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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)

PROPOSED RESTRUCTURING INVOLVING

(1) PROPOSED CAPITAL RESTRUCTURING;

(2) PROPOSED OPEN OFFER;

(3) PROPOSED SCHEME AND GROUP REORGANISATION;

AND

(4) PROPOSED SUBSCRIPTION AND WHITEWASH WAIVER

AND

PROPOSED CHANGE IN BOARD LOT SIZE

Financial Adviser to the Company



ASIAN CAPITAL
(CORPORATE FINANCE) LIMITED

卓亞(企業融資)有限公司

PROPOSED RESTRUCTURING

On 31 December 2010, being the last day of the Exclusivity Period, the Company, the Provisional Liquidators, the Investor, Mr. Yang and Mr. Ting entered into the Restructuring Agreement pursuant to which, at Completion, the Investor shall subscribe for, and the Company shall issue, the Subscription Shares at the Subscription Price subject to the fulfillment of all the Conditions Precedent. The Subscription under the Restructuring Agreement, together with the Capital Restructuring, the Open Offer, the Scheme, the Group Reorganisation and the Whitewash Waiver are the principal components of the Proposed Restructuring. Completion of the Scheme and the Subscription are inter-conditional.

PROPOSED CAPITAL RESTRUCTURING

The Capital Restructuring will mainly comprise (i) the Share Consolidation; (ii) the Capital Reduction; (iii) the Share Premium Cancellation; (iv) the Authorised Share Capital Cancellation; (v) the Authorised Share Capital Increase; and (vi) the cancellation of the Existing Convertible Securities. The credit arising from the Capital Reduction and the Share Premium Cancellation will be applied to set off part of the accumulated losses of the Company as at 31 December 2010.

PROPOSED OPEN OFFER

Subject to the Capital Restructuring becoming effective, it is expected that the Company will take such steps as are necessary to implement the Open Offer on the basis of 22 Offer Shares for every 5 New Shares held by the qualifying Shareholders on the record date, which will be the date of the EGM or such other date as the Company may determine, at the subscription price of HK\$0.112 per Offer Share. If the Open Offer is accepted in full or is fully underwritten, the gross proceeds to be raised under the Open Offer is approximately HK\$38.90 million in aggregate. Completion of the Open Offer and the Subscription are not inter-conditional.

PROPOSED SCHEME AND GROUP REORGANISATION

Pursuant to the terms of the Restructuring Agreement, on Completion, all the Claims of the Creditors shall be compromised and discharged by the arrangements contemplated under the Scheme.

The Scheme will involve, among other things, (i) the cash payment of HK\$50 million less any Scheme Costs out of the Subscription Price to the Scheme Creditors; (ii) the issue and allotment of 84,495,329 Creditors Shares, representing approximately 4.16% of the Enlarged Issued Share Capital for the benefit of the Scheme Creditors at Completion; (iii) the transfer of all the assets of the Company (other than the shareholding in and the assets of Sino Front and its subsidiaries) including but not limited to the Excluded Companies at a nominal value to a special purpose vehicle controlled by the Scheme Administrators for the benefit of the Scheme Creditors. It is expected that upon completion of the Group Reorganisation, the Restructured Group will consist of the Company and Sino Front and its subsidiaries which are principally engaging in the manufacturing and trading of toy business.

PROPOSED SUBSCRIPTION AND WHITEWASH WAIVER

Pursuant to the Restructuring Agreement, at Completion, the Investor shall subscribe for, and the Company shall issue, 1,519,737,697 Subscription Shares (which shall represent approximately 74.84% of the Enlarged Issued Share Capital) at the Subscription Price subject to the fulfilment of all the Conditions Precedent.

Upon Completion, the Concert Group will, in aggregate, hold approximately of 74.84% of the Enlarged Issued Share Capital and this will give rise to (in the absence of the Whitewash Waiver) an obligation on the part of the Concert Group to make a mandatory general offer for all the New Shares (not already owned or agreed to be acquired by the Concert Group) under Rule 26.1 of the Takeovers Code. An application will be made by the Investor to the Executive for the Whitewash Waiver which, if granted, will be subject to, among other things, the approval by the Independent Shareholders by way of a poll at the EGM.

The Completion is conditional upon fulfillment of the Conditions Precedent (which have not previously been waived) on or before the Long Stop Date unless the parties to the Restructuring Agreement agree in writing otherwise which include, among other things, (i) the passing of all the resolutions at the EGM; (ii) the Capital Restructuring becoming effective; (iii) the Independent Shareholders approving the Whitewash Waiver; (iv) the granting of the Whitewash Waiver by the SFC and such Whitewash Waiver not having been revoked; (v) the granting of the listing of and permission to deal in the New Shares, the Subscription Shares and the Creditors Shares by the Stock Exchange; (vi) the Stock Exchange having conditionally or unconditionally approved, or decided to allow the Company to proceed with, the resumption of trading in the Shares on the Stock Exchange; (vii) the aggregate amount owing to the PRC Judgment Creditors (if any) as at Completion not exceeding HK\$50 million and such outstanding amount having been fully settled by the funds out of the Scheme; and (viii) the removal and discharge of the Provisional Liquidators. Under the Restructuring Agreement, the Investor may, to such extent as it thinks fit, at any time waive in writing any of the Conditions Precedent. However, subsequent to the Restructuring Agreement, the Investor, Mr. Yang and Mr. Ting have confirmed that the Investor will not waive Conditions Precedent (iii) and (iv) above.

PROPOSED CHANGE IN BOARD LOT SIZE

The Existing Shares are traded in board lots of 2,000 Existing Shares each. Immediately after the Subscription becoming effective, the New Shares will be traded in board lots of 20,000 New Shares each.

In order to alleviate the difficulties arising from the existence of odd lots of New Shares, the Company will procure an agent to provide matching services for the sale and purchase of odd lots of New Shares arising from the Change in Board Lot Size. Further announcement(s) will be made by the Company as and when appropriate in this regard.

EGM

The Company will convene the EGM for the purposes of considering, and if thought fit, approving, among other things, the Capital Restructuring, the Open Offer, the Subscription, the Whitewash Waiver and any other matters as required by law, the Listing Rules, the Takeovers Code, the Stock Exchange and/or the SFC, which are necessary to give effect to the Proposed Restructuring and any transactions contemplated under the Restructuring Agreement.

Pursuant to the requirements of the Listing Rules, since the Open Offer would increase the issued share capital of the Company by more than 50% within the 12-month period immediately preceding the date of this announcement, the Open Offer is conditional on the approval by the Independent Shareholders by way of poll at the EGM, where the controlling Shareholder, or in the case that the Company has no controlling Shareholder, the Directors (excluding the independent non-executive Directors), the chief executive of the Company and their respective associates are required to abstain from voting in favour of the Open Offer. As at the date of this announcement, Smart Place and its associates held 182,142,000 Existing Shares, representing 32.96% of the issued share capital of the Company. Accordingly, Smart Place and its associates shall abstain from voting in favour of the proposed resolution approving the Open Offer at the EGM.

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 including Smart Place and its associates, has direct or indirect material interest (other than solely as a Shareholder) nor any involvement in the Open Offer, the Subscription and the Whitewash Waiver and accordingly no Shareholder is required to abstain from voting in respect of the resolution to approve the Subscription and the Whitewash Waiver at the EGM. The Company will make announcement and/or clarification announcement in the event that any Shareholder shall be required to abstain from voting.

The Concert Group and parties interested or involved in the transactions contemplated under the Proposed Restructuring will not be eligible to vote on the resolutions approving the Open Offer, the Subscription and the Whitewash Waiver.

As the Board has no non-executive Director and independent non-executive Director, no independent board committee will be established to advise the Independent Shareholders on the Open Offer, the Subscription and the Whitewash Waiver. The Company may appoint sufficient independent non-executive Directors to the Board in compliance with the Listing Rules in the future. Further announcement(s) will be made by the Company as and when appropriate in this regard. An independent financial adviser will be appointed to advise the Independent Shareholders and the independent board committee (if established) on the Open Offer, the Subscription and the Whitewash Waiver, and the Company will issue a further announcement regarding such appointment in due course.

A circular containing, among other things, details of the Proposed Restructuring, the financial information of the Group, the pro forma financial information of the Restructured Group upon Completion, the recommendation of the independent board committee (if established), the advice of the independent financial adviser on the Open Offer, the Subscription and the Whitewash Waiver and a notice convening the EGM will be despatched to the Shareholders as soon as practicable and in compliance with the Takeovers Code and the Listing Rules.

