this announcement, the omission of which would make any statement in this announcement misleading.