IN THE GRAND COURT OF THE CAYMAN ISLANDS

FINANCIAL SERVICES DIVISION

GRAND COURT CAYMAN ISLANDS

CAUSE NO: FSD 157 OF 2011

IN THE MATTER OF THE COMPANIES LAW (2010 REVISION)

AND IN THE MATTER OF THE REDUCTION OF SHARE CAPITAL OF SMART UNION GROUP (HOLDINGS) LIMITED

CLERK OF COURT
SEP 16 2011
CAYMAN ISLANDS GOVERNMENT

PETITION

TO THE GRAND COURT

THE HUMBLE PETITION OF SMART UNION GROUP (HOLDINGS) LIMITED, whose registered office is at Codan Trust Company (Cayman) Limited, Century Yard, Cricket Square, Hutchins Drive, P.O. Box 2681 GT, George Town, Grand Cayman KY1-1111, Cayman Islands, **SHOWS THAT**:

1. Your Petitioner, Smart Union Group (Holdings) Limited (hereinafter called the "**Company**") was incorporated on 8 March 2006 as an exempted company limited by shares under the Companies Law (as amended) (the "**Companies Law**").

2. The registered office of the Company is located at Codan Trust Company (Cayman) Limited, Century Yard, Cricket Square, Hutchins Drive, P.O. Box 2681, George Town, Grand Cayman KY1-1111, Cayman Islands.

3. The objects for which the Company was formed are unrestricted, and the Company has full power and authority to carry out any object not prohibited by the Companies Law.

4. The Company is an investment holding company. It was listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**HKSE**") on 29 September 2006. Trading in the shares of the Company on the HKSE has been suspended since 15 October 2008.

5. The group of companies of which the Company is the ultimate holding company (the "**Group**") are principally engaged in manufacturing and trading of toy products. The Group's manufacturing bases and trading business are located in the People's Republic of China (the "**PRC**") and Hong Kong.

6. The authorised share capital of the Company at the date of its incorporation was HK$50,000 divided into 500,000 ordinary shares of a par value of HK$0.10 each.

7. On 1 September 2006, the authorised share capital of the Company was increased to HK$200,000,000 divided into 2,000,000,000 ordinary shares of HK$0.10 each, by the creation of 1,999,500,000 ordinary shares of HK$0.10 each.

8. As at the date of this Petition the authorised share capital of the Company is HK$200,000,000 divided into 2,000,000,000 shares with a par value of HK$0.10 each. The issued and fully paid up share capital of the Company is HK$55,258,600, being 552,586,000 shares with a par value of HK$0.10 each.

9. The articles of association of the Company adopted pursuant to written resolutions passed on 2 September 2006 (the "**Articles of Association**") provide (inter alia) as follows:

> *"4. the Company may from time to time by ordinary resolution in accordance with the Law alter the conditions of its Memorandum of Association to:*
>
> *(a) increase its capital by such sum, to be divided into shares of such amounts, as the resolution shall prescribe;*
>
> *(b) consolidate and divide all or any of its capital into shares of larger amount than its existing shares;*
>
> *(c) divide its shares into several classes and without prejudice to any special rights previously conferred on the holders of existing shares attach thereto respectively any preferential, deferred, qualified or special rights, privileges, conditions or such restrictions which in the absence of any such determination by the Company in general meeting, as the Directors may determine provided always that where the Company issues shares which do not carry voting rights, the words "non-voting" shall appear in the designation of such shares and where*

the equity capital includes shares with different voting rights, the designation of each class of shares, other than those with the most favourable voting rights, must include the words "restricted voting" or " limited voting";

(d) sub-divide its shares, or any of them, into shares of smaller amount than is fixed by the memorandum of association (subject, nevertheless, to the Law), and may by such resolution determine that, as between the holders of the shares resulting from such sub-division, one or more of the shares may have any such preferred, deferred or other rights or be subject to any such restrictions as compared with the other or others as the Company has power to attach to unissued or new shares;

(e) cancel any shares which, at the date of the passing of the resolution, have not been taken, or agreed to be taken, by any person, and diminish the amount of its capital by the amount of the shares so cancelled or, in the case of the shares, without par value, diminish the number of shares into which its capital is divided.

