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Smart Union

SMART UNION GROUP (HOLDINGS) LIMITED

合俊集團（控股）有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2700)

DISCLOSEABLE TRANSACTION IN RELATION TO ACQUISITION OF 55% OF INTEREST IN TAI CHENG INTERNATIONAL LIMITED INVOLVING ISSUE OF CONVERTIBLE NOTES

Financial Advisor to the Company



ASIAN CAPITAL
(CORPORATE FINANCE) LIMITED

卓亞(企業融資)有限公司

The Board is pleased to announce that after trading hours on 23 February 2012, the Purchaser, the Vendor and the Guarantor entered into the S&P Agreement, pursuant to which the Purchaser has conditionally agreed to acquire and the Vendor has conditionally agreed to sell 55% of the issued share capital of the Target Company.

The Consideration, which shall not exceed HK\$30,000,100, shall be settled by the Purchaser in the following manner: (1) an amount of HK\$100 will be payable in cash upon Completion; and (2) Variable Consideration in aggregate not exceeding HK\$30,000,000 shall be settled by issue of Convertible Notes in three tranches. The Convertible Notes issued under each tranche shall be allotted to the Vendor within 30 days after the release of audited financial statements of the Target Company for each financial year ending 31 December 2012, 2013 and 2014 respectively.

As the applicable percentage ratio calculated under Rule 14.07 of the Listing Rules in respect of the Acquisition is greater than 5% but less than 25%, the Acquisition constitutes a discloseable transaction for the Company under Chapter 14 of the Listing Rules.

The Company will seek a specific mandate from the Shareholders at the EGM for the approval of the allotment and issue of the Conversion Shares falling to be issued upon the exercise of the conversion rights attached to the Convertible Notes. A circular containing details of the Convertible Notes and notice convening the EGM will be despatched to the Shareholders as soon as possible.

THE S&P AGREEMENT

The Board is pleased to announce that on 23 February 2012, the Purchaser, the Vendor and the Guarantor entered into the S&P Agreement, pursuant to which the Purchaser has conditionally agreed to acquire and the Vendor has conditionally agreed to sell 55% of the issued share capital of the Target Company.

Set out below are the major terms of the S&P Agreement:

Date

23 February 2012 (after trading hours)

Parties involved

Vendor: Hong Kong Tai Shing Toys Trading Limited

Purchaser: Cheerful Top Group Limited

Guarantor: Mr. Fang Bai Jin

The Vendor, which is wholly owned by the Guarantor, is a company incorporated in Hong Kong with limited liability and together with the Target Company, are principally engaged in the business of trading of toys. The Vendor is currently a customer of the Group.

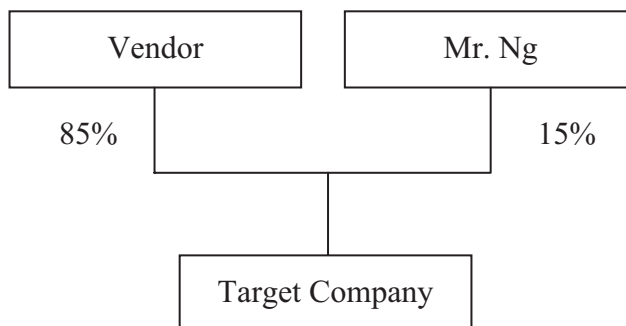
To the best of the Directors' knowledge, information and belief and having made all reasonable enquiries, the Vendor and the Guarantor, are third parties independent of the Company and its connected persons.

