



THE STOCK EXCHANGE OF HONG KONG LIMITED
(A wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited)
(the “Exchange”)

17 February 2011

The Listing Committee of The Stock Exchange of Hong Kong Limited (the “Listing Committee”) criticises the following parties for breaching the Exchange Listing Rules:

- (1) **Smart Union Group (Holdings) Limited (the “Company”) (Stock Code: 2700);**
- (2) **Mr Wu Kam Bun, executive director of the Company (“Mr Wu”);**
- (3) **Mr Ho Wai Wah, executive director of the Company (“Mr Ho”);**
- (4) **Mr Wong Wai Chuen, executive director of the Company (“Mr Wong”); and**
- (5) **Mr Lo Kwok Choi, former executive director of the Company, resigned with effect from 24 October 2008 (“Mr Lo”).**

On 21 December 2010, the Listing Committee conducted a hearing into the conduct of, among others, the Company, Mr Wu, Mr Ho, Mr Wong and Mr Lo (collectively, the “**Relevant Directors**”) in relation to their obligations under the Exchange Listing Rules and the Director’s Declaration and Undertaking given by each of the Relevant Directors to the Exchange in the form set out in Appendix 5 Form B to the Exchange Listing Rules (the “**Director’s Undertaking**”).

Facts

A number of significant and material events (collectively, the “**Relevant Events**”) took place after the Company’s results for the interim period ended 30 June 2008 (the “**2008 Interim Results**”) were published and before the Company applied for a trading suspension of its shares, which took effect from 9:44 a.m. on 15 October 2008 (the “**Trading Suspension**”):

- (1) On 26 or 27 September 2008, Mr Wu (who was then also the Company’s Chairman) and Mr Wong became aware that Standard Chartered Bank (“**SCB**”), a major creditor of the Company and its subsidiaries (collectively, the “**Group**”), had by its letters dated 24 September 2008 terminated its banking facilities to the Group and demanded repayment of all the outstanding loan and interest thereon totaling approximately \$31 million by 30 September 2008.
- (2) From around 16 September 2008, trade creditors issued and served legal proceedings against SU Industrial Limited (“**SU Industrial**”), the Company’s major operating subsidiary, demanding payment of outstanding invoices. At least 19 writs or claims totaling approximately \$21 million were issued from 16 September to 14 October 2008.

- (3) On 2 October 2008, the Company engaged a financial adviser for restructuring and exploring prospects of investors.
- (4) On 2 and 4 October 2008, one of the Group's customers which had provided financial support to the Group, demanded immediate repayment of the loans of \$18,954,653.15 and \$15,352,577.95 respectively.
- (5) On 3 and 8 October 2008 respectively, the Company had a meeting with HSBC and SCB, principal bankers of the Group, to discuss the Group's financial status.
- (6) On 10 October 2008, Mr Wu and Mr Wong attended the bank group meeting coordinated by HSBC and attended by five other bank creditors of the Group to consider possible restructuring of the Company by way of a standstill arrangement (the "**Bank Group Meeting**").
- (7) On 10 October 2008, the Company appointed another independent financial adviser to review the Group's financial position.
- (8) From 26 September to 13 October 2008, five other creditor banks / lenders of the Group demanded repayment from and/or terminated their banking facilities to the Group, amounting to termination of all of the Group's banking facilities with immediate effect.
- (9) Two of the Company's factories in the PRC (the "**PRC Factories**") faced problems, including failure to pay the workers' wages due in October 2008, break-in into the factories on 11 and 12 October 2008 which later led to the Company's loss of control over them from around 14 October 2008.

The Company did not disclose any of the Relevant Events before the Trading Suspension.

Application for trading suspension on 6 October 2008

On 6 October 2008, the Company, through its financial adviser referred to in (3) above, applied for a trading suspension of its shares. On the basis of the information and reasons provided, the Listing Division did not accept the application.

Application for winding up and appointment of provisional liquidators

On 15 October 2008, at the Board meeting held from 9:30 a.m., the Board of Directors concluded that the Company was insolvent and could not operate without further funding. The PRC Factories would be unable to fulfill their orders on hand to pay their workers and suppliers. The Board unanimously resolved to petition for winding up and apply to appoint provisional liquidators of the Company and several of its principal subsidiaries.

On 16 October 2008, the Company petitioned for winding up and applied for appointment of provisional liquidators. In the evening, the Court ordered that the independent financial adviser referred to in (7) above be appointed as the provisional liquidators of the Company and four of its subsidiaries. The Company announced these matters at 12:31 p.m. on 17 October 2008.

Assertions made by the Listing Division

Breach of Rule 13.09(1)

Rule 13.09(1) of the Exchange Listing Rules requires issuers to disclose, as soon as reasonably practicable, any information relating to the group which (a) is necessary to enable the Exchange, shareholders and the public to appraise the position of the group; (b) is necessary to avoid the establishment of a false market in the company's securities; or (c) might be reasonably expected materially to affect market activity in and the price of its securities.

