SMART UNION GROUP (HOLDINGS) LIMITED
合 俊 集 團（控 股）有 限 公 司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2700)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2011

RESULTS

The board of directors (the "Board") of Smart Union Group (Holdings) Limited (the "Company") is pleased to announce the consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2011 with comparative figures for the previous year, as follows:

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2011

	Note	2011 HK$'000	2010 HK$'000 (Restated)
Revenue	4&5	**572,267**	358,441
Cost of sales	7	**(498,999)**	(324,333)
Gross profit		**73,268**	34,108
Other income	6	**2,979**	5,913
Other gains	6	**300,248**	324
Selling expenses	7	**(5,553)**	(1,430)
Administrative expenses	7	**(33,230)**	(10,658)
Provision for financial guarantees to an unconsolidated subsidiary	14	**(16,710)**	(17,373)
Write back of provision for legal claims		**–**	5,368
Write back of provision for amount due from a former subsidiary		**–**	11,066
Operating profit		**321,002**	27,318
Finance costs, net	8	**(5,529)**	(3,597)
Profit before income tax		**315,473**	23,721
Income tax expense	9	**(10,203)**	(4,782)
Profit for the year attributable to equity holders of the Company		**305,270**	18,939
Earnings per share for profit attributable to the equity holders of the Company during the year			
– Basic (HK cents)	10	**192.1**	22.8
– Diluted (HK cents)	10	**135.6**	22.8

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2011

	2011	2010
	HK$'000	*HK$'000*
		(Restated)
Profit for the year	**305,270**	18,939
Other comprehensive income	**–**	–
Total comprehensive income for the year attributable to equity holders of the Company	**305,270**	18,939

CONSOLIDATED BALANCE SHEET

As at 31 December 2011

	Note	**2011** *HK$'000*	2010 *HK$'000* (Restated)
ASSETS			
Non-current assets			
Intangible assets		**1,581**	–
Property, plant and equipment		**3,700**	3,165
Investments in unconsolidated subsidiaries		**–**	–
Investment in a former subsidiary		**–**	–
Investment in an associated company		**–**	–
		5,281	3,165
Current assets			
Inventories		**2,945**	2,675
Trade receivables	*12*	**451,526**	218,360
Amounts due from unconsolidated subsidiaries		**–**	–
Amount due from a former subsidiary		**–**	–
Prepayments, deposits and other receivables		**1,500**	5,327
Convertible bonds		**–**	–
Tax recoverable		**–**	127
Cash and cash equivalents		**22,265**	16,562
		478,236	243,051
Total assets		**483,517**	246,216

CONSOLIDATED BALANCE SHEET
As at 31 December 2011

	Note	2011 HK$'000	2010 HK$'000 (Restated)
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	16	**6,030**	55,259
Share premium		**90,721**	368,381
Other reserves		**17,765**	30,474
Accumulated losses		**(9,579)**	(768,134)
Total equity		**104,937**	(314,020)
LIABILITIES			
Non-current liabilities			
Convertible bonds	15	**61,837**	–
Deferred income tax liabilities		**–**	16
		61,837	16
Current liabilities			
Trade payables	13	**281,713**	120,782
Other payables and accruals	14	**17,145**	228,758
Amounts due to unconsolidated subsidiaries		**–**	112,362
Amount due to a director		**2,300**	–
Borrowings		**–**	92,936
Tax payable		**15,585**	5,382
		316,743	560,220
Total liabilities		**378,580**	560,236
Total equity and liabilities		**483,517**	246,216
Net current assets/(liabilities)		**161,493**	(317,169)
Total assets less current liabilities		**166,774**	(314,004)

NOTES TO THE FINANCIAL STATEMENTS

1 GENERAL INFORMATION

The Company was incorporated in the Cayman Islands on 8 March 2006 as an exempted company with limited liability. The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. The shares of the Company were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") in 2006. The shares of the Company had been suspended for trading on the Stock Exchange since 15 October 2008 and the trading of shares has been resumed since 11 November 2011.

The Group was principally engaged in manufacturing and trading of recreational and educational toys and equipment. The operations of the Group were substantially ceased after the major assets and production facilities of certain subsidiaries were subject to freezing orders obtained by certain creditors in the People's Republic of China (the "PRC") since October 2008, except that Dream Link Limited ("Dream Link"), a subsidiary, continued its trading business until February 2009. The Group has reactivated its trading of toys business through Sino Front Limited ("Sino Front"), a newly incorporated wholly-owned subsidiary of the Company, since June 2009. Details of the subsidiaries of the Group are set out in the annual report.