Asset to be acquired

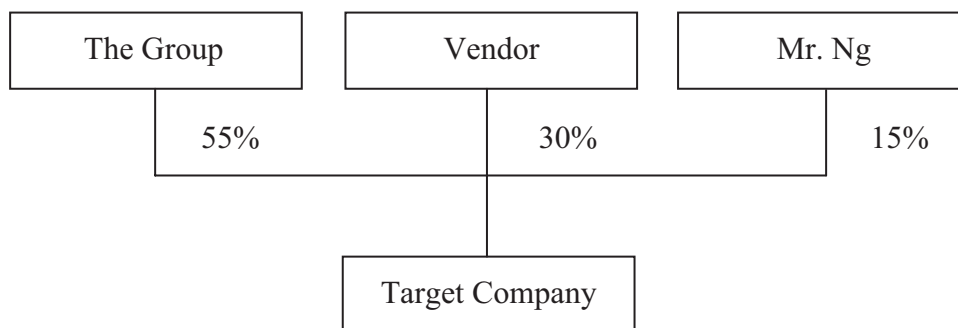
Pursuant to the S&P Agreement, the Purchaser has conditionally agreed to acquire and the Vendor has conditionally agreed to sell the Sale Shares, representing 55% of the issued share capital in the Target Company. As at the date of this announcement, the Target Company is owned as to 85% by the Vendor and 15% by Mr. Ng. Upon Completion, the Target Company will become a non-wholly owned subsidiary of the Company and will be owned as to 55% by the Company, 30% by the Vendor and 15% by Mr. Ng. To the best of the Directors' knowledge, information and belief and having made all reasonable enquiries, Mr. Ng is a third party independent of the Company and its connected persons.

The following diagram provides an illustration of the structure of the Target Company as at the date of this announcement and immediately after the Completion.

As at the date of this announcement:



Immediately after the Completion:



In addition, pursuant to the S&P Agreement, the Vendor agreed to transfer all of its existing sales orders with Non-US Clients to the Target Company.

Consideration

The Consideration, which shall not exceed HK\$30,000,100, shall be settled by the Purchaser in the following manner:

- (1) an amount of HK\$100 will be payable in cash upon Completion;
- (2) Variable Consideration in aggregate not exceeding HK\$30,000,000 shall be settled by issue of Convertible Notes in three tranches. The Convertible Notes issued under each tranche shall be allotted to the Vendor within 30 days after the release of audited financial statements of the Target Company for each financial year ending 31 December 2012, 2013 and 2014 respectively prepared in accordance to generally accepted accounting principles in Hong Kong.

The principal amount of Convertible Notes to be issued in each tranche shall be determined by (1) the Actual Profit and (2) the Benchmark Profit, in accordance with the following formula:

$$\text{Principal amount of Convertible Notes to be issued} = \frac{\text{Actual Profit}}{\text{Benchmark Profit}} \times \text{HK\$10,000,000}$$

Under normal circumstances, the principal amount of Convertible Notes to be issued to the Vendor for each tranche is subject to a cap of HK\$10,000,000 where no additional Convertible Notes will be issued in case that the Actual Profit in excess of the Benchmark Profit (“**Excess Amount**”). However, in the event that the Actual Profit falls short of the Benchmark Profit (“**Shortage Amount**”) (in which case the Company would issue Convertible Notes with principal amount less than the cap of HK\$10,000,000) in the preceding year, the Excess Amount, which is capped by the Shortage Amount, can be applied backward to the Benchmark Profit of the preceding year to issue extra Convertible Notes (i.e. in addition to the Convertible Notes in the principal amount of HK\$10,000,000 to be issued under the current tranche) in accordance with the following formula:

$$\begin{array}{l} \text{Additional principal} \\ \text{amount of Convertible Notes} \\ \text{to be issued} \end{array} = \frac{\text{Excess Amount}}{\text{Benchmark Profit of}} \times \text{HK\$10,000,000}$$

the preceding financial year

Pursuant to the S&P Agreement, the total Variable Consideration will not exceed HK\$30,000,000 under any circumstances.

Shareholder’s loan

Pursuant to the S&P Agreement, upon Completion, the Company will advance a shareholder’s loan in the amount of HK\$10,000,000 to the Target Company as general working capital of the Target Company and such loan shall be for a term of three years and non-interest bearing.

Basis of the Consideration

The Consideration was agreed between the Company, the Purchaser and the Vendor after arm’s length negotiation by reference to the followings:

- (1) the business and growth prospects of the Target Company and the Group being able to expand its trading of toys business to different countries;
- (2) the synergy effect that the Acquisition can bring about to the existing Group;
- (3) the Actual Profit that the Group will share as a shareholder of the Target Company after the Completion; and
- (4) the fact that no immediate significant cash outlay is needed for the Acquisition following Completion.

Conditions precedent

Pursuant to the S&P Agreement, the Completion shall be subject to and conditional upon the satisfaction in all of the following conditions:

- (1) the Company having complied with all requirements under the Listing Rules in relation to the Acquisition and issue of Convertible Notes and other transactions contemplated under the S&P Agreement;
- (2) to the satisfaction of the Purchaser, the Vendor having completed the transfer of all of its existing sales order with Non-US Clients to the Target Company; and

- (3) the Purchaser is satisfied with the results of the due diligence review, including but not limited to the satisfaction of the legal, financial and business position and prospects of the Target Company.