5. The Board may settle as it considers expedient any difficulty which arises in relation to any consolidation and division under the last preceding Article and in particular but without prejudice to the generality of the foregoing may issue certificates in respect of fractions of shares or arrange for the sale of the shares representing fractions and the distribution of the net proceeds of sale (after deduction of the expenses of such sale) in due proportion amongst the Members who would have been entitled to the fractions, and for this purpose the Board may authorise some person to transfer the shares representing fractions to their purchaser or resolve that such net proceeds be paid to the Company for the Company's benefit. Such purchaser will not be bound to see to the application of the purchase money nor will his title to the shares be affected by any irregularity or invalidity in the proceedings relating to the sale.

6. The Company may from time to time by special resolution, subject to any confirmation or consent required by the Law, reduce its share capital or any share premium account or any capital redemption reserve or other undistributable reserve in any manner permitted by law.

7. Except so far as otherwise provided by the conditions of issue, or by these Articles, any capital raised by the creation of new shares shall be treated as if it formed part of the original capital of the Company, and such shares shall be subject to the provisions contained in these Articles with reference to the payment of calls and instalments, transfer and transmission, forfeiture, lien, cancellation, surrender, voting and otherwise."

10. Moreover, the term "special resolution" is defined in Article 2 of the Articles of Association as:

"Special Resolution" a resolution shall be a special resolution when it has been passed by a majority of not less than three-fourths of votes cast by such Members as, being entitled so to do, vote in person or, in the case of such Members as are corporations, by their respective duly authorised representative or, where proxies are allowed, by proxy at a general meeting of which not less than twenty-one (21) clear days' Notice, specifying (without prejudice to the power contained in these Articles to amend the same) the intention to propose the resolution as a special resolution, has been duly given. Provided that, except in the case of an annual general meeting, if it is so agreed by a majority in number of the Members having the right to attend and vote at any such meeting, being a majority together holding not less than ninety-five (95) per cent. in nominal value of the shares giving that right and in the case of an annual general meeting, if it is so agreed by all Members entitled to attend and vote thereat, a resolution may be proposed and passed as a special resolution at a meeting of which less than twenty-one (21) clear days' Notice has been given;"

The Proposed Restructuring of the Group

11. On 16 October 2008, the Company made an application to the High Court of Hong Kong SAR (the "**Hong Kong Court**") for the appointment of provisional liquidators to the Company in Hong Kong. Messrs John Robert Lees and Mat Ng, both of John Lees & Associates Limited, were appointed provisional liquidators of the Company (the "**Provisional Liquidators**") by the order of the Honourable Mr Justice Barma sitting in the Hong Kong Court on 16 October 2008 in HCCW No. 492/2008. The Provisional Liquidators were also appointed as provisional liquidators of a number of the Company's subsidiaries.

12. Following their appointment, the Provisional Liquidators, working with the Company's board of directors (the "**Directors**") and management, have focussed primarily on the continued trading of the businesses of the Group's operating subsidiaries with a view to preserving the value of these businesses as going concerns. The Provisional Liquidators have also conducted negotiations with potential third party investors for possible investments in the Group. This has culminated in the beneficial owners of Gold Bless International Invest Limited of Sea Meadow House, Blackburne Highway, PO Box 116, Road Town, Tortola, British Virgin Islands (the "**Investor**") submitting a proposal to the Provisional Liquidators for investment in and the reorganisation of the Company and its operating subsidiaries (the "**Restructuring Proposal**"). Following the submission of this proposal, an exclusivity agreement was entered into between the parties on 12 May 2009, and subsequently supplemented by a supplemental agreement dated 27 May 2010. These agreements granted the Investor an exclusivity period in which to prepare a proposal for the resumption of trading in the shares of the Company on the HKSE (the "**Resumption Proposal**") and to enter into a restructuring agreement with the Company and the Provisional Liquidators for the implementation of the proposed restructuring of the Group.