During the year ended 31 December 2010, the Group acquired five production lines at a consideration of HK$3,450,000. The five production lines are located in Dongguan, the PRC and included ancillary facilities, plastic injection moulding machines and assembling lines.

During the year ended 31 December 2011, the Group further acquired a 100% equity interest of a company incorporated in the PRC which operated a manufacturing factory located in Dongguan, the PRC, at a consideration of HK$2,300,000 for the expansion of the Group's production facilities.

The directors regard Gold Bless International Invest Limited, a company incorporated in the British Virgin Islands, as being the ultimate holding company.

These consolidated financial statements are presented in Hong Kong dollars (HK$), unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on 29 March 2012.

2 GROUP RESTRUCTURING, DISMISSAL OF WINDING-UP PETITIONS AND DISCHARGE OF PROVISIONAL LIQUIDATORS.

In October 2008, the Group found difficulties in meeting its short-term debts. The directors resolved to apply for winding-up petitions for the Company and certain of its subsidiaries and applied to the High Court of Hong Kong (the "High Court") for the appointment of provisional liquidators in order to protect the assets of the Group and to safeguard the interests of both the creditors and the shareholders.

As a result of the applications, Messrs. John Robert Lees and Mat Ng were appointed as the joint and several provisional liquidators of the Company ("Provisional Liquidators") and six of its subsidiaries by the orders of the High Court dated 16 October 2008 and 17 October 2008 (the "Court Orders").

Pursuant to the Court Orders, the Provisional Liquidators may, among other things, exercise the powers to take into their custody and protect the assets of the Company and its subsidiaries and carry on and stabilise the operations of the Group, including facilitating a restructuring of the Company.

On 13 January 2010, Dream Link was also wound up under the provisions of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong) ("Companies Ordinance") and Messrs. John Robert Lees and Mat Ng were appointed as the joint and several provisional liquidators of Dream Link by the Official Receiver on the same day.

On 12 May 2009, an exclusivity agreement (the "Exclusivity Agreement") was entered into among the Company, Gold Bless International Invest Limited (the "Investor"), Mr. Yang Wang Jian ("Mr Yang"), Mr. Ting Wai-min ("Mr Ting"), and the Provisional Liquidators to grant the Investor a six-month exclusivity period to prepare a resumption proposal and to negotiate in good faith and enter into a legally binding agreement for the implementation of restructuring proposal in connection with the restructuring of the Company which was subsequently extended to 31 December 2010.

On 31 December 2010, the Company, the Provisional Liquidators, the Investor, Mr. Yang and Mr. Ting entered into a restructuring agreement which was subsequently supplemented by two other supplemental agreements in May and June 2011, respectively (collectively the "Restructuring Agreements"). The Restructuring Agreements contemplate, among other things, the following:

(a) Capital restructuring

It is proposed that the capital structure of the Company will be restructured (the "Capital Restructuring") as follows:

(i) a share consolidation (the "Share Consolidation") of every twenty existing shares of HK$0.10 each into three consolidated shares (the "Consolidated Shares") of HK$0.67 each;

(ii) the reduction of capital (the "Capital Reduction") upon the Share Consolidation becoming effective, by reducing the nominal value of the Consolidated Shares from HK$0.67 each to HK$0.01 each (the "New Shares");

(iii) the cancellation of all unissued authorised share capital of HK$0.10 each and the increase of the authorised share capital to HK$40,000,000, divided into 4,000,000,000 New Shares of HK$0.01 each;

(iv) 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 as at 31 December 2010; and

(v) any rights arising under the existing convertible securities will be cancelled.

(b) Subscription of shares ("Subscription Shares")

432,000,000 Subscription Shares were subscribed by the Investor at a subscription price of HK$0.185 per New Share.

(c) Placing of placing shares ("Placing Shares")

The placing of 27,020,000 Placing Shares by the placing agent at HK$0.185 per New Share.

(d) Placing of convertible bonds ("Convertible Bonds")

The placing of an aggregate principal amount of HK$85,100,000 Convertible Bonds of which HK$63,825,000 in aggregate principal amount will be placed to the Investor. The holders of the Convertible Bonds are entitled to convert the Convertible Bonds into the New Shares of the Company at a conversion price of HK$0.185 per New Share within a period of two years.