If the aforementioned conditions are not fulfilled on or before 5:00 p.m. of 30 April 2012 (or such other date as agreed by the parties thereto), the S&P Agreement shall lapse and no party of the S&P Agreement shall have any claim against or liability to the other party, save in respect of any antecedent breaches of the S&P Agreement.

Non-competition undertaking

Pursuant to the S&P Agreement, following the date of the S&P Agreement:

- (1) the Vendor shall not conduct any form of business with any of the Non-US Clients;
- (2) the Vendor and the Guarantor shall, and shall procure their associates, not directly or indirectly engage in, invest in, participate in, or attempt to participate in, whether on its own account or with each other or in conjunction with or on behalf of any person or company, any business which will or may compete with the business of the Target Company, save for the business activities with US Clients, the interest of the Target Company owned by the Vendor and the operation of the Target Company;
- (3) the Vendor and the Guarantor shall, and shall procure their associates, not solicit any of the Target Company's existing or then existing employees to resign from the Target Company; and
- (4) the Vendor and the Guarantor shall, and shall procure their associates, not solicit any of the Target Company's existing clients or then existing clients terminating its business with the Target Company.

In the event that the Vendor ceases to be a shareholder of the Target Company, the Vendor and the Guarantor shall also continue to abide by the same undertaking for a period of two years.

Completion

Completion shall take place on any date falling within five business days following the day on which the last of the conditions precedent have been fulfilled or such other date as is agreed in writing by the parties.

Principal terms of the Convertible Notes

The principal terms of the Convertible Notes will be as follows:

Issuer:	The Company
Aggregate principal amount:	HK\$30,000,000
Conversion price:	HK\$0.50 per Conversion Share subject to adjustments in the event of share consolidation or sub-division, capitalization issue, distribution from capital, rights issue or open offer
Interest rate:	The Convertible Notes shall bear no interest.

- Maturity:** Third anniversary of the issue date of the Convertible Notes at 100% of the outstanding principal amount of the Convertible Notes.
- Conversion Shares:** Upon full conversion of Convertible Notes at a conversion price of HK\$0.50 per Share, an aggregate of 60,000,000 Conversion Shares will be issued, representing approximately 9.12% of the existing issued share capital of the Company and 8.36% of the issued share capital of the Company as enlarged by the issue of Conversion Shares upon full conversion of the Convertible Notes.
- Conversion prerequisites:**
- (1) A holder of the Convertible Notes shall not convert any of its Convertible Notes 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 of the Company pursuant to the Listing Rules.
 - (2) The holders of the Convertible Notes shall have the right at any time from the date of issue of the Convertible Notes to the date falling on the 7th day immediately prior the date of maturity of the Convertible Notes to convert any outstanding amount of the Convertible Notes into the Conversion Shares at the Conversion Price, provided that the conversion right attached to the Convertible Notes shall only be exercisable by the holders of Convertible Notes so long as (a) the aggregate shareholding of such holder of Convertible Notes, its associates (as defined in the Listing Rules) and parties acting in concert (as defined in the Takeovers Code) with it immediately after such exercise shall not be or exceed 29.9% of the then issued share capital of the Company; and (b) such holder of Convertible Notes and parties acting in concert (as defined in the Takeovers Code) with it immediately after such exercise shall not be required to make a general offer under Rule 26 of the Takeovers Code.
- Listing:** No application will be made for the listing of the Convertible Notes on the Stock Exchange or any other stock exchange. Application will be made by the Company to the Stock Exchange for the approval for the listing of, and permission to deal in, the Shares that may be allotted and issued upon conversion of the Convertible Notes.
- Ranking:** The Conversion Shares to be issued resulting from the exercise of the conversion rights attached to the Convertible Notes will rank pari passu in all respects with all other Shares in issue at the date on which the conversion rights attached to the Convertible Notes are exercised.

Transferability: There are no restrictions to the transfer of the Convertible Notes by any holder of the Convertible Notes, save for in the case of transfer to any connected person of the Company which would require prior written consent of the Company.