Pursuant to Rule 8.2 of the Takeovers Code, the Company is required to despatch a circular in relation to the Proposed Restructuring to the Shareholders within 21 days after the date of this announcement, which is on or before 8 April 2011. Since the circular will include the financial information of the Group for the financial year ended 31 December 2010 as well as the unaudited pro forma financial statements of the Restructured Group, and the Resumption Proposal is currently being reviewed and considered by the Stock Exchange, it is expected that more time will be needed for the preparation of such circular. As such, the Company has made an application to the Executive for a waiver from strict compliance with Rule 8.2 of the Takeovers Code and the Executive has indicated that it is minded to grant consent for an extension of deadline for the despatch of the circular of the Company to not later than 31 May 2011. The Company will make an announcement as soon as practicable upon the despatch of the circular.

CONTINUED SUSPENSION OF TRADING IN THE SHARES

On 3 May 2010, the Stock Exchange informed the Company that the Resumption Proposal submitted by the Company to the Stock Exchange on 1 September 2009 has not satisfactorily demonstrated sufficiency of operations or assets under Rule 13.24 of the Listing Rules, and the Stock Exchange has decided to place the Company in the second stage of delisting procedures with effect from 3 May 2010 pursuant to Practice Note 17 to the Listing Rules.

On 14 October 2010, the Company has submitted a supplemental Resumption Proposal to the Stock Exchange with a view to addressing the issues set out in the Stock Exchange's letter dated 3 May 2010. The Stock Exchange is in the process of reviewing and considering the Resumption Proposal. Further announcement(s) will be made when material developments take place.

At the High Court hearing on 29 November 2010, the High Court further adjourned the winding up hearing of the Company and six of its subsidiaries to 23 May 2011 to give the Provisional Liquidators more time for the implementation of the Proposed Restructuring.

Trading in the Shares has been suspended since 9:44 a.m. on 15 October 2008 at the request of the Company pending the release of an announcement in relation to price sensitive information of the Company. The price sensitive information is related to the presentation of the winding up petition against the Company and the application for the appointment of the provisional liquidators of the Company and several of its principal subsidiaries which had been announced on 17 October 2010. The release of this announcement is not an indication that the Restructuring Agreement will be successfully implemented and completed or that the resumption of trading in the Shares or the Resumption Proposal has been or will be approved by the Stock Exchange. Trading in the Shares will remain suspended until further notice.

References are made to the Company's announcements dated 13 May 2009 in relation to the entering into the Exclusivity Agreement, and 27 May 2010 in relation to amongst others, the entering into a supplemental Exclusivity Agreement to extend the Exclusivity Period to 31 December 2010.

PROPOSED RESTRUCTURING

On 31 December 2010, being the last day of the Exclusivity Period, the Company, the Provisional Liquidators, the Investor, Mr. Yang and Mr. Ting entered into the Restructuring Agreement pursuant to which, at Completion, the Investor shall subscribe for, and the Company shall issue, the Subscription Shares at the Subscription Price subject to the fulfillment of all the Conditions Precedent. The Subscription under the Restructuring Agreement, together with the Capital Restructuring, the Open Offer, the Scheme, the Group Reorganisation and the Whitewash Waiver are the principal components of the Proposed Restructuring. Completion of the Scheme and the Subscription are inter-conditional. The principal terms of the Proposed Restructuring are set out below:

PROPOSED CAPITAL RESTRUCTURING

It is proposed that the Capital Restructuring will comprise:

- (i) the Share Consolidation – every seven (7) Existing Shares of HK\$0.10 each will be consolidated into one (1) Consolidated Share of HK\$0.70 each;
- (ii) the Capital Reduction – upon the Share Consolidation becoming effective, the nominal value of the Consolidated Shares will be reduced from HK\$0.70 to HK\$0.01 each. The credit generated from the Capital Reduction will be applied in a manner as permitted by the Companies Law and by the Memorandum and Articles of Association, including but not limited to setting off part of the accumulated losses of the Company as at 31 December 2010;

- (iii) the Share Premium Cancellation – upon the Capital Reduction becoming effective, the entire amount standing to the credit of the share premium account of the Company will be cancelled. The credit arising from the Share Premium Cancellation will be applied to set off part of the accumulated losses of the Company as at 31 December 2010;
- (iv) the Authorised Share Capital Cancellation – upon the Capital Reduction becoming effective, all the existing authorised but un-issued Shares will be cancelled in its entirety;
- (v) the Authorised Share Capital Increase – upon the Authorised Share Capital Cancellation becoming effective, the Company’s authorised share capital will be increased to HK\$300,000,000, divided into 30,000,000,000 New Shares of HK\$0.01 each; and
- (vi) cancellation of the Existing Convertible Securities – any rights arising under the Existing Convertible Securities will be cancelled so far as possible by such means as shall give effect to such cancellation subject to any necessary approval.

Fractional New Shares will be disregarded and not issued to the Shareholders but all such fractional New Shares will be aggregated and, if possible, sold for the benefit of the Company.

Effects of the Capital Restructuring

As at the date of this announcement, the authorised share capital of the Company is HK\$200,000,000 comprising 2,000,000,000 Existing Shares of HK\$0.10 each, of which 552,586,000 Existing Shares have been issued and fully paid. Assuming there is no change in the number of Shares from the date of this announcement to immediately upon the Capital Restructuring becoming effective, the authorised share capital of the Company will become HK\$300,000,000 divided into 30,000,000,000 New Shares of HK\$0.01 each, of which 78,940,857 New Shares will be in issue.

The following table sets out the effect of the Capital Restructuring on the share capital of the Company, before and after completion of the Capital Restructuring (assuming no exercise of the Share Options and all Share Options lapsed upon the Scheme taking effect):

	Before the Capital Restructuring	Immediately after the Capital Restructuring
Nominal value	HK\$0.10	HK\$0.01
Authorised share capital	HK\$200,000,000 divided into 2,000,000,000 Existing Shares	HK\$300,000,000 divided into 30,000,000,000 New Shares
Issued and paid-up share capital	HK\$55,258,600 divided into 552,586,000 Existing Shares	HK\$789,408.57 divided into 78,940,857 New Shares

Status of the New Shares after the Capital Restructuring

The New Shares after the Capital Restructuring will be identical and rank *pari passu* in all respects with each other.

Conditions of the Capital Restructuring

The implementation of the Capital Restructuring (which will be effected in accordance with the Memorandum and Articles of Association and the Companies Law) and the listing of the New Shares are conditional upon, among other things, on or before the Long Stop Date:

- (i) the passing of a special resolution by the Shareholders by way of poll at the EGM to approve the Capital Restructuring;
- (ii) the Grand Court granting an order confirming the Capital Reduction;
- (iii) the registration with the Registrar of Companies in the Cayman Islands of a copy of the Grand Court order and the minutes containing the particulars required under the Companies Law;
- (iv) compliance with any conditions or directions as may be imposed by the Grand Court; and
- (v) the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the New Shares in issue upon the Capital Restructuring becoming effective.

The Escrow Shares are currently registered under the name of Mr. Tang and held in safe custody by SU Mining for the satisfaction of the portion of the debt attributable to the Escrow Shares of approximately HK\$197.1 million as stipulated in the Mining Agreement and owed by Mr. Tang as a result of his breach of the Undertakings under the Mining Agreement. The Provisional Liquidators have consulted their legal adviser regarding the voting right under the Escrow Shares and the opinion obtained is that only the registered Shareholder is entitled to exercise the voting rights attached to each Share. Hence, SU Mining, the provisional liquidators of SU Mining and the Provisional Liquidators do not have the voting rights attached to the Escrow Shares. However, based on the Provisional Liquidators' investigations as at the date of this announcement, as Mr. Tang had not fulfilled his obligations under the Undertakings in the Mining Agreement to procure Fujian Tiancheng to obtain the mining licence or any other necessary approvals and consents for the mining of the Mine on or before 31 August 2008, he is not entitled to these Escrow Shares. Under the terms of the Mining Agreement, SU Mining is entitled to dispose of the Escrow Shares and the proceeds shall be used to satisfy the amounts owed by Mr. Tang. Those proceeds will be used to discharge any creditor claims of SU Mining. In the event that Mr. Tang were to exercise his voting rights under the Escrow Shares at the EGM without being able to prove that the Undertakings have been duly fulfilled in accordance with the Mining Agreement, the Provisional Liquidators will seek to disallow Mr. Tang from voting at the EGM.