(e) Proposed scheme and group restructuring (the "Group Restructuring")

Pursuant to the terms of the Restructuring Agreements, on completion, all the debts, obligations and liabilities of the Company, whether known or unknown, whether certain or contingent, whether present, future or prospective, of the creditors (the "Scheme Creditors") shall be compromised and discharged by the arrangements contemplated under the scheme of arrangement (the "Scheme") proposed to be made between the Company and the Scheme Creditors pursuant to section 166 of the Companies Ordinance, which shall include, among other things, the following:

(i) The payment of a sum of HK$50 million less any costs of the Scheme, out of the Subscription, by the Provisional Liquidators for and on behalf of the Company to the scheme administrators for the benefit of the Scheme Creditors;

(ii) The issue and allotment of 34,100,000 New Shares by the Company to the Provisional Liquidators or scheme administrators for the benefit of the Scheme Creditors; and

(iii) Immediately prior to the Scheme taking effect, all the assets of the Company and its subsidiaries (other than the shareholding in and the assets of Sino Front Limited and its subsidiaries) (the "Excluded Companies") 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 (the "Special Purpose Vehicle") controlled by the scheme administrators for the benefit of the Scheme Creditors.

The independent shareholders of the Company resolved and approved all of the transactions contemplated under the Restructuring Agreements in an extraordinary general meeting held on 16 September 2011.

The Capital Reduction was heard and sanctioned by the Grand Court of the Cayman Islands on 27 October 2011 (Cayman Islands time) whilst the Scheme was sanctioned by the High Court on 31 October 2011. The Capital Restructuring, the Scheme and the Group Restructuring were properly implemented on 7 November 2011.

The High Court order for the dismissal of the winding up order against the Company and the discharge of the Provisional Liquidators was granted on 7 November 2011. The Provisional Liquidators were released and discharged with effect from 7 November 2011 accordingly.

The effect of the Capital Restructuring, the Scheme and the Group Restructuring was reflected in these consolidated financial statements.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out in the annual report. These policies have been consistently applied to all the years presented, unless otherwise stated.

3.1 Basis of preparation

The consolidated financial statements of the Company have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants. The consolidated financial statements have been prepared under the historical cost convention.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in the annual report.

Prior year adjustment

In current year, it came to the attention of the directors of the Company that revenue for the year ended 31 December 2010 and the corresponding carrying amount of trade receivables as at 31 December 2010 were both overstated by HK$3,585,000 due to accounting errors. There was no financial impact as at 1 January 2010 and for the year ended 31 December 2009 and, hence, the comparative consolidated balance sheet as at 1 January 2010 is not presented. Accordingly, a prior year adjustment has been made in these financial statements and the financial impact is summarised below:

	2010 *HK$'000*
As at 31 December	
Decrease in trade receivables	(3,585)
Decrease in tax payable	591
Increase in accumulated losses	2,994
For the year ended 31 December	
Decrease in revenue	(3,585)
Decrease in income tax expenses	591
Decrease in earnings per share (HK cents)	3.6

3.2 Subsidiaries not consolidated

The consolidated financial statements for prior years were prepared based on the books and records maintained by the Company and its subsidiaries. However, due to the major assets and production facilities of a subsidiary of the Company, Smart Union Industrial Limited ("SU Industrial"), have been subject to freezing orders obtained by its creditors in the PRC since October 2008, the directors have not been able to get access to certain books and records of this subsidiary or to obtain sufficient documentary information to satisfy themselves regarding the treatment of the transactions since 2008. As such, the results, assets and liabilities of SU Industrial and its subsidiary, Perfect Design and Product Development Limited ("Perfect Design"), had not been included into the consolidated financial statements of the Group since 1 January 2008. The resulting de-consolidation loss, which is determined based on the net asset value of these subsidiaries as at 1 January 2008, and the impairment loss of the investment in SU Industrial of approximately HK$63,393,000 and HK$3,600,000 respectively had been recognised in the consolidated income statement during the year ended 31 December 2008. Moreover, as at 31 December 2010, the total amounts due from SU Industrial and its subsidiary to the Group and the Company of approximately HK$231,939,000 and HK$188,373,000 respectively are considered to be impaired and, accordingly, full impairment losses were recognised in the consolidated financial statements. In addition, there was a total amount due to SU Industrial and Perfect Design of approximately HK$112,362,000 as at 31 December 2010. Details of these unconsolidated subsidiaries are set out in the annual report.

