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C Y FOUNDATION GROUP LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 1182)

ISSUE OF CONVERTIBLE NOTES

On 27 July 2012 (after trading hours), the Company and the Subscriber entered into the Subscription Agreement in respect of the issue of the Convertible Notes in the principal amount of HK\$20 million. Completion of the Subscription is subject to the conditions as set out in the paragraph headed “Conditions precedent” below. Detailed terms of the Convertible Notes are set out in the paragraph headed “Principal terms of the Convertible Notes” below.

The net proceeds from the issue of the Convertible Notes of approximately HK\$19.7 million will be used as to HK\$10 million for repayment of the loan due to the Subscriber; and as to the remaining for the general working capital of the Group. As at the date of this announcement, the Company has a total of 6,968,710,326 Shares. Assuming allotment and issue of the Conversion Shares from the full exercise of the conversion rights attaching to the Convertible Notes, the Conversion Shares represent (i) approximately 5.01% of the existing issued share capital of the Company, and (ii) approximately 4.77% of the issued share capital as enlarged by the issue of the Conversion Shares in full. The Conversion Shares will be issued under the General Mandate.

The Company will apply to the Listing Committee for the listing of, and permission to deal in the Conversion Shares. No listing of the Convertible Notes will be sought on the Stock Exchange or any other stock exchanges.

SUBSCRIPTION AGREEMENT

1) Parties and Date

Date: 27 July 2012

Issuer: the Company

Subscriber: Idea Sino Limited which is a private and corporate investor

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the Subscriber and its ultimate beneficial owner are Independent Third Parties.

2) Principal terms of the Convertible Notes

The principal terms of the Convertible Notes are arrived at after arm's length negotiations between the Company and the Subscriber and are summarised as follows:

Principal amount:	HK\$20,000,000
Interest rate:	The Convertible Notes shall carry an interest of 3% per annum.
Maturity date and redemption:	Unless previously redeemed, repurchased and cancelled or converted, any outstanding Convertible Notes shall be redeemed on the date falling on the first anniversary of the date of issue of the Convertible Notes.
Ranking:	The Convertible Notes constitute general and unsecured obligations of the Company and rank equally among themselves and pari passu with all other present and future unsecured and unsubordinated obligations of the Company.
Conversion:	The holder of the Convertible Notes will have the right to convert the whole or part of the principal amount of the Convertible Notes, in amounts of not less than a whole multiple of HK\$2,500,000 on each conversion, into Conversion Shares at the then prevailing Conversion Price at any time and from time to time, from the date of issue of the Convertible Notes up to and including the date which is 7 days prior to the Maturity Date.
Conversion Price:	The Conversion Price is initially HK\$0.0573 per Share, subject to adjustment for, among other matters, subdivision or consolidation of Shares, rights issue, extraordinary stock or cash distribution, and other dilutive events (which are the standard anti-dilution adjustment).
Events leading to adjustment of the conversion price:	The events leading to adjustment to the Conversion Price include the following: <ul style="list-style-type: none">(i) an alteration of the nominal amount of each Share by reason of any consolidation or subdivision;

- (ii) an issue (other than in lieu of a cash dividend) by the Company of Shares credited as fully paid by way of capitalisation of profits or reserves (including any share premium account or capital redemption reserve fund);
- (iii) a capital distribution being made by the Company, whether on a reduction or otherwise, to Shareholders (in their capacity as such) or a grant by the Company to Shareholders (in their capacity as such) or rights to acquire for cash assets of the Company or any of its subsidiaries;
- (iv) an offer of new Shares for subscription by way of rights, or a grant of options or warrants to subscribe new Shares being made by the Company to Shareholders (in their capacity as such) at a price which is less than the “market price” on the date of the announcement of the terms of the offer or grant;
- (v) an issue wholly for cash being made by the Company of securities convertible into or exchangeable for or carrying rights of subscription for new Shares and the total effective consideration per Share receivable for such securities is less than the “market price” on the date of announcement of the terms of the issue of such securities; or
- (vi) an issue of Shares wholly for cash at a price per Share which is less than the “market price” on the date of announcement of the terms of such issue; or
- (vii) an issue of Shares for the acquisition of asset at a total effective consideration per Share which is less than the “market price” on the date of announcement of the terms of such issue.

“**market price**” means the average of the closing prices of one Share quoted on the Stock Exchange for each of the last five dealing days on which dealings in the Shares on the Stock Exchange took place ending on the last such dealing day preceding the day on or as of which the market price is to be ascertained

Voting:

The Subscriber will not be entitled to attend or vote at any general meeting of the Company by reason only of it being the holder of the Convertible Notes.

Transfer: With the prior notification to the Company, the Convertible Notes may be transferable provided that no transfer or assignment of the Convertible Notes shall be made to any other connected person of the Company without prior written consent of the Company.