The Provisional Liquidators consider that no Shareholder is required to abstain from voting on the Capital Restructuring at the EGM.

Listing and dealings

An application will be made by the Company to the Listing Committee of the Stock Exchange for the listing of, and the permission to deal in, the New Shares arising from the Capital Restructuring. Subject to the granting of the listing of, and the permission to deal in, the New Shares on the Stock Exchange, the New Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the commencement date of dealings in the New Shares on the Stock Exchange or such other date as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS on the second trading day thereafter. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

No part of the equity or debt securities of the Company is listed or dealt in on any other stock exchanges other than the Stock Exchange and no such listing or permission to deal in is being or is currently proposed to be sought from any other stock exchange.

Expected effective date of the Capital Restructuring

Upon the conditions mentioned above being fulfilled, the Capital Restructuring will become effective immediately after the registration of the Grand Court order and the minutes as referred to in condition (iii) above. A petition for the approval of the Capital Reduction will be made to the Grand Court as soon as practicable.

Further announcement(s) will be made to inform the Shareholders of the progress of the matter, including the proposed timetable, the arrangements of the exchange of the New Share certificates for the Existing Share certificates, as and when appropriate.

Reasons for the Capital Restructuring

The Capital Reduction is necessary in order to ensure that the Company's share capital more appropriately reflects the Company's available assets. The net assets of the Company have been substantially depleted by the unaudited accumulated losses of approximately HK\$791 million as at 30 June 2010 as disclosed in the interim results announcement of the Company dated 30 August 2010.

The Capital Restructuring will facilitate the re-capitalisation of the share capital of the Company through the issue of New Shares; it would not be possible to raise new capital for the Company without the Capital Reduction. In addition, completion of the Capital Restructuring is one of the Conditions Precedent for the Open Offer and the Subscription, the proceeds of which will be applied to discharge the Group's liabilities and support the ongoing operation of the Group as general working capital.

Accordingly, the Company is of the view that the Capital Restructuring is in the interests of the Company and the Shareholders as a whole.

PROPOSED OPEN OFFER

Subject to the Capital Restructuring becoming effective, it is expected that the Company will take such steps as are necessary to implement the Open Offer on the basis of 22 Offer Shares for every 5 New Shares held by the qualifying Shareholders on the record date, which will be the date of the EGM or such other date as the Company may determine, at the subscription price of HK\$0.112 per Offer Share. The Offer Shares (when allotted, fully paid and issued) will rank *pari passu* in all respects with the New Shares in issue on the date of allotment and issue of the Offer Shares.

In view of the potential dilution effect of the interests of the Shareholders due to the issue of Subscription Shares and the Creditors Shares, the Open Offer provides an opportunity for the Shareholders to participate in the growth of the Group.

The Escrow Shares are currently registered under the name of Mr. Tang and are now held by SU Mining for realisation for the satisfaction of the debt owed by Mr. Tang as a result of his breach of the Undertakings under the Mining Agreement. The legal adviser to the Provisional Liquidators is of the opinion that as Mr. Tang had not fulfilled his obligations under the Undertakings in the Mining Agreement to procure Fujian Tiancheng to obtain the mining licence or any other necessary

approvals and consents for the mining of the Mine on or before 31 August 2008, he is not entitled to these Escrow Shares. In the event that Mr. Tang were to subscribe for the Offer Shares on the basis of the Escrow Shares without being able to prove that the Undertakings have been duly fulfilled in accordance with the Mining Agreement, the Provisional Liquidators will seek to disallow Mr. Tang from participating in the Open Offer. In respect of the voting rights attached to the Escrow Shares, please refer to the paragraph headed “Conditions of the Capital Restructuring” under the section headed “PROPOSED CAPITAL RESTRUCTURING” above.

Subject to the signing of the underwriting agreement, it is the intention of the Company that the Open Offer will be fully underwritten by a licensed dealer. As at the date of this announcement, no underwriting agreement in respect of the Open Offer has been entered into. Subject to approval by the Independent Shareholders on the relevant resolutions at the EGM, although completion of the Open Offer and the Subscription are not inter-conditional, completion of the Open Offer and the Subscription are expected to take place simultaneously. It is expected that the Open Offer will be fully underwritten and conditional upon the underwriting agreement becoming unconditional. In the event that the underwriting agreement fails to become unconditional, the Open Offer will not proceed.

If the Open Offer is accepted in full or is fully underwritten, the gross proceeds to be raised under the Open Offer is approximately HK\$38.90 million in aggregate. The net proceeds from the Open Offer after deducting relevant expenses will be applied as general working capital of the Restructured Group.

Further announcement(s) in relation to the full details of the Open Offer will be made as and when appropriate.

PROPOSED SCHEME AND GROUP REORGANISATION

Scheme

Pursuant to the terms of the Restructuring Agreement, on Completion, all the Claims of the Creditors shall be compromised and discharged by the arrangements contemplated under the Scheme, which shall include, among other things, the following:

- (i) out of the Subscription Price, a sum of HK\$50 million (of which HK\$5 million has been paid as the Earnest Money as at the date of this announcement) less any Scheme Costs shall be paid by the Provisional Liquidators for and on behalf of the Company to the Scheme Administrators for the benefit of the Scheme Creditors;
- (ii) 84,495,329 Creditors Shares, representing approximately 16.54% of the issued share capital of the Company as enlarged by the issue of the Offer Shares and the Creditors Shares; and approximately 4.16% of the Enlarged Issued Share Capital, shall be issued and allotted by the Company to the Scheme Administrators at Completion for the benefit of the Scheme Creditors; and
- (iii) immediately prior to the Scheme taking effect, all the assets of the Company (other than the shareholding in and the assets of Sino Front and its subsidiaries) including but not limited to all cash and cash equivalents held by the Company, all intercompany receivables, all causes of actions and claims which the Company has against any person whether or not known to the Company as at the date when the Scheme takes effect and the Excluded Companies shall be transferred to a special purpose vehicle controlled by the Scheme Administrators for the benefit of the Scheme Creditors.

The implementation of the Scheme is conditional on Completion. The Creditors Shares will rank *pari passu* in all respects with the New Shares in issue as at the date of allotment and issue of the Creditors Shares. Detailed terms of the Scheme will be set out in the Scheme Documents.

According to the information available to the Provisional Liquidators as at the date of this announcement, there are 5,760,000 outstanding Share Options granted to 8 Grantees with exercise price of HK\$0.78 each as at the date of this announcement. Pursuant to the Share Option Scheme, the Company will give notice of the Scheme to all Grantees (to the extent who have not exercised their Share Options prior to the date of such notice) on the same date as it despatches the notice of creditors meeting to consider the Scheme, and thereupon the Grantee may forthwith and until the expiry of the period commencing from such date and ending on the earlier of (i) the date two calendar months thereafter or (ii) the date on which the Scheme is sanctioned by the High Court, be entitled to exercise his Share Options, but the exercise of such Share Options shall be conditional upon the Scheme being sanctioned by the High Court and becoming effective. Upon the Scheme becoming effective, all Share Options shall lapse except insofar as exercised under the aforesaid arrangement.

Proposed Group Reorganisation

As disclosed above, the Scheme envisages the Excluded Companies be transferred at a nominal value to the special purpose vehicle controlled by the Scheme Administrators who shall realize all the assets of the Excluded Companies. Any surplus assets of SU Investments after full and final settlement of the liabilities of the relevant Excluded Companies shall be distributed for the benefit of the Scheme Creditors. The transfer of the Excluded Companies under the Group Reorganisation will only take place upon the successful implementation of the Scheme.

It is expected that upon completion of the Group Reorganisation, the Restructured Group will consist of the Company and Sino Front and its subsidiaries which are principally engaging in the manufacturing and trading of toy business. The Group Reorganisation is an important component of the Proposed Restructuring.

PROPOSED SUBSCRIPTION AND WHITEWASH WAIVER

The Restructuring Agreement

Date: 31 December 2010

Parties:

- (1) the Company
- (2) the Provisional Liquidators
- (3) the Investor
- (4) Mr. Yang
- (5) Mr. Ting

Subscription Shares: 1,519,737,697 Subscription Shares (represents approximately 74.84% of the Enlarged Issued Share Capital)

Subscription Price: HK\$170,210,622 (equivalent to approximately HK\$0.112 per Subscription Shares)

Subscription Shares

Pursuant to the Restructuring Agreement, at Completion, the Investor shall subscribe for, and the Company shall issue, 1,519,737,697 Subscription Shares (which shall represent approximately 74.84% of the Enlarged Issued Share Capital) at the Subscription Price subject to the fulfilment of all the Conditions Precedent. The Subscription Shares will rank *pari passu* in all respects with the New Shares in issue as at the date of allotment and issue of the Subscription Shares.