13. On 31 December 2010, the Provisional Liquidators, the Company and the Investor, among others, entered into a restructuring agreement to record the terms of the Restructuring Proposal, as amended and supplemented by the supplemental agreements date 31 May 2011 and 20 June 2011 and from time to time and reflecting HKSE's comments on the Resumption Proposal (collectively the "**Restructuring Agreement**"). The essential terms of the Restructuring Agreement are that the Company and its ordinary unsecured creditors (other than the preferential creditors, if any, who shall be paid in full out of scheme funds, and the Investor) (the "**Scheme Creditors**") shall enter into a scheme of arrangement under the Companies Ordinance of Hong Kong (the "**Hong Kong Scheme**"). As at the date of this Petition, the value of the claims of the Scheme Creditors totals HK$373,016,126.05 according to the aggregate claims admitted for voting purposes.

14. Pursuant to the Hong Kong Scheme, the Scheme Creditors will compromise their claims against the Company in consideration for the Company making funds and shares available to Scheme Creditors from (inter alia) the proceeds of the Investor's and other

public investors' (and/or the placing agent's as applicable) subscription for shares in the Company and for the convertible bonds issued by the Company. The Investor will thereby acquire a controlling interest in the enlarged issued share capital of the Company through a restructuring of the indebtedness of the Company.

15. On 16 August 2011, Hong Kong Court ordered that the Company be at liberty to convene a single meeting of the Scheme Creditors (the "**Scheme Meeting**") pursuant to the Companies Ordinance of Hong Kong to consider, and if thought appropriate, to approve the Hong Kong Scheme.

16. The Scheme Meeting was duly held on 14 September 2011 at which the number of Creditors entitled to vote and present and voting in person or by proxy at the Scheme Meeting and the aggregate amount of indebtedness held or represented by such Creditors and the votes given by such Creditors "for" or "against" the Hong Kong Scheme were as stated in the following table:

Present and voting			**For the Hong Kong Scheme**		**Against the Hong Kong Scheme**	
How Present	Number	Amount of indebtedness (HK$)	Number	Amount of indebtedness (HK$)	Number	Amount of Indebtedness (HK$)
In Person	0	-	0	-	0	-
By Proxy	10	279,129,968	10	279,129,968	0	-
Total	10	279,129,968	10	279,129,968	0	-

17. As shown in the above table, the number and quantum of indebtedness represented by the votes given for the Hong Kong Scheme, in both instances, is 100%. No Creditor voted against the Hong Kong Scheme.

18. By virtue of the voting results as shown in the above table, the approval for the Hong Kong Scheme at the Scheme Meeting was duly passed by the requisite majorities prescribed under section 166 of the Companies Ordinance of Hong Kong.

The Capital Restructuring

19. The Restructuring Agreement contemplates, inter alia, substantially the following restructuring of the Company's share capital under the Companies Law of the Cayman Islands (2010 Revision) (the "**Companies Law**") subject to, among other things, approval of the Company's shareholders in order to enable the capital injection into the Company by the Investor and other public investors (and/or the placing agent as applicable) referred to above to be effected:

    (a) every twenty existing shares in the capital of the Company of HK$0.10 each will be consolidated into three consolidated shares each having a par value of approximately HK$0.666 (the "**New Par Value**") (each a "**Consolidated Share**") (the "**Share Consolidation**");

    (b) upon the Share Consolidation becoming effective, the nominal value of each Consolidated Share will be reduced from the New Par Value to HK$0.01 and the authorised share capital of the Company will be reduced from HK$200,000,000 to approximately HK$3,000,000 by cancelling share capital to the extent of approximately HK$0.656 per Consolidated Share (the "**Capital Reduction**"). 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 of the Company, including but not limited to setting off part of the accumulated losses of the Company;