Similar to SU Industrial, the major assets and production facilities of Smart Union (Qingyuan) Industrial Limited ("SU Qingyuan"), another subsidiary of the Group, have been subject to freezing orders issued on 14 October 2008. The local authorities have also taken over the control of SU Qingyuan itself. The directors consider that, due to the loss of control in SU Qingyuan, it should no longer be regarded as a subsidiary of the Group and be de-consolidated from the consolidated financial statements since 14 October 2008. Due to the lack of complete books and records of SU Qingyuan, it was deemed disposed of and de-consolidated from the consolidated financial statements of the Group only based on its net asset value as at 31 December 2007, resulting in a gain of HK$506,000 which was included in the consolidated income statement for the year ended 31 December 2008.

During the year ended 31 December 2010, the assets of SU Qingyuan were disposed of through auction by PRC authorities at approximately HK$35,075,000 for the settlement of its liabilities and an excess amounting to approximately HK$11,066,000 was refunded to SU Qingyuan. Certain books and records of SU Qingyuan were also returned to the Provisional Liquidators thereafter. The directors consider that the control of SU Qingyuan has not been resumed and should remain deconsolidated from the consolidated financial statements as it is uncertain whether complete set of books and records had been returned.

Moreover, as at 31 December 2010, the investment in SU Qingyuan and the amount due from SU Qingyuan of approximately HK$30,000,000 and HK$32,241,000 respectively are considered not recoverable and, accordingly, full impairment losses had been recognised in the consolidated financial statements as at 31 December 2010. Details of this former subsidiary are set out in the annual report.

As discussed in Note 2, all the assets of the Company and certain of its subsidiaries, including SU Industrial, Perfect Design and SU Qingyuan, were transferred to the Special Purpose Vehicle.

In the opinion of the directors the consolidated financial statements as at and for the years ended 31 December 2010 and 2011 prepared on the aforementioned basis present more fairly the results and state of affairs of the Group as a whole in light of the aforesaid freezing orders against SU Industrial and SU Qingyuan. However, the non-consolidation of SU Industrial and Perfect Design from the beginning of the year till the date of the disposal of SU Industrial on 7 November 2011, are not in compliance with the requirements of Hong Kong Accounting Standard 27 "Consolidated and Separate Financial Statements".

Moreover, due to the lack of complete books and records of above unconsolidated subsidiaries and a former subsidiary, the directors are unable to ascertain the effect of the non-consolidation of those unconsolidated subsidiaries and the accuracy of the gain on disposal of the above unconsolidated subsidiaries and a former subsidiary upon completion of the Group Restructuring.

3.3 Application of new standards, amendments and interpretations

(a) Effect of adopting amendments and interpretations to existing standards

The following amendments and interpretations to existing standards are mandatory for financial periods beginning on or after 1 January 2011:

HKFRS 1 Amendment	Amendments to HKFRS 1 First-time Adoption of Hong Kong Financial Reporting Standards – Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters
HKAS 24 (Revised)	Related Party Disclosures
HKAS 32 Amendment	Amendment to HKAS 32 Financial Instruments: Presentation – Classification of Right Issues
HK(IFRIC)-Int 14	Amendments to HK(IFRIC) – Int 14 Prepayments of a Minimum Funding Requirement
HK(IFRIC)-Int 19	Extinguishing Financial Liabilities with Equity Instruments
Improvements to HKFRSs	Amendments to a number of HKFRSs issued in May 2010

The adoption of these new and revised HKFRSs has had no significant impact on these financial statements.

(b) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group

The following published standards, amendments and interpretations to existing standards are mandatory for the Group's financial periods beginning on or after 1 January 2011 or later periods and have not been early adopted by the Group:

HKFRS 1 Amendments	Amendments to HKFRS 1 First-time Adoption of Hong Kong Financial Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters[1]
HKFRS 7 Amendments	Amendments to HKFRS 7 Financial Instruments: Disclosures – Transfers of Financial Assets[1]
HKFRS 7 Amendments	Amendments to HKFRS 7 Financial Instruments: Disclosures – offsetting Financial Assets and Financial Liabilities[4]
HKFRS 9	Financial Instruments[6]
HKFRS 10	Consolidated Financial Statements[4]
HKFRS 11	Joint Arrangements[4]
HKFRS 12	Disclosure of Interests in Other Entities[4]
HKFRS 13	Fair Value Measurement[4]
HKAS 1 Amendments	Presentation of Financial Statements – Presentation of items of Other Comprehensive Income[3]
HKAS 12 Amendments	Amendments to HKAS 12 Income Taxes – Deferred Tax: Recovery of Underlying Assets[2]
HKAS 19 (2011)	Employee Benefits[4]
HKAS 27 (2011)	Separate Financial Statements[4]
HKAS 28 (2011)	Investments in Associates and Joint Ventures[4]
HKAS 32 Amendments	Amendments to HKAS 32 Financial Instruments: Presentation offsetting Financial Assets and Financial Liabilities[5]
HK(IFRIC)-Int 20	Stripping Costs in the Production Phase of a Surface Mine[4]

1 Effective for annual periods beginning on or after 1 July 2011
2 Effective for annual periods beginning on or after 1 January 2012
3 Effective for annual periods beginning on or after 1 July 2012
4 Effective for annual periods beginning on or after 1 January 2013
5 Effective for annual periods beginning on or after 1 January 2014
6 Effective for annual periods beginning on or after 1 January 2015

The directors anticipate that the adoption of the above new standards, amendments and interpretations to existing standards will not result in a significant impact on the results and financial position of the Group.

4 REVENUE

The Group is principally engaged in the trading and manufacturing of toy products. Revenue recognised during the year is as follows:

	2011	2010
	HK$'000	*HK$'000*
		(Restated)
Sales of goods	**572,267**	358,441

5 SEGMENT INFORMATION

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. As the Group is principally engaged in the trading and manufacturing of toys which are subject to similar business risk, and resources are allocated based on what is beneficial to the Group in enhancing the value as a whole rather than any specific unit, the Group's chief operating decision maker considers the performance assessment of the Group should be based on the results of the Group as a whole. Therefore, management considers there to be only one operating segment under the requirements of HKFRS 8.

The Group primarily operates in Hong Kong and the PRC.

The Group's sales are delivered to customers located in the following regions:

	2011	2010
	HK$'000	*HK$'000*
		(Restated)
Hong Kong	**571,590**	358,441
The PRC	**677**	–
	572,267	358,441

Sales are allocated based on the places in which customers are located. During the year ended 31 December 2011, sales of approximately HK$571,590,000 (2010 (Restated): HK$314,065,000) were derived from 3 major customers (2010: 3 customers) who individually account for more than 10% of the total sales.

The Group's total assets are located in the following regions:

	2011	2010
	HK$'000	*HK$'000*
		(Restated)
Hong Kong	**473,912**	231,334
The PRC	**9,605**	14,882
	483,517	246,216

Total assets are allocated based on where the assets are located.

The Group's non-current assets are located in the following regions:

	2011 HK$'000	2010 HK$'000
Hong Kong	**450**	15
The PRC	**4,831**	3,150
	5,281	3,165

Non-current assets are allocated based on where the assets are located.

The Group's capital expenditures are located in the following regions:

	2011 HK$'000	2010 HK$'000
Hong Kong	**497**	12
The PRC	**874**	3,450
	1,371	3,462

Capital expenditures are allocated based on where the assets are located.

6 OTHER INCOME AND OTHER GAINS

	2011 HK$'000	2010 HK$'000
Other income:		
– Non-refundable income *(Note (i))*	**2,912**	5,902
– Sundry income	**67**	11
	2,979	5,913
Other gains:		
– Gain on Group Restructuring *(Note (ii))*	**300,248**	–
– Exchange gains	**–**	324
	300,248	324

Notes:

(i) Non-refundable income represents the amount provided by the Investor to partially cover the costs incurred in the connection with the Group Restructuring in accordance with the terms of the Exclusivity Agreement.

(ii) As discussed in Note 2, the Group completed a Group Restructuring on 7 November 2011 and the Excluded Companies were transferred to the Special Purpose Vehicle. The resulting gain on disposal of the Excluded Companies and discharging of liabilities amounted to approximately HK$300,248,000.