The Listing Division alleged that the Relevant Events which started with the issue of the SCB demand letters of 24 September 2008 were of such magnitude that they, whether individually or collectively, amounted to information which fell within the ambit of Rule 13.09(1) and in particular, Rule 13.09(1)(c):

- (1) Creditor banks' demands for repayment of outstanding loans and termination of banking facilities: This amounted to immediate cancellation of all the Group's banking facilities by its principal bankers. In view of the fact that the financial statements for the 2008 Interim Period were prepared on a going concern basis (and in turn on the basis that continuing support from the banks could be maintained), these actions of the banks was information which fell within the ambit of Rule 13.09(1).
- (2) Appointment of financial adviser and independent financial adviser, and the holding of meetings with the Banks (including the Bank Group Meeting): These were measures adopted to rescue the Company and therefore constituted information under Rule 13.09(1) which should have been disclosed.
- (3) Customer's demands for repayment: This amounted to withdrawal of financial support from one of the few customers which had provided support to the Group at the material time. The financial support from this customer was one of the factors which the Directors took into account in forming their view that the Company could continue in operation in the future.
- (4) Bringing of legal proceedings by SU Industrial's trade creditors for outstanding sums for goods sold and delivered (the Group's failure to repay despite requests and demands for repayment): This was indicative of the liquidity problems faced by the Group at the material time and required disclosure under Rule 13.09(1).
- (5) Situation in the PRC Factories: This was indicative of the serious operational problems faced by the Company. The operations of the PRC Factories were critical to the Company's and the Group's ability to meet customer orders.

Significant deterioration not within market expectation

The Listing Division alleged that the Relevant Events amounted to a change in the Company's financial condition which was not within the market's reasonable expectation and which required disclosure under Rule 13.09(1):

- (1) At the material time, the latest set of published financial information regarding the Company was the 2008 Interim Results. The Management Discussion and Analysis section in both the 2008 Interim Results announcement and the 2008 Interim Report:
 - (a) highlighted the challenges faced by the Company (e.g. increase in manufacturing costs and the US financial crisis) and the impact of the flooding in Zhangmutou;
 - (b) mentioned some positive factors, including that (i) the cost of material and labour was getting more stable, and (ii) the manufacturers would be in an improved balanced position on the demand and supply pendulum with OEM customers as many manufacturers in Pearl River Delta had moved out or closed down; and
 - (c) stated that additional working capital was required to be committed to improve the Group's balance sheet, and invited support from the Group's business parties.
- (2) Therefore, although the Group's financial performance for the 2008 Interim Period was significantly worse than that of the 2007 Interim Period, the 2008 Interim Results announcement and the 2008 Interim Report did not indicate management expectation of any further significant deterioration in the Company's financial position going forward.

In failing to disclose the Relevant Events as soon as reasonably practicable, the Listing Division alleged that the Company breached Rule 13.09(1). The Listing Division further alleged that the Company's obligation under Rule 13.09(1) to disclose each of the Relevant Events arose as soon as reasonably practicable after it became known to a Director and in this case, and in any event by 2 October 2008 when the engagement of the first financial adviser took place.

Breach of the Director's Undertaking

The Listing Division alleged that the executive directors, Mr Wu, Mr Ho, Mr Wong and Mr Lo, have breached their Director's Undertakings to use their best endeavours to procure the Company's Exchange Listing Rule compliance in respect of the Relevant Events by reason of:

- (1) their failure to procure the Company's disclosure of any of those events, despite their having knowledge of some or all of them; and
- (2) their failure to report to the independent non-executive directors the significant and material events which took place after the 2008 Interim Results were announced, so as to keep them informed of the significant developments of the Company and to escalate those matters to the Board of Directors for consideration of issues concerning compliance with the Exchange Listing Rules.

Decision

The Listing Committee concluded that:

- (1) the Company breached Rule 13.09(1) of the Exchange Listing Rules; and
- (2) each of Mr Wu, Mr Ho, Mr Wong and Mr Lo breached the Director's Undertaking for failing to use his best endeavours to procure the Company's compliance with Rule 13.09(1) of the Exchange Listing Rules.

The Listing Committee decided to:

- (1) impose a public statement which involved criticism on the Company for its breach of Rule 13.09(1) of the Exchange Listing Rules; and
- (2) impose a public statement which involved criticism on each of Mr Wu, Mr Ho, Mr Wong and Mr Lo for his breach of the Director's Undertaking for failing to use his best endeavours to procure the Company's compliance with Rule 13.09(1) of the Exchange Listing Rules.

For the avoidance of doubt, the Exchange confirms that the above public statement which involves criticism applies only to the Company and the Relevant Directors identified above and not to any other past or present member of the Company's Board of Directors.