    (c) 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 "**Share Premium Cancellation**"). The credit arising from the Share Premium Cancellation will be applied to set off part of the accumulated losses of the Company;

    (d) upon the Capital Reduction becoming effective, all the existing authorised but unissued share capital will be cancelled in its entirety (the "**Authorised Share Capital Cancellation**"); and

    (e) upon the Authorised Share Capital Cancellation becoming effective, the Company's authorised share capital will be increased to HK$40,000,000, divided into 4,000,000,000 new shares of HK$0.01 each (the "**New Shares**") (the "**Authorised Share Capital Increase**").

20. After the completion of the Share Consolidation, the Capital Reduction, the Share Premium Cancellation, the Authorised Share Capital Cancellation, and the Authorised Share Capital Increase and the cancellation of existing convertible securities. (together the "**Capital Restructuring**"), the authorised share capital of the Company shall be HK$40,000,000, divided into 4,000,000,000 New Shares of HK$0.01 each, comprising 82,887,900 issued New Shares, and 3,917,112,100 unissued New Shares.

Extraordinary General Meeting of the Company

21. By a special resolution (the "**Resolution**") duly passed at the Extraordinary General Meeting of the Company on 16 September 2011 (the "**Meeting**") and in accordance with the Articles of Association and with the Companies Law, it was resolved that conditional upon (inter alia) the approval of the Capital Reduction by the Grand Court of the Cayman Islands (the "**Cayman Court**"), the registration of the order of the Cayman Court confirming the Capital Reduction, and the minute approved by the Cayman Court relating to the Capital Reduction (as required by the Companies Law), compliance with any conditions or directions as may be imposed by the Cayman Court, and on the Listing Committee of the HKSE granting the listing of, and permission to deal in the New Shares in issue upon the Capital Restructuring becoming effective:

   (a) every twenty existing shares in the capital of the Company of HK$0.10 each be consolidated into three Consolidated Shares each having a par value of approximately HK$0.666 in accordance with Article 4(b) of the Articles of Association and section 13(b) of the Companies Law;

   (b) subject to and forthwith upon the Share Consolidation becoming effective, the nominal value of each Consolidated Share (whether or not issued) be reduced from the New Par Value to HK$0.01 and the authorised share capital of the Company be reduced from HK$200,000,000 to approximately HK$3,000,000 by cancelling share capital to the extent of approximately HK$0.656 per Consolidated Share as at that date by way of a capital reduction;

(c) subject to and forthwith upon the Capital Reduction becoming effective, the amount standing to the credit of the share premium account of the Company be applied, including but not limited to, in setting off the same amount of the Company's accumulated losses on a dollar-to-dollar basis and the Directors be authorised to apply such credit in a manner as permitted by the Companies Law and the Articles of Association;

(d) subject to and forthwith upon the Capital Reduction becoming effective, all the existing authorised but unissued share capital be cancelled in its entirety;

(e) subject to and forthwith upon the Authorised Share Capital Cancellation becoming effective, the Company's authorised share capital will be increased to HK$40,000,000, divided into 4,000,000,000 New Shares of HK$0.01 each;

(f) clause 8 of the memorandum of association of the Company be amended by deleting it entirely and replacing it with the following provision:

"8. The share capital of the Company is HK$40,000,000 divided into 4,000,000,000 ordinary shares of a nominal or par value of HK$0.01 each, with power for the Company insofar as is permitted by law to redeem or purchase any of its shares and to increase or reduce the said capital subject to the provisions of the Companies Law and the articles of association of the Company and to issue any part of its capital, whether original, redeemed or increased with or without any preference, priority or special privilege or subject to any postponement of rights or to any conditions or restrictions and so that unless the conditions of issue shall otherwise expressly declare every issue of Shares whether stated to be preference or otherwise shall be subject to the powers hereinbefore contained.";