The assets and liabilities transferred to the Special Purpose Vehicle are as follows:

	HK$'000
Prepayment, deposits and other receivables	68
Tax recoverable	127
Cash and cash equivalents	17,085
Total identifiable assets at carrying value	17,280
Deferred income tax liabilities	16
Trade payable	2,079
Other payables and accruals	238,443
Amounts due to unconsolidated subsidiaries	112,362
Borrowings	37,936
Total identifiable liabilities at carrying value	390,836
Net liabilities transferred	373,556
Less:	
Settlement to Scheme Creditors:	
By allotment of shares of the Company	(6,308)
By cash	(50,000)
Restructuring costs	(17,000)
Gain on Group Restructuring	300,248

7 EXPENSES BY NATURE

	2011 *HK$'000*	2010 *HK$'000*
Auditor's remuneration	**1,100**	680
Depreciation of property, plant and equipment	**836**	307
Merchandise and raw materials used	**464,867**	302,038
Change in inventories of work-in-progress	**(587)**	–
Change in inventories of finished goods	**(207)**	(1,119)
Subcontracting charges	**32,591**	22,247
Provision for impairment of trade receivables	**8,163**	–
Employee benefit expenses	**3,479**	2,153
Operating lease rentals for land and buildings	**1,674**	1,072
Costs incurred for the Group Restructuring	**15,599**	5,222
Others	**10,267**	3,821
Total cost of sales, selling expenses and administrative expenses	**537,782**	336,421

8 FINANCE COSTS, NET

	2011	2010
	HK$'000	*HK$'000*
Interest income on bank deposits	**1**	1
Interest expense:		
– Other borrowings due within one year	**(3,631)**	(3,598)
– Interest on Convertible Bonds *(Note 15)*	**(1,899)**	–
	(5,529)	(3,597)

9 INCOME TAX EXPENSE

Hong Kong profits tax has been provided at the rate of 16.5% (2010: 16.5%) on the estimated assessable profits during the year.

The amounts of income tax expense charged to the consolidated income statement represent:

	2011	2010
	HK$'000	*HK$'000*
		(Restated)
Current taxation:		
– Hong Kong profits tax	**10,200**	4,782
– Other	**3**	–
	10,203	4,782

The taxation on the Group's profit before tax differs from the theoretical amount that would arise using the profits tax rate in Hong Kong as follows:

	2011	2010
	HK$'000	*HK$'000*
		(Restated)
Profit before income tax	**315,473**	23,721
Calculated at a tax rate of 16.5% (2010: 16.5%)	**52,053**	3,914
Effect of different taxation rate in other country	**1**	–
Income not subject to tax	**(50,069)**	(2,712)
Expenses not deductible	**7,502**	3,580
Tax losses for which no deferred income tax asset was recognized	**696**	–
Others	**20**	–
Income tax expense	**10,203**	4,782

10 EARNINGS PER SHARE

Basic

The calculation of basic earnings per share is based on the consolidated profit attributable to equity holders of the Company of approximately HK$305,270,000 (2010 (Restated): HK$18,939,000) by the weighted average number of 158,895,000 (2010: 82,888,000) ordinary shares in issue after taking into account the effect of the shares consolidation as stated in Note 16(i) during the year.

	2011	2010 (Restated)
Profit attributable to equity holders of the Company *(HK$'000)*	**305,270**	18,939
Weighted average number of ordinary shares in issue *(thousands)*	**158,895**	82,888
Basic earnings per share *(HK cents)*	**192.1**	22.8

Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares and adjusting for the shares consolidation (as stated in Note 16(i)). The Company has one category of dilutive potential ordinary shares that is Convertible Bonds. The Convertible Bonds are assumed to have been converted into ordinary shares, and the net profit is adjusted to eliminate the interest expense.

	2011
Profit attributable to equity holders of the Company *(HK$'000)*	**305,270**
Interest expenses on convertible bonds *(HK$'000)*	**1,899**
Profit used to determine diluted earnings per share *(HK$'000)*	**307,169**
Weighted average number of ordinary shares in issue used *(thousands)*	**158,895**
Adjustments for assumed conversion of Convertible Bonds *(thousands)*	**67,615**
Weighted average number of ordinary shares for diluted earnings per share *(thousand)*	**226,510**
Diluted earnings per share *(HK cents)*	**135.6**

There was no dilutive effect on the earnings per share for the year ended 31 December 2010.

11 DIVIDENDS

No dividend in respect of the year ended 31 December 2011 (2010: Nil) is to be proposed at the forthcoming Annual General Meeting.