Redemption: Subject to mutual agreement by the Company and respective holder of the Convertible Notes, the Convertible Notes may be early redeemed at 100% of the outstanding principal amount of the Convertible Notes (in whole or in part) at any time and from time to time at the option of either party prior to the maturity date of the Convertible Notes with written notice.

Early redemption at the face value of the Convertible Notes together with any accrued interest at the option of the holders of the Convertible Notes if:

- (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.

Conversion price of the Convertible Notes

The conversion price of HK\$0.50 per Conversion Share upon conversion of the Convertible Notes represents:

- (a) a premium of approximately 42.86% over the closing price of HK\$0.35 per Share as quoted on the Stock Exchange on 22 February 2012, being the day immediately preceding the date of the S&P Agreement;
- (b) a premium of approximately 66.67% over the average closing price of HK\$0.30 per Share as quoted on the Stock Exchange for the last five consecutive trading days up to and including 22 February 2012; and
- (c) a premium of approximately 71.53% over the average closing price of HK\$0.2915 per Share as quoted on the Stock Exchange for the last ten consecutive trading days up to and including 22 February 2012

The conversion price of the Conversion Shares was determined after arm's length negotiations between the Company and the Vendors with reference primarily to the prevailing market price of the Shares.

INFORMATION OF THE TARGET COMPANY

The Target Company is a company incorporated in Hong Kong with limited liability on 7 November 2011 and is principally engaged in trading of toys.

The Target Company had no turnover and has incurred some insignificant incorporation fees only since its incorporation. The unaudited net asset value of the Target Company is HK\$4,420 as at 31 December 2011 prepared in accordance with Hong Kong Financial Reporting Standards.

REASON FOR THE ACQUISITION

The Group is principally engaged in manufacturing and trading of toys with its production lines in the PRC.

Subsequent to the resumption of trading in Shares in November 2011, the Group has been looking for investment opportunities to expand its customer base. The Acquisition provides an opportunity for the Group to expand its trading business and broaden its customer bases to different countries and regions. In addition, as the Vendor is currently a customer of the Group, the Group believes the Acquisition can enhance its relationship with the Vendor.

The Board considers that the terms of the S&P Agreement are determined at arm's length and the terms are normal commercial terms and are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

EFFECTS ON SHAREHOLDING STRUCTURE OF THE COMPANY

The table below sets out (i) the existing shareholding structure of the Company as at the date of this announcement; and (ii) the shareholding structure of the Company upon full conversion of the Convertible Notes and the maximum principal amount of Convertible Notes are issued:

	Existing shareholding structure as at the date of this announcement		Upon full conversion of Convertible Notes and maximum principal amount of Convertible Notes are issued	
	No. of Shares	%	No. of Shares	%
Gold Bless International Invest Limited (<i>Note</i>)	432,000,000	65.65%	432,000,000	60.17%
Public shareholders				
– Vendor	–	–	60,000,000	8.36%
– Other public shareholders	226,007,900	34.35%	226,007,900	31.47%
Total	<u>658,007,900</u>	<u>100.00%</u>	<u>718,007,900</u>	<u>100.00%</u>

Note:

Gold Bless International Invest Limited is ultimately owned as to 85% by its sole director, Mr. Yang Wang-jian, who is also an executive Director of the Company.

GENERAL

As the applicable percentage ratio calculated under Rule 14.07 of the Listing Rules in respect of the Acquisition is greater than 5% but less than 25%, the Acquisition constitutes a discloseable transaction for the Company under Chapter 14 of the Listing Rules.

The Company will seek a specific mandate from the Shareholders at the EGM for the approval of the allotment and issue of the Conversion Shares falling to be issued upon the exercise of the conversion rights attached to the Convertible Notes. A circular containing details of the Convertible Notes and notice convening the EGM will be despatched to the Shareholders as soon as possible.

To the best knowledge, information and belief of the Directors after having made all reasonable and necessary enquiries, no Shareholder is required to abstain from voting at the EGM on the resolution granting the Directors the specific mandate to issue and allot the Conversion Shares.

UNUSUAL PRICE & VOLUME MOVEMENT

This statement is made at the request of the Stock Exchange.

The Board has noted the recent increase in price and trading volume of the Shares of the Company and wish to state that, save for the Acquisition, the Directors are not aware of any reasons for such movement.