Subscription Price

The Subscription Price for the Subscription Shares is HK\$170,210,622 which shall be paid by the Investor in the following manner:

- (i) application of the Earnest Money of HK\$5 million which has been paid by the Investor to the Escrow Agent prior to the signing of the Restructuring Agreement in part payment of the Subscription Price;
- (ii) at Completion, a sum of HK\$45 million shall be paid by the Investor to the Provisional Liquidators to such account(s) as designated by the Provisional Liquidators or the Scheme Administrators which may be used to settle the Claims of the Scheme Creditors;
- (iii) a sum of HK\$17 million (of which a sum of HK\$9.5 million has already been paid as at the date of this announcement) shall be paid by the Investor to the Provisional Liquidators which shall be used to settle the Restructuring Costs;
- (iv) the Working Capital Facility of HK\$55 million advanced by the Investor to Sino Front together with interest accrued thereon shall be applied in full in part payment of the Subscription Price; and
- (v) the remaining balance of the Subscription Price of approximately HK\$48.21 million shall be paid by the Investor to the Company at Completion which shall be retained as working capital of the Restructured Group post Completion.

The subscription price of approximately HK\$0.112 per Subscription Share represents:

- (i) a discount of approximately 83.84% to the adjusted closing price of HK\$0.693 per New Shares, 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 87.10% to the adjusted average closing price of approximately HK\$0.868 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 88.65% to the adjusted average closing price of approximately HK\$0.987 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 Subscription Price is determined after arm's length negotiation between the Company, the Provisional Liquidators and the Investor and having taken into account, among other things, of the following factors: (i) trading in the Shares having been suspended on the Stock Exchange since 15 October 2008 and the Company being in provisional liquidation; (ii) the net liabilities of approximately HK\$337 million as at 30 June 2010; and (iii) the prospect of the Restructured Group upon completion of the Group Reorganisation.

In view of the above, the Provisional Liquidators consider the terms of the Subscription, including the Subscription Price, to be fair and reasonable and in the best interests of the Company and the Shareholders as a whole.

On the date of the Exclusivity Agreement, the Investor has paid to the Escrow Agent the Earnest Money which is held in the Escrow Agent's name as stakeholder in an interest bearing account, which shall be applied to satisfy part of the Subscription Price upon Completion. Further details on the Exclusivity Agreement and the Earnest Money have been disclosed in the Company's announcement dated 13 May 2009.

Conditions Precedent

Pursuant to the Restructuring Agreement, Completion is conditional upon the satisfaction of all of the following Conditions Precedent (which have not previously been waived) on or before the Long Stop Date unless the parties to the Restructuring Agreement agree to extend the Long Stop Date in writing:

- (i) as required, the signing of all Restructuring Documents by all the parties thereunder;
- (ii) all necessary approvals and sanctions, if any, from the High Court for the Company and the Provisional Liquidators to enter into the Restructuring Documents or to implement any transactions contemplated under the Restructuring Documents having been obtained;
- (iii) the Grand Court having granted an order confirming the Capital Reduction;
- (iv) the registration with the Registrar of Companies in the Cayman Islands of a copy of the Grand Court order and the minutes containing the particulars required under the Companies Law having been completed;
- (v) all necessary approvals, sanctions and filings having been obtained and completed and not revoked for the purpose of the Scheme to take effect;
- (vi) completion of the Group Reorganisation;
- (vii) all necessary resolutions having been passed and approvals given by the requisite majorities of the Shareholders (and where required by the Independent Shareholders) by way of poll in respect of the matters contemplated under the Restructuring Agreement which shall include if necessary, but are not limited to, the following at the EGM and not having been revoked:
 - a. the issue of the Offer Shares, the Subscription Shares and the Creditors Shares;
 - b. the Capital Restructuring;
 - c. the Open Offer; and

- d. any other transactions contemplated under the Restructuring Agreement which require the approval of the Shareholders and/or the Independent Shareholders (where required);
- (viii) the Independent Shareholders approving the Whitewash Waiver;
- (ix) the granting of the Whitewash Waiver by the SFC and such Whitewash Waiver not having been revoked;
 - (x) the granting of the listing of and permission to deal in the New Shares, the Subscription Shares and the Creditors Shares by the Stock Exchange subject only to (i) the formal issue and allotment of such New Shares, the Offer Shares, the Subscription Shares and the Creditors Shares; (ii) such other administrative conditions as are customarily stipulated by the Stock Exchange for resumption of trading or listing of the abovementioned shares; and (iii) (if applicable) restoration of Public Float, and such approval not having been revoked;
 - (xi) the Stock Exchange having conditionally or unconditionally approved, or decided to allow the Company to proceed with, the resumption of trading in the Shares on the Stock Exchange and all the conditions attached to such approval or decision (if any) having been fulfilled (other than those conditions relating to or in connection with the Completion or Restoration of Public Float) or waived by the Stock Exchange;
 - (xii) all other necessary waivers, consent and approvals including but not limited to those from the Stock Exchange, the SFC and any other relevant government or regulatory authorities, which are required (if any) for the implementation of the Resumption Proposal, the Restructuring Documents and all transactions contemplated under the Restructuring Documents having been obtained;
 - (xiii) the aggregate amount owing to the PRC Judgment Creditors (if any) as at Completion not exceeding HK\$50 million and such outstanding amount has been settled by the funds out of the Scheme; and
 - (xiv) the removal and discharge of the Provisional Liquidators.

Under the Restructuring Agreement, the Investor may, to such extent as it thinks fit, at any time waive in writing any of the Conditions Precedent. However, subsequent to the Restructuring Agreement, the Investor, Mr. Yang and Mr. Ting have confirmed that the Investor will not waive Conditions Precedent (viii) and (ix). The Restructuring Agreement will be terminated if Conditions Precedent (viii) and/or (ix) are not satisfied on or before the Long Stop Date (or such later date as may be agreed in writing by the parties to the Restructuring Agreement).

Termination

The Restructuring Agreement can be terminated:

- (i) if the Conditions Precedent (which have not previously been waived) have not been satisfied or waived on or before the Long Stop Date (or such later date as may be agreed in writing by the parties to the Restructuring Agreement); or
- (ii) upon notice by the other party to the Restructuring Agreement, if any party to the Restructuring Agreement fails to comply fully with its obligations at Completion; or

- (iii) upon written notice by the other party to the Restructuring Agreement, if at any time, it is or becomes unlawful for any party to the Restructuring Agreement to perform or comply with any or all of its material obligations under the Restructuring Agreement and/or any of the Restructuring Documents.

If the Restructuring Agreement is terminated pursuant to the above prior to Completion, all rights and obligations of the parties to the Restructuring Agreement will cease and none of the parties shall have any claims against the other parties, save as to the then accrued rights and obligations of the parties and without prejudice to certain provisions of the Restructuring Agreement which will remain in full force and effect, subject to the following:

- (a) if (i) the Conditions Precedent are not satisfied solely because of the Investor failing to perform or breaching any one or more of its obligations under the Restructuring Agreement or any Restructuring Documents; or (ii) the Restructuring Agreement is terminated by the Company because of the Investor failing to comply with its obligations at Completion or it becomes unlawful for the Investor, Mr. Yang and/or Mr. Ting to perform or comply with any or all of its material obligations under the Restructuring Agreement and/or any of the Restructuring Documents, the Earnest Money (together with all accrued interest thereon) held by the Escrow Agent shall be forfeited and the Investor agrees that the Provisional Liquidators shall be entitled to instruct the Escrow Agent to release the said funds to the Provisional Liquidators or the Scheme Administrators for the benefit of the Scheme Creditors and upon receipt of the said funds by the Provisional Liquidators or the Scheme Administrators, the parties shall be released from all of their rights and obligations under the Restructuring Agreement or any Restructuring Documents and no party shall have further claims against any other party save as to the then accrued rights and obligations of the parties; and
- (b) if (i) the Conditions Precedent are not satisfied because of any reason(s) other than the failure or the breach by the Investor as set out in (a)(i) above; or (ii) the Restructuring Agreement is terminated because of any reason(s) other than the failure by the Investor as set out in (a)(ii) above or the Restructuring Agreement is terminated by the Investor because it becomes unlawful for the Company to perform or comply with any or all of its material obligations under the Restructuring Agreement and/or any of the Restructuring Documents, the Provisional Liquidators shall instruct the Escrow Agent to release the Earnest Money (together with all accrued interest thereon) to the Investor and upon receipt of the said funds by the Investor, the parties shall be released from all of their rights and obligations under the Restructuring Agreement or any Restructuring Documents and no party shall have claims against any other party save as to the then accrued rights and obligations of the parties.