(g) article 3(1) of the articles of association of the Company be amended by the deletion of its entirety and by its replacement with the following provision:

"3(1). The authorised share capital of the Company shall be HK$40,000,000 divided into 4,000,000,000 ordinary shares of a nominal or par value of HK$0.01 each";

(h) any fractions of New Shares arising on the Share Consolidation pursuant to paragraph (a) of the Resolution shall not be allocated to the holders of the existing Shares otherwise entitled thereto but such fractions shall be aggregated and if possible sold for the benefit of the Company or to be dealt with in such other manner as the Company or the Provisional Liquidators may agree with HKSE from time to time;

(i) all of the New Shares in the capital of the Company after completion of the Capital Restructuring pursuant to the Resolution shall rank pari passu in all respects with each other and have the same rights and privileges and be subject to the restrictions contained in the memorandum and articles of association of the Company as amended pursuant to paragraphs (g) and (h) of the Resolution;

(j) the credit which will arise as a result of the Capital Reduction pursuant to paragraph (b) of the Resolution be applied, including but not limited to, in setting off the same amount of the Company's accumulated losses on a dollar-to-dollar basis and the Directors be authorised to apply such credit in a manner as permitted by the Companies Law and by the memorandum and articles of association of the Company; and

(k) the Directors and the Provisional Liquidators be authorised generally to take all necessary steps and to do all other things and execute all documents (including the affixation of the common seal of the Company where execution under seal is required) which may be necessary or desirable for the purpose of giving effect to or implementing any of the foregoing.

22. The Capital Reduction in the form proposed does not involve (i) an alteration or variation to the rights attached to the Company's shares; (ii) a diminution of the liability of any shareholder in respect of amounts unpaid on issued share capital; or (iii) the return of capital to any shareholder of the Company.

23. The form of Minute proposed to be registered records:

"The authorised share capital of Smart Union Group (Holdings) Limited was by virtue of a special resolution of its shareholders, and with the sanction of an order of the Grand Court of the Cayman Islands dated [•] 2011, reduced from HK$200,000,000 divided into

300,000,000 ordinary shares each with a par value of HK$0.67 (rounded up from HK$0.666666666666666666666666666666667), to HK$3,000,000 divided into *300,000,000 ordinary shares each of a par value of HK$0.01 each. As at the date of registration of this minute 82,887,900 ordinary shares of HK$0.01 each have been issued and fully paid."*

24. After the completion of the Capital Restructuring, the authorised share capital of the Petitioner shall be HK$40,000,000, divided into 4,000,000,000 New Shares, comprising 82,887,900 issued New Shares and 3,917,112,100 unissued New Shares.

Your Company therefore humbly prays as follows:

1. That the Capital Reduction of the Company proposed to be effected by the Special Resolution set forth in paragraph 18 of this Petition may be confirmed and the above mentioned Minute set forth in paragraph 20 of this Petition be approved by the Court;

2. That to this end all necessary inquiries and directions may be made and given;

3. Or that such other order may be made in the premises as the Court shall deem fit.

AND your Company will ever pray etc.

DATED the 16th day of September 2011

Walkers

WALKERS

Attorneys at Law for the Company

NOTE: It is not intended to serve this Petition on any person.

This Petition is presented by Walkers, Attorneys at Law, Walker House, 87 Mary Street, George Town, Grand Cayman KY1-9001, Cayman Islands for the Company whose address for service is care of said Attorneys at Law.

ENDORSEMENT

This petition, having been presented to the Grand Court of the Cayman Islands on the ______ day of September 2011 will be heard at the Grand Court of the Cayman Islands on:

Date:

Time:

(or as soon thereafter as the petition can be heard).

This Petition is presented by Walkers, Attorneys at Law, Walker House, 87 Mary Street, George Town, Grand Cayman KY1-9001, Cayman Islands for the Company whose address for service is care of said Attorneys at Law.