The Board confirms that there are no other negotiations or agreements relating to intended acquisitions or realisations which are discloseable under Rule 13.23 of the Listing Rules, neither is the Board aware of any matter discloseable under the general obligation imposed by Rule 13.09 of the Listing Rules, which is or may be of a price-sensitive nature.

Made by the order of the Board, the Directors of which individually and jointly accept responsibility for the accuracy of this statement.

DEFINITION

“Acquisition”	the acquisition of the Sale Shares by the Purchaser from the Vendor pursuant to the S&P Agreement
“Actual Profit”	audited profit after taxation of the Target Company for the relevant financial year
“Benchmark Profit”	HK\$12,000,000, HK\$13,000,000 and HK\$14,000,000 for the years ending 31 December 2012, 2013 and 2014 respectively, which are mutually agreed by the Purchaser and the Vendor for the purpose of determining the Variable Consideration only
“Board”	the board of Directors
“business day(s)”	a day (other than a Saturday, Sunday or day on which a typhoon signal No. 8 or above or black rainstorm signal is hoisted in Hong Kong at 10:00 a.m.) on which banks in Hong Kong are generally open for business

“Company”	Smart Union Group (Holdings) Limited, a company incorporated in the Cayman Islands with limited liability and whose Shares are listed on the Main Board of the Stock Exchange (Stock Code: 2700)
“Completion”	the completion of the Acquisition
“connected person(s)”	has the same meaning ascribed to it in the Listing Rules
“Consideration”	the consideration for the Acquisition
“Conversion Shares”	new Shares to be allotted and issued following the exercise of the conversion rights attached to the Convertible Notes
“Convertible Notes”	the zero coupon convertible notes for the aggregate principal amount not exceeding HK\$30,000,000 to be issued by the Company to the Vendor to satisfy the Variable Consideration
“Director(s)”	the director(s) of the Company
“EGM”	an extraordinary general meeting of the Company to be held to consider the ordinary resolutions to be proposed to approve, among other things, the grant of a special mandate
“Group”	the Company and its subsidiaries
“Guarantor”	Mr. Fang Bai Jin
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Mr. Ng”	Mr. Ng Wing Hong Jimmy, who owns 15% of the issued share capital of the Target Company as at the date of this announcement
“Non-US Clients”	all clients of the Vendors excluding the US Clients as at the date of the S&P Agreement
“PRC”	the People’s Republic of China, excluding Hong Kong, the Macau Special Administrative Region and Taiwan for the purpose of this announcement
“Purchaser”	Cheerful Top Group Limited, a company incorporated in the British Virgin Islands with limited liability and a wholly owned subsidiary of the Company
“Sale Shares”	5,500 ordinary shares of HK\$1.00 each in the issued share capital of the Target Company, representing 55% of the issued share capital of the Target Company

“Share(s)”	ordinary share(s) of HK\$0.01 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“S&P Agreement”	the agreement entered into between the Purchaser and the Vendor dated 23 February 2012 in relation to the sale and purchase of the Sale Shares
“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers
“Target Company”	Tai Cheng International Limited, a company incorporated in Hong Kong with limited liability whose issued share capital is owned as to 85% by the Vendor and 15% by Mr. Ng as at the date of this announcement
“US Clients”	all clients of the Vendor with registered offices and place of receipt in United States of America as at the date of the S&P Agreement
“Variable Consideration”	Convertible Notes with principal amount not exceeding HK\$30,000,000 payable by the Purchaser to the Vendor under the S&P Agreement for the Acquisition and shall be determined in accordance with the formula under the section “Consideration” as set out in this announcement
“Vendor”	Hong Kong Tai Shing Toys Trading Limited, a company incorporated in Hong Kong which owns 85% of the issued share capital of the Target Company as at the date of this announcement
“%”	per cent
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong

For and on behalf of
Smart Union Group (Holdings) Limited
Yang Wang Jian
Executive Director

Hong Kong, 23 February 2012

As at the date of this announcement, the Board comprises (i) four executive Directors: Mr. Yang Wang Jian, Peter, Mr. Wong Man Keung, Mr. Zhu Pei Heng and Ms. Yang Jun; and (ii) three independent non-executive Directors: Mr. Yeung King Wah, Kenneth, Mr. Wu Hong and Mr. Wong Kwong Chung, James.