Completion

Following the fulfillment of the Conditions Precedent or otherwise waived by the Investor, and the payment of the Subscription Price, Completion shall take place on the 5th Business Days after the Provisional Liquidators have notified the Investor in writing that all the Conditions Precedent have been fulfilled or otherwise waived by the Investor (or at such other time as the parties may agree in writing).

Reasons for the Subscription and use of proceeds

Given the financial situation of the Group, the Provisional Liquidators consider that it is in the best interests of the Company and the Shareholders as a whole to raise funds by ways of the Open Offer and the Subscription. Entering into the Restructuring Agreement will enable the Company to strengthen the financial position and to discharge the indebtedness of the Company. It will also provide the 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.

The Company will receive gross proceeds from the Subscription of approximately HK\$98.21 million from the Investor, after setting off the drawdown of the Working Capital Facility of HK\$55 million and Restructuring Costs of approximately HK\$17 million. A sum of HK\$50 million out of the Subscription Price will be made available to the Scheme Administrators for the benefit of the Scheme Creditors. The remaining balance of the Subscription Price of approximately HK\$48.21 million will be retained as general working capital of the Restructured Group.

The Provisional Liquidators consider the terms of the Subscription under the Restructuring Agreement are on normal commercial terms and are fair and reasonable and in the interest of the Company, the Shareholders and the Creditors as a whole.

Application for listing

The Company will apply to the Stock Exchange for the listing of, and permission to deal in, the Subscription Shares.

Whitewash Waiver

The Concert Group does not own or control any Existing Shares, convertible securities, warrants, options or derivatives in respect of the Existing Shares as at the date of this announcement. Save for the entering into the Exclusivity Agreement and the Restructuring Agreement, no member of the Concert Group has bought, sold or otherwise dealt in any Shares, outstanding options, derivatives, warrants or other securities convertible or exchangeable into the Shares within the 6-month period immediately prior to the date of the Exclusivity Agreement and up to the date of this announcement.

Upon Completion, the Concert Group will, in aggregate, hold approximately 74.84% of the Enlarged Issued Share Capital and this will give rise to (in the absence of the Whitewash Waiver) an obligation on the part of the Concert Group to make a mandatory general offer for all the New Shares (not already owned or agreed to be acquired by the Concert Group) under Rule 26.1 of the Takeovers Code. An application will be made by the Investor to the Executive for the Whitewash Waiver which, if granted, will be subject to, among other things, the approval by the Independent Shareholders by way of a poll at the EGM.

The Concert Group and parties interested or involved in the transactions contemplated under the Proposed Restructuring will not be eligible to vote on the resolutions approving the Subscription and the Whitewash Waiver.

PROPOSED CHANGE IN BOARD LOT SIZE

The Existing Shares are traded in board lots of 2,000 Existing Shares each. Immediately after the Subscription becoming effective, the New Shares will be traded in board lots of 20,000 New Shares each.

In order to alleviate the difficulties arising from the existence of odd lots of New Shares, the Company will procure an agent to provide matching services for the sale and purchase of odd lots of New Shares arising from the Change in Board Lot Size. Further announcement(s) will be made by the Company as and when appropriate in this regard.

EFFECT ON SHAREHOLDING STRUCTURE OF THE COMPANY

The changes in the shareholding structure of the Company arising from the Capital Restructuring, the Open Offer, the Scheme and the Subscription (assuming no exercise of the Share Options and all Share Options lapsed upon the Scheme taking effect) are set out in the following table for illustrative purpose only:

Shareholders	As at the date of this announcement		Immediately following the completion of the Capital Restructuring		Immediately following the completion of the Capital Restructuring and the Open Offer (assuming all existing Shareholders subscribe for the Offer Shares except for Mr. Tang)		Immediately following the completion of the Capital Restructuring and the Open Offer (assuming none of the existing Shareholders subscribe for the Offer Shares) <i>(Note 3)</i>		Immediately following the completion of the Capital Restructuring, the Open Offer, the Scheme and the Subscription (assuming all existing Shareholders subscribe for the Offer Shares except for Mr. Tang)		Immediately following the completion of the Capital Restructuring, the Open Offer, the Scheme and the Subscription (assuming none of the existing Shareholders subscribe for the Offer Shares)	
	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 <i>(Note 1)</i>	182,142,000	32.96	26,020,285	32.96	140,509,539	32.96	26,020,285	6.10	140,509,539	6.92	26,020,285	1.28
Mr. Tang <i>(Note 2)</i>	118,000,000	21.35	16,857,142	21.35	16,857,142	3.95	16,857,142	3.95	16,857,142	0.83	16,857,142	0.83
Sky Metro Limited and its associates	92,096,000	16.67	13,156,571	16.67	71,045,483	16.67	13,156,571	3.09	71,045,483	3.50	13,156,571	0.65
Other existing public Shareholders	160,348,000	29.02	22,906,859	29.02	123,697,038	29.02	22,906,859	5.38	123,697,038	6.10	22,906,859	1.13
Underwriter	-	-	-	-	74,171,425	17.40	347,339,770	81.48	74,171,425	3.65	347,339,770	17.11
Sub-total	552,586,000	100.00	78,940,857	100.00	426,280,627	100.00	426,280,627	100.00	426,280,627	21.00	426,280,627	21.00
The Investor and its concert parties												
Subscription Shares	-	-	-	-	-	-	-	-	1,519,737,697	74.84	1,519,737,697	74.84
Scheme Creditors												
Creditors Shares	-	-	-	-	-	-	-	-	84,495,329	4.16	84,495,329	4.16
Total	552,586,000	100.00	78,940,857	100.00	426,280,627	100.00	426,280,627	100.00	2,030,513,653	100.00	2,030,513,653	100.00

Notes:

- Smart Place is the ultimate holding company of the Company. 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 its security interest under the Existing Shares held by Smart Place. As such, Smart Place, being the registered Shareholder, has the voting rights attached to these Existing Shares.

2. The Escrow Shares are currently registered under the name of Mr. Tang and held in safe custody by SU Mining for realization for the satisfaction of the debt owed by Mr. Tang as a result of his breach of the Undertakings under the Mining Agreement. The legal adviser to the Provisional Liquidators is of the opinion that as Mr. Tang had not fulfilled his obligations under the Undertakings in the Mining Agreement to procure Fujian Tiancheng to obtain the mining licence or any other necessary approvals and consents for the mining of the Mine on or before 31 August 2008, he is not entitled to these Escrow Shares. Under the terms of the Mining Agreement, SU Mining is entitled to dispose of the Escrow Shares and the proceeds shall be used to satisfy the amounts owed by Mr. Tang. Those proceeds will be used to discharge any creditor claims of SU Mining. In the event that Mr. Tang were to subscribe for the Offer Shares on the basis of the Escrow Shares without being able to prove that the Undertakings have been duly fulfilled in accordance with the Mining Agreement, the Provisional Liquidators will seek to disallow Mr. Tang from participating in the Open Offer.
3. The scenario giving rise to the underwriter holding approximately 81.48% of the enlarged issued share capital of the Company following completion of the Capital Restructuring and the Open Offer is for illustration purpose only. The Subscription and the Open Offer form part of the Restructuring Agreement and completion of the Subscription is subject to the satisfaction or waiver (if applicable) of the Conditions Precedent under the Restructuring Agreement. Furthermore, the Open Offer will separately be subject to the underwriting agreement to be entered into becoming unconditional. It is expected that the underwriting agreement will include a condition to the effect that the Open Offer must complete simultaneously with the completion of the Subscription. As such, subject to approval by the Independent Shareholders on the relevant resolutions at the EGM, if completion of the Open Offer occurs, it is expected to take place simultaneously with completion of the Subscription. Therefore, the underwriter will only hold a maximum of approximately 17.11% of the Enlarged Issued Share Capital upon completion of the Capital Restructuring, the Open Offer, the Scheme and the Subscription in the event that none of the existing Shareholders subscribe for the Offer Shares. The underwriter will not hold 30% or more of the voting rights of the Company upon Completion.