Based on the initial Conversion Price of HK\$0.0573 per Conversion Share, a maximum number of approximately 349,040,139 Conversion Shares will be allotted and issued upon exercise of the conversion rights attached to the Convertible Notes in full, which represent: (i) approximately 5.01% of the issued share capital of the Company as at the date of this announcement; and (ii) approximately 4.77% of the issued share capital of the Company as enlarged by the allotment and issue of the Conversion Shares in full.

The Conversion Shares will rank pari passu in all respects with the Shares in issue as at the date of allotment and issue of the Conversion Shares. There will not be any restrictions for the subsequent sale of the Conversion Shares by the Subscriber.

No application will be made for listing of, or permission to deal in, the Convertible Notes on the Stock Exchange or any other stock exchange. Application will be made by the Company to the Stock Exchange for the listing of, and permission to deal in, the Conversion Shares.

The initial Conversion Price of HK\$0.0573 per Conversion Share was arrived at after arm's length negotiation between the Company and the Subscriber and represents:

- (a) a discount of approximately 16.96% to the closing price of HK\$0.0690 per Share as quoted on the Stock Exchange on 27 July 2012, being the last trading day immediately before the entering into of the Subscription Agreement; and
- (b) a discount of approximately 19.97% to the average of the closing prices of HK\$0.0716 per Share as quoted on the Stock Exchange for the last five trading days immediately prior to 27 July 2012.

After deducting the expenses relating to the Subscription, the net conversion price for each Conversion Share is about HK\$0.0564.

3) Conditions precedent

Completion is conditional upon the fulfillment of the following conditions precedent:

- (i) the Listing Committee granting listing of and permission to deal in the Conversion Shares;
- (ii) the warranties given by the Company under the Subscription Agreement remaining true, accurate and complete in all material respects; and
- (iii) all necessary consents and approvals required to be obtained on the part of the Company and the Subscriber in respect of the Subscription Agreement and the transactions contemplated thereunder having been obtained.

If any of the above conditions are not fulfilled on or before 10 August 2012 or such other date as the Company and the Subscriber may agree, the Subscription Agreement will lapse and become null and void and the parties shall be released from all obligations hereunder, save the liabilities for any antecedent breaches thereof.

4) Completion

Completion shall take place on or before the third business day following the date on which the above conditions are fulfilled (or such other date as the parties hereto may agree).

5) Termination

The Subscriber may, by notice in writing to the Company given at any time prior to Completion, terminate the Subscription Agreement if in the reasonable opinion of the Subscriber, the success of the Subscription would be materially and adversely affected by any of the following circumstance:

- (i) the introduction of any new law or regulation or any change in existing law or regulation (or the judicial interpretation thereof) or other occurrence of any nature whatsoever which may in the reasonable opinion of the Subscriber materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole or is materially adverse in the context of the Subscription; or
- (ii) the occurrence of any local, national or international event or change (whether or not forming part of a series of events or changes occurring or continuing before, and/or after the date hereof) of a political, military, financial, economic or other nature (whether or not ejusdem generis with any of the foregoing), or in the nature of any local, national or international outbreak or escalation of hostilities or armed conflict, or affecting local securities markets which may, in the reasonable opinion of the Subscriber materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole or materially and makes it inexpedient or inadvisable to proceed with the Subscription; or
- (iii) any adverse change in market conditions (including without limitation, any change in fiscal or monetary policy, or foreign exchange or currency markets, suspension or material restriction or trading in securities) occurs which in the reasonable opinion of the Subscriber is likely to materially or adversely affect the success of the Subscription or otherwise makes it inexpedient or inadvisable to proceed with the Subscription; or
- (iv) any event of force majeure including, without limiting the generality thereof, any act of God, war, riot, public disorder, civil commotion, fire, flood, explosion, epidemic, terrorism, strike or lock-out; or

- (v) any material breach of any of the representations, warranties or undertakings given by the Company under the Subscription Agreement comes to the knowledge of the Subscriber.

6) Mandate to issue the Conversion Shares

The issue of the Conversion Shares is not subject to Shareholders' approval.

The Conversion Shares will be issued under the General Mandate granted to the Directors at the annual general meeting of the Company held on 6 October 2011, subject to the limit up to 1,393,742,065 Shares (representing 20% of the aggregate nominal amount of the share capital of the Company in issue on that date). Before the date of this announcement, the General Mandate has not been utilised and the issue of the Conversion Shares will utilise approximately 25.04% of the General Mandate such that a total of 1,044,701,926 Shares will remain issuable under such mandate.

REASON FOR THE ISSUE OF CONVERTIBLE NOTES AND USE OF PROCEEDS

The Company is an investment holding company. The principal activities of the Group are engaged in the manufacturing and sales of packaging products, operating digital entertainment business and watch trading.

The Shares had been suspended from trading on the Stock Exchange for a long time since 31 August 2010 until they are allowed for resumption of trading on 17 July 2012. During such suspension period, the Company had been deprived of the capital market funding opportunity to cope with the volatile worldwide economic situation. In the absence of unforeseeable circumstances, the Board considers that the Group would have sufficient working capital to finance its daily business. Although the financial results of the Company for the year ended 31 March 2012 were better than prior year, the Board believes that the performance of the Group could be further improved if the financial position is strengthened.