12 TRADE RECEIVABLES

	2011	2010
	HK$'000	*HK$'000*
		(Restated)
Trade receivables	**459,689**	218,360
Less Provision for impairment of trade receivables	**(8,163)**	–
	451,526	218,360

The Group's trade receivables from its customers are generally with credit periods of 90 days (2010: 30 days).

The carrying amounts of trade receivables approximate their fair values.

The ageing analysis of trade receivables as at 31 December 2011 and 2010 are as follows:

	2011	2010
	HK$'000	*HK$'000*
		(Restated)
0 – 30 days	**19,137**	56,438
31 – 60 days	**34,882**	26,779
61 – 90 days	**45,627**	38,120
91 – 180 days	**183,309**	96,951
Over 180 days	**176,734**	72
	459,689	218,360

13 TRADE PAYABLES

The ageing analysis of trade payables as at 31 December 2011 and 2010 are as follows:

	2011	2010
	HK$'000	*HK$'000*
0-30 days	**12,783**	29,423
31-60 days	**32,506**	18,448
61-90 days	**33,039**	23,839
91 days – 1 year	**203,362**	46,993
Over 1 years	**23**	2,079
	281,713	120,782

The carrying amounts of trade payables approximate their fair values.

14 OTHER PAYABLES AND ACCRUALS

	2011	2010
	HK$'000	*HK$'000*
Accruals	**16,695**	41,077
Receipts in advance	**–**	238
Other payables	**450**	1,616
Provision for financial guarantees to an unconsolidated subsidiary *(Note (i))*	**–**	185,827
	17,145	228,758

Note:

(i) SU Industrial, an unconsolidated subsidiary, defaulted on the repayment for loans from certain banks and a finance-lease provider. As at 31 December 2010, the total outstanding principal and interest thereon amounted to approximately HK$152,748,000 and HK$33,079,000 respectively. As the Company had provided corporate guarantees for these loans, full provisions for such financial guarantees were made by the Company and the Group as at 31 December 2010. During the year, a total additional provision of approximately HK$16,710,000 (Year ended 31 December 2010: HK$17,373,000) was made. These provisions for financial guarantees were discharged upon completion of the Group Restructuring (Note 2) on 7 November 2011.

15 CONVERTIBLE BONDS – NON-CURRENT LIABILITIES

	2011
	HK$'000
Convertible Bonds	**61,837**

As stated in Note 2, pursuant to the Restructuring Agreements and upon completion of the Group Restructuring, the Company placed, through a placing agent, an aggregate principal amount of HK$85,100,000 Convertible Bonds of which HK$63,825,000 in aggregate principal amount was placed to the Investor and the remaining balance HK$21,275,000 was taken up by independent holders. Upon completion, the Company issued 460,000,000 5.0% Convertible Bonds in the aggregate principal amount of HK$85,100,000 on 7 November 2011. The bonds will mature two years from the issue date at their nominal value of HK$85,100,000 or can be converted into shares at the holder's option before the maturity date at a conversion price of HK$0.185 per share. The values of the liability component and the equity conversion component were determined at issuance of the bonds.

The fair value of the liability component, was calculated using a market interest rate for an equivalent non-convertible bond. The residual amount, representing the value of the equity conversion option, is included in shareholders' equity in other reserves.

The Convertible Bonds recognised in the balance sheet are calculated as follows:

	2011 *HK$'000*
Face value of Convertible Bonds at issue date	85,100
Less: Direct issue costs	(2,553)
Face value of Convertible Bonds at issue date, net	82,547
Equity component on initial recognition	(18,872)
Liability component on initial recognition	63,675
Right of conversion exercised by bond holders	(3,737)
Interest expense *(Note 8)*	1,899
Liability component at 31 December 2011	61,837

16 SHARE CAPITAL

(a) Authorised capital

	Number of shares *'000*	Nominal value *HK$'000*
At 1 January 2010 and 31 December 2010	2,000,000	200,000
Share consolidation of 20 existing shares of HK$0.10 each into 3 Consolidated Shares of HK$0.67 each *(Note (i))*	(1,700,000)	–
Capital reduction of the par value of the Consolidated Shares of HK$0.67 each into New Shares of HK$0.01 each *(Note (i))*	–	(197,000)
Increase in authorised share capital	3,700,000	37,000
At 31 December 2011	4,000,000	40,000

(b) Issued and fully paid capital

	Number of shares	Nominal value *HK$'000*
At 1 January 2010 and 31 December 2010 ordinary shares of HK$