PREVIOUS FUND RAISING EXERCISE IN THE PRIOR 12-MONTH PERIOD

The Company has not conducted any fund raising activities by way of issuing equity securities in the 12-month period prior to the date of this announcement.

INFORMATION ON THE COMPANY AND THE INVESTOR

The Company is an investment holding company incorporated in the Cayman Islands with limited liability and its subsidiaries are principally engaged in the manufacturing and trading of toys on an OEM basis.

The Investor is an investment holding company incorporated in the British Virgin Islands and is beneficially owned as to 85% by Mr. Yang and 15% by Mr. Ting. Mr. Yang is the sole director of the Investor. Mr. Ting and Mr. Yang jointly and severally undertake to procure the performance of the Investor's obligation under the Restructuring Agreement and the Restructuring Documents.

Mr. Yang is the managing director of GEV Investments (Hong Kong) Limited, the Hong Kong operating arm of Global *E-Venture, LLC, which is an international consulting group headquartered in Los Angeles, the United States of America, primarily engaged in the provision of advisory services for mergers and acquisitions, strategic planning, valuations, management or leverage buyouts and capital raising. Mr. Yang has over 25 years of experience in international finance and investment. He was the managing director of Corporate Finance International Ltd. and a director of Intermost Corporation. Mr. Yang graduated from University of International Business and Economics, formerly known as College of Beijing Economics and Foreign Trade in the PRC, with a bachelor's degree in economics and law.

Mr. Ting has had over 40 years of experience in toys manufacturing and trading. He is a director of Kong Lee Industries (Int'l) Co., Ltd. and prior to that, he was the general manager of a subsidiary of Hutchison Harbour Ring Limited (Stock code: 715), a company listed on the Main Board of the Stock Exchange. He is currently a General Committee Member of The Toys Manufacturers' Association of Hong Kong.

Save to the extent that Mr. Ting is a connected person of the Company by virtue of his capacity as the chief executive officer of Sino Front, the Concert Group is independent of, not connected with and not acting in concert with any of the Directors, the chief executives or the substantial Shareholders of the Company or its subsidiaries or any of their respective associates.

INTENTIONS OF THE INVESTOR REGARDING THE GROUP

The Investor intends to continue with the existing business of the Group upon completion of the Group Reorganisation but will continuously identify suitable business opportunities to expand the revenue and income base of the Group.

BOARD COMPOSITION OF THE COMPANY

The Board currently comprises three executive Directors and no independent non-executive Director. Upon Completion, the Investor may request the existing Directors to resign and appoint new Directors, subject to the provisions of the Takeovers Code, the Listing Rules and other applicable laws, rules and regulations.

INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER

As the Board has no non-executive Director and independent non-executive Director, no independent board committee will be established to advise the Independent Shareholders on the Open Offer, the Subscription and the Whitewash Waiver. The Company may appoint sufficient independent non-executive Directors to the Board in compliance with the Listing Rules in the future. Further announcement(s) will be made by the Company as and when appropriate in this regard. An independent financial adviser will be appointed to advise the Independent Shareholders and the independent board committee (if established) on the Open Offer, the Subscription and the Whitewash Waiver, and the Company will issue a further announcement regarding such appointment in due course.

EGM

The Company will convene the EGM for the purposes of considering, and if thought fit, approving, among other things, the Capital Restructuring, the Open Offer, the Subscription, the Whitewash Waiver and any other matters as required by law, the Listing Rules, the Takeovers Code, the Stock Exchange and/or the SFC, which are necessary to give effect to the Proposed Restructuring and any transactions contemplated under the Restructuring Agreement.

Pursuant to the requirements of the Listing Rules, since the Open Offer would increase the issued share capital of the Company by more than 50% within the 12-month period immediately preceding the date of this announcement, the Open Offer is conditional on the approval by the Independent Shareholders by way of poll at the EGM, where the controlling Shareholder, or in the case that the Company has no controlling Shareholder, the Directors (excluding the independent non-executive Directors), the chief executive of the Company and their respective associates are required to abstain from voting in favour of the Open Offer. As at the date of this announcement,

Smart Place and its associates held 182,142,000 Existing Shares, representing 32.96% of the issued share capital of the Company. Accordingly, Smart Place and its associates shall abstain from voting in favour of the proposed resolution approving the Open Offer at the EGM.

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 including Smart Place and its associates, has direct or indirect material interest (other than solely as a Shareholder) nor any involvement in the Open Offer, the Subscription and the Whitewash Waiver and accordingly no Shareholder is required to abstain from voting in respect of the resolution to approve the Subscription and the Whitewash Waiver at the EGM. The Company will make announcement and/or clarification announcement in the event that any Shareholder shall be required to abstain from voting.

The Concert Group does not own or control any Existing Shares, convertible securities, warrants, options or derivatives in respect of the Existing Shares as at the date of this announcement. Save for the entering into the Exclusivity Agreement and the Restructuring Agreement, no member of the Concert Group has bought, sold or otherwise dealt in any Shares, outstanding options, derivatives, warrants or other securities convertible or exchangeable into the Shares within the 6-month period immediately prior to the date of the Exclusivity Agreement and up to the date of this announcement. Under the Takeovers Code, the Concert Group shall not acquire or dispose of any Shares until Completion, and the members of the Concert Group will not vote on any resolutions at the EGM. The resolutions in relation to the Capital Restructuring will be subject to approval by the Shareholders by way of poll while only the Independent Shareholders will vote on the resolutions to approve the Open Offer, the Subscription and the Whitewash Waiver at the EGM.

A circular containing, among other things, details of the Proposed Restructuring, the financial information of the Group, the pro forma financial information of the Restructured Group upon Completion, the recommendation of the independent board committee (if established), the advice of the independent financial adviser on the Open Offer, the Subscription and the Whitewash Waiver and a notice convening the EGM will be despatched to the Shareholders as soon as practicable and in compliance with the Takeovers Code and the Listing Rules.

Pursuant to Rule 8.2 of the Takeovers Code, the Company is required to despatch a circular in relation to the Proposed Restructuring to the Shareholders within 21 days after the date of this announcement, which is on or before 8 April 2011. Since the circular will include the financial information of the Group for the financial year ended 31 December 2010 as well as the unaudited pro forma financial statements of the Restructured Group, and the Resumption Proposal is currently being reviewed and considered by the Stock Exchange, it is expected that more time will be needed for the preparation of such circular. As such, the Company has made an application to the Executive for a waiver from strict compliance with Rule 8.2 of the Takeovers Code and the Executive has indicated that it is minded to grant consent for an extension of deadline for the despatch of the circular of the Company to not later than 31 May 2011. The Company will make an announcement as soon as practicable upon the despatch of the circular.

According to the information available to the Company and the Provisional Liquidators as at the date of this announcement, none of the Provisional Liquidators, the Creditors and the PRC Judgment Creditors held any Existing Shares. The Provisional Liquidators will continue to make enquiries as to whether any of the Creditors own any Shares directly or through nominees in order to ensure compliance with the requirements under the Takeovers Code. In the event that the transactions contemplated under the Restructuring Agreement and the Scheme constitute a special deal under Rule 25 of the Takeovers Code, the circular to be despatched to the Shareholders will be prepared in accordance with the relevant provisions, including but not limited to, Rule 25 of the Takeovers Code and include all the relevant disclosure. Further announcement(s) will be made by the Company in this regard and further details will be set out in the circular.

OTHER ARRANGEMENTS

As at the date hereof, save as disclosed in this announcement:

- (i) the Concert Group has not received any irrevocable commitment from any Shareholders to vote for or against the resolution to approve the Whitewash Waiver and any other resolutions to be presented for approval at the EGM;
- (ii) there is no arrangement in relation to shares of the Investor or the Company and which might be material to the transactions under the Restructuring Agreement which is subject to the Whitewash Waiver;
- (iii) the Concert Group has not borrowed or lent any of the relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in the Company;
- (iv) there is no outstanding derivative in respect of the securities of the Company which has been entered into by the Concert Group; and
- (v) there is no agreement or arrangement pursuant to which any of the Concert Group is a party which relates to circumstances which it may or may not invoke or seek to invoke a pre-condition or a condition to the Restructuring Agreement.

CONTINUED SUSPENSION OF TRADING IN THE SHARES

On 3 May 2010, the Stock Exchange informed the Company that the Resumption Proposal submitted by the Company to the Stock Exchange on 1 September 2009 has not satisfactorily demonstrated sufficiency of operations or assets under Rule 13.24 of the Listing Rules, and the Stock Exchange has decided to place the Company in the second stage of delisting procedures with effect from 3 May 2010 pursuant to Practice Note 17 to the Listing Rules.