The Subscriber has provided a loan in the total sum of HK\$10,000,000 (bearing 5% interest per annum) to the Company in 2011 for general working purpose. Such loan will be due for repayment in August and September this year. The Board considers that raising funds by the issue of Convertible Notes represent an opportunity for the Company to: (i) restructure the loan from the Subscriber; and (ii) further enhance its working capital and thereby strengthening its capital base and financial position which is necessary for the expansion and/or turnaround of the Group's existing business. The net proceeds from the issue of the Convertible Notes of approximately HK\$19.7 million will therefore be used as to HK\$10 million for repayment of the loan due to the Subscriber; and as to the remaining for the general working capital of the Group. The Directors consider that the issue of the Convertible Notes is an appropriate means of raising additional capital for the Company since it will not have an immediate dilution effect on the shareholding of the existing Shareholders and the Convertible Notes bear a relatively low interest rate in comparison with external borrowings.

The Directors consider that the terms of the Subscription Agreement (including the Conversion Price), which were arrived at after arm's length negotiations between the Company and the Subscriber, are fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

SHAREHOLDING STRUCTURE

Based on information that is publicly available to the Company and within the knowledge of the Directors, the shareholding structure of the Company as at the date of this announcement and immediately after the full conversion of the Convertible Notes is as follows (assuming there being no other change in the share capital of the Company):

Shareholder	At the date of this announcement		Immediately after the issue and allotment of the Conversion Shares upon full conversion of the Convertible Notes	
	No. of Shares	Approximate percentage	No. of Shares	Approximate percentage
Luck Continent Limited	3,246,264,127	46.58%	3,246,264,127	44.36%
CHENG Chee Tock Theodore and his associates	1,757,142,856	25.21%	1,757,142,856	24.01%
Public Shareholders				
The Subscriber	–	–	349,040,139	4.77%
Other public Shareholders	1,965,303,343	28.21%	1,965,303,343	26.86%
Total	<u>6,968,710,326</u>	<u>100.00%</u>	<u>7,317,750,465</u>	<u>100%</u>

FUND RAISING ACTIVITIES IN THE PAST TWELVE MONTHS PRIOR TO THE DATE OF THIS ANNOUNCEMENT

The Company has not conducted any fund raising activities in the past twelve months before the date of this announcement.

DEFINITIONS

In this announcement, unless the context otherwise requires, the following words and expressions shall have the meaning ascribed to them below:

“associates”	has the meaning ascribed thereto in the Listing Rules
“Board”	board of the Directors
“Company”	C Y Foundation Group Limited, a company incorporated in Bermuda with limited liability and the issued Shares of which are listed on the main board of the Stock Exchange
“Completion”	completion of the Subscription Agreement

“connected persons”	has the meaning ascribed thereto in the Listing Rules
“Conversion Price”	the initial conversion price of HK\$0.0573 per Conversion Share (subject to adjustment) upon conversion of the Convertible Notes
“Conversion Shares”	the Shares which may fall to be allotted and issued upon exercise of the conversion rights attaching to the Convertible Notes
“Convertible Notes”	the 3% coupon convertible notes in principal amount of HK\$20 million to be issued by the Company to the Subscriber pursuant to the Subscription Agreement
“Directors”	directors of the Company
“General Mandate”	the general mandate granted to the Directors by the Shareholders pursuant to an ordinary resolution passed at the annual general meeting of the Company held on 6 October 2011
“Group”	the Company and its subsidiaries
“Hong Kong”	Hong Kong Special Administrative Region of the People’s Republic of China
“Independent Third Party(ies)”	any person(s) or company(ies) and their respective ultimate beneficial owner(s) whom, to the best of the Directors’ knowledge, information and belief having made all reasonable enquiries, are third parties independent of the Company and its connected persons
“Listing Committee”	the listing committee of the Stock Exchange for considering applications for listing and the granting of listing
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Maturity Date”	the date falling the first anniversary of the date of issue of the Convertible Notes
“Share(s)”	ordinary share(s) of HK\$0.001 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

“Subscriber”	Idea Sino Limited, a company incorporated in the British Virgin Islands with limited liability, being the subscriber to the Subscription Agreement
“Subscription”	the subscription for the Convertible Notes by the Subscriber pursuant to the terms of the Subscription Agreement
“Subscription Agreement”	the subscription agreement dated 27 July 2012 and entered into between the Company and the Subscriber in relation to the Subscription
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“%”	per cent.

By order of the Board
SNEAH Kar Loon
Chairman

Hong Kong, 27 July 2012

As at the date of this announcement, the executive Directors of the Company are Mr. SNEAH Kar Loon and Mr. SIK Siu Kwan, the non-executive Director is Mr. NG Kwok Lun, the independent non-executive Directors are Mr. LAI Hock Meng, Mr. BALAKRISHNAN Narayanan, Mr. YONG Peng Tak and Mr. IO Rudy Cheok Kei.