On 14 October 2010, the Company has submitted a supplemental Resumption Proposal to the Stock Exchange with a view to addressing the issues set out in the Stock Exchange's letter dated 3 May 2010. The Stock Exchange is in the process of reviewing and considering the Resumption Proposal. Further announcement(s) will be made when material developments take place.

At the High Court hearing on 29 November 2010, the High Court further adjourned the winding up hearing of the Company and six of its subsidiaries to 23 May 2011 to give the Provisional Liquidators more time for the implementation of the Proposed Restructuring.

Trading in the Shares has been suspended since 9:44 a.m. on 15 October 2008 at the request of the Company pending the release of an announcement in relation to price sensitive information of the Company. The price sensitive information is related to the presentation of the winding up petition against the Company and the application for the appointment of the provisional liquidators of the Company and several of its principal subsidiaries which had been announced on 17 October 2010. The release of this announcement is not an indication that the Restructuring Agreement will be successfully implemented and completed or that the resumption of trading in the Shares or the Resumption Proposal has been or will be approved by the Stock Exchange. Trading in the Shares will remain suspended until further notice.

DEFINITIONS

In this announcement, the following expressions shall have the following meanings as set out below unless the context requires otherwise:

“acting in concert”	has the meaning ascribed to it under the Takeovers Code
“associate(s)”	has the meaning ascribed to this term in the Listing Rules
“Authorised Share Capital Cancellation”	the proposed cancellation of the authorised but un-issued share capital of the Company in its entirety immediately upon the Capital Reduction becoming effective as approved by the Grand Court in accordance with the provisions of the Companies Law
“Authorised Share Capital Increase”	the proposed increase of the authorised share capital of the Company from HK\$789,408.57 to HK\$300,000,000 immediately following the Authorised Share Capital Cancellation becoming effective by the creation of an additional 29,921,059,143 un-issued New Shares
“Board”	the board of Directors
“Business Day”	any day (other than a Saturday or a Sunday or a day on which a tropical cyclone warning signal no. 8 or above or a black rainstorm warning signal is hoisted in Hong Kong at any time between 9:00 a.m. and 5:00 p.m.) on which banks are generally open for business in Hong Kong
“Capital Reduction”	the proposed reduction of the nominal value of each Consolidated Share from HK\$0.70 to HK\$0.01
“Capital Restructuring”	the proposed restructuring of the capital of the Company comprising, inter alia, the Share Consolidation, the Capital Reduction, the Share Premium Cancellation, the Authorised Share Capital Cancellation, the Authorised Share Capital Increase and the cancellation of the Existing Convertible Securities, details of which are set out in the section headed “PROPOSED CAPITAL RESTRUCTURING” in this announcement
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“Change in Board Lot Size”	the proposed change in board lot size of the New Shares from 2,000 Existing Shares to 20,000 New Shares with effect immediately after the Subscription becomes effective, details of which are set out in the section headed “PROPOSED CHANGE IN BOARD LOT SIZE” in this announcement
“China Mining”	China Mining Corporation Limited, an associate of the Group, which beneficially owns 95% interests in Fujian Tiancheng

“Claim(s)”	as at the date when the Scheme becomes effective, all debts, obligations and liabilities of the Company, whether known or unknown, whether certain or contingent, whether present, future or prospective, whether or not its amount is fixed or unliquidated, whether arising at common law, in equity or by statute, in any jurisdiction or in any manner whatsoever, including without limitation a debt or liability to pay money or money’s worth, any liability for breach of trust, any liability in contract, tort or bailment, any liability arising out of an obligation to make restitution and any liability arising out of any legal claims, whether certain or contingent
“Companies Law”	the Companies Law (2010 Revision) of the Cayman Islands, as amended from time to time
“Companies Ordinance”	the Companies Ordinance (Chapter 32) of the Laws of Hong Kong
“Company”	Smart Union Group (Holdings) Limited (Provisional Liquidators Appointed), 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”	completion of the allotment and issue of the Subscription Shares under the Restructuring Agreement
“Concert Group”	the Investor, Mr. Yang and Mr. Ting and any parties acting in concert with any of them
“Condition(s) Precedent”	the condition(s) precedent to Completion as set out in the section headed “PROPOSED SUBSCRIPTION AND WHITEWASH WAIVER – Conditions Precedent” in this announcement
“connected person(s)”	has the same meaning ascribed to it under the Listing Rules
“Consolidated Share(s)”	the ordinary shares of HK\$0.70 each in the capital of the Company immediately following the Share Consolidation becoming effective
“Creditor(s)”	collectively the Ordinary Creditors and the Preferential Creditors
“Creditors Share(s)”	the 84,495,329 New Shares to be issued and allotted as fully paid by the Company to the Scheme Administrators for the benefit of the Scheme Creditors
“Director(s)”	the director(s) of the Company
“Earnest Money”	the sum of HK\$5,000,000 paid by the Investor to the Escrow Agent for the benefit of the Scheme Creditors prior to the signing of the Restructuring Agreement

“EGM”	the extraordinary general meeting of the Company to be convened for the purposes of considering, and if thought fit, approving, among other matters, the transactions contemplated in the Proposed Restructuring
“Enlarged Issued Share Capital”	the issued share capital of the Company after the Capital Restructuring as enlarged by the issue of the Offer Shares, the Subscription Shares and the Creditors Shares
“Escrow Agent”	John Lees & Associates Limited, a company incorporated in Hong Kong with limited liability
“Escrow Share(s)”	the 118,000,000 Existing Shares issued under the name of Mr. Tang which forms part of the consideration paid for the acquisition of 45.51% of the total issued share capital of China Mining by SU Mining pursuant to the Mining Agreement, details of which are set out in the Company’s announcements dated 26 October 2007 and 2 May 2008
“Excluded Companies”	SU Investments and its subsidiaries and associated companies
“Exclusivity Agreement”	the exclusivity agreement dated 12 May 2009 as supplemented by a supplemental exclusivity agreement dated 27 May 2010 entered into among the Investor, Mr. Yang, Mr. Ting, the Company and the Provisional Liquidators granting the Investor the Exclusivity Period to prepare the Resumption Proposal and enter into the Restructuring Agreement for the implementation of the Resumption Proposal
“Exclusivity Period”	the exclusivity period granted to the Investor under the Exclusivity Agreement to prepare the Resumption Proposal and to negotiate in good faith and entering into the Restructuring Agreement to implement the Proposed Restructuring
“Executive”	the Executive Director of the Corporate Finance Division of the SFC from time to time or any of his delegates
“Existing Convertible Securities”	all the convertible bonds, options and all other securities issued by the Company which are convertible into Shares or confer on the holder thereof the rights to subscribe for any Shares
“Existing Share(s)”	ordinary shares of HK\$0.10 each in the capital of the Company prior to the Capital Restructuring becoming effective
“Fujian Tiancheng”	Fujian Tiancheng Mining Corporation, which holds the relevant exploration rights of the Mine
“Grand Court”	the Grand Court of the Cayman Islands
“Grantee(s)”	grantee(s) under the Share Option Scheme whose Share Options remain outstanding as at the date of this announcement

“Group”	the Company and its subsidiaries
“Group Reorganisation”	the proposed reorganisation of the Group’s structure which envisages that the entire shareholding of SU Investments be transferred to the special purpose vehicle controlled by the Scheme Administrators, details of which are set out in the section headed “PROPOSED SCHEME AND GROUP REORGANISATION – Group Reorganisation” in this announcement
“High Court”	the High Court of Hong Kong
“HKSCC”	Hong Kong Securities Clearing Company Limited
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Shareholder(s)”	the independent Shareholder(s), to the extent applicable in respect of each resolution, (i) who are not the controlling Shareholder(s) and therefore permitted to vote in respect of the resolution to approve the Open Offer at the EGM; or (ii) who are not the Concert Group and/or not involved or interested in (other than solely as a Shareholder) the transactions contemplated under the Restructuring Agreement and therefore permitted to vote in respect of the resolution(s) to approve the Open Offer, the Subscription and the Whitewash Waiver at the EGM
“Investor”	Gold Bless International Invest Limited, a company incorporated in the British Virgin Islands with limited liability which is ultimately beneficially owned as to 85% by Mr. Yang and 15% by Mr. Ting
“Last Trading Day”	14 October 2008, being the last trading date before suspension of trading of the Shares
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange from time to time
“Long Stop Date”	31 May 2011
“Memorandum and Articles or Association”	the memorandum and articles of association of the Company
“Mine”	the Da An Silver Mine located in Fujian Province of the PRC which Fujian Tiancheng holds the relevant exploration permit

“Mining Agreement”	the formal agreement dated 17 October 2007 entered into among Mr. Tang, China Mining and SU Mining pursuant to which SU Mining (i) acquired 45.51% of the total issued share capital of China Mining from Mr. Tang for a total consideration of HK\$269,355,000 and (ii) subscribed the zero coupon convertible bonds with principal amount of HK\$40,000,000 issued by China Mining to SU Mining, details of which are set out in the Company’s announcements dated 26 October 2007 and 2 May 2008
“Mr. Tang”	Mr. Tang Xue Jin, the vendor of the Mining Agreement
“Mr. Ting”	Mr. Ting Wai-min, the ultimate beneficial owner interested in 15% of the issued share capital of the Investor
“Mr. Yang”	Mr. Yang Wang-jian, the ultimate beneficial owner interested in 85% of the issued share capital of the Investor
“New Share(s)”	the ordinary shares of HK\$0.01 each in the capital of the Company immediately following the Capital Restructuring becoming effective
“OEM”	acronym for original equipment manufacturing, under which products are designed and manufactured in whole or in part in accordance with customer’s specifications and are marketed under the customer’s brand name using the customer’s character licensed products
“Offer Share(s)”	New Shares to be issued and allotted to the Shareholders under the Open Offer, being 347,339,770 New Shares
“Open Offer”	the proposed issue of the Offer Shares on the basis of 22 Offer Shares for every 5 New Shares held by the Shareholder on the record date, which will be at the date of the EGM or such other date as the Company may determine, at the subscription price of HK\$0.112 per Offer Share following the Capital Restructuring, details of which are set out in the section headed “PROPOSED OPEN OFFER” in this announcement
“Ordinary Creditors”	all those creditors of the Company who have a Claim against the Company as at the date on which the Scheme becomes effective other than the Preferential Creditors to the extent of their respective preferential claim amounts and the Investor
“PRC”	the People’s Republic of China which, for the purpose of this announcement only, excludes Hong Kong, the Macau Special Administrative Region and Taiwan

“PRC Judgment Creditors”	include the five judgments handed down by 中華人民共和國廣東省東莞市人民法院 against, <i>inter alia</i> , the Company on 13 December 2008 and all the other judgment creditors of the Company in the PRC whose claims have not been fully settled (if any) as at Completion of which the Provisional Liquidators and/or the Scheme Administrators are then aware of and deem appropriate in their absolute discretion
“Preferential Creditors”	all those creditors of the Company who have a Claim against the Company as at the date on which the Scheme becomes effective, which is preferential in accordance with the laws of Hong Kong of which the Scheme Administrators have been specifically notified prior to the date specified as the cut-off date for the notification before the time intended for payment of the first dividend under the Scheme to Scheme Creditors
“Proposed Restructuring”	the proposed restructuring of the Group involving, among other things, the Capital Restructuring, the Open Offer, the Scheme, the Group Reorganisation, the Subscription and the Whitewash Waiver
“Provisional Liquidators”	Mr. John Robert Lees and Mr. Mat Ng, the joint and several provisional liquidators of the Company, both of John Less & Associates Limited acting without personal liability
“Public Float”	has the meaning ascribed to it under Rule 8.08 (as amended from time to time) of the Listing Rules and as applicable to the Company
“Restoration of Public Float”	the sale of such number of New Shares by the Investor so as to procure the Company’s compliance with the requirement of Public Float
“Restructured Group”	the Group after the completion of the Group Reorganisation, which essentially consists of the Company, Sino Front and its subsidiaries
“Restructuring Agreement”	the restructuring agreement dated 31 December 2010 entered into between the Company, the Provisional Liquidators, the Investor, Mr. Yang and Mr. Ting in respect of the Proposed Restructuring
“Restructuring Costs”	all fees, charges, costs, expenses and disbursements of the Company, the Provisional Liquidators and the Scheme Administrators incurred in connection with the provisional liquidation, the negotiation, preparation and implementation of the Scheme, the Resumption Proposal and the Restructuring Documents
“Restructuring Documents”	the Restructuring Agreement and all other documents necessary to document and implement the transactions contemplated in, among others, the Resumption Proposal and the Restructuring Agreement

“Resumption Proposal”	the resumption proposal submitted or to be submitted to the Stock Exchange (as supplemented or amended from time to time) for the purpose of seeking approval of the Stock Exchange for the resumption of trading of the Shares on the Stock Exchange
“Scheme”	the scheme of arrangement proposed to be made between the Company and the Creditors pursuant to section 166 of the Companies Ordinance with, or subject to, any modification, addition or conditions approved or imposed by the High Court, details of which are set out in the section headed “PROPOSED SCHEME AND GROUP REORGANISATION – Scheme” in this announcement
“Scheme Administrators”	such persons who will be appointed as scheme administrators pursuant to the terms of the Scheme from time to time
“Scheme Creditors”	all Ordinary Creditors having a Claim against the Company which has been admitted by the Scheme Administrators
“Scheme Costs”	the costs of administering and implementing the terms of the Scheme
“Scheme Documents”	the documentation to be filed at High Court and all other documents necessary to implement the Scheme
“SFC”	the Securities and Futures Commission of Hong Kong
“Share(s)”	ordinary share(s) of the Company
“Share Consolidation”	the proposed consolidation of seven (7) Existing Shares into one (1) Consolidated Share of HK\$0.70 each
“Share Option(s)”	the outstanding share option(s) of the Company as at the date of this announcement
“Share Option Scheme”	the share option scheme adopted by the Company on 2 September 2006
“Share Premium Cancellation”	the proposed share premium cancellation of the Company upon the Capital Reduction becoming effective
“Shareholder(s)”	holder of the Share(s)
“Sino Front”	Sino Front Limited, a company incorporated under the laws of Hong Kong with limited liability, being a direct wholly-owned subsidiary of the Company

“Smart Place”	Smart Place Investments Limited, a company incorporated in the British Virgin Islands, the entire share capital of which is held as to 38.5% by Mr. Wu Kam Bun, 38.5% by Mr. Lai Chiu Tai (deceased), 10% by Mr. Ho Wai Wah, 10% by Mr. Lo Kwok Choi and 3% by Mr. Wong Wai Chuen, all being executive Directors or former executive Directors
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“SU Investments”	Smart Union Investments Limited (Provisional Liquidators Appointed), a direct wholly-owned subsidiary of the Company incorporated in the British Virgin Islands
“SU Mining”	Smart Union Mining Investments Limited (Provisional Liquidators Appointed) (formerly known as Queen Glory Limited), an indirect wholly-owned subsidiary of the Company incorporated in the British Virgin Islands
“Subscription”	the proposed subscription by the Investor for the Subscription Shares subject to the terms and conditions of the Restructuring Agreement, details of which are set out in the section headed “PROPOSED SUBSCRIPTION” in this announcement
“Subscription Price”	the amount of HK\$170,210,622 for the Subscription, representing approximately HK\$0.112 per Subscription Shares
“Subscription Share(s)”	the 1,519,737,697 New Shares, representing approximately 74.84% of the Enlarged Issued Share Capital, to be subscribed by the Investor pursuant to the Restructuring Agreement
“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers
“Undertakings”	the undertakings by Mr. Tang and China Mining to procure (i) China Mining to become the legal and beneficial owner of the 95% interests in the registered capital of Fujian Tiancheng; and (ii) Fujian Tiancheng to obtain the mining license and any other necessary approvals and consents for the mining of the Mine on or before 31 August 2008 pursuant to the Mining Agreement, details of which are set out in the Company’s announcements dated 26 October 2007 and 2 May 2008
“Whitewash Waiver”	a whitewash waiver pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code by the Executive in respect of the obligations of the Concert Group to make a mandatory general offer for all the securities of the Company not already owned or agreed to be acquired by them which may be arise as a result of the Subscription under the Restructuring Agreement

“Working Capital Facility”	the sum of HK\$55 million advanced by the Investor to Sino Front pursuant to a working capital facility agreement dated 17 June 2009 as amended and supplemented by a supplemental agreement dated 27 May 2010 entered into between the Investor and Sino Front
“%”	per cent
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong

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, 18 March 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, the Proposed Restructuring, the Investor and the proposed Change in Board Lot Size (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 not expressed by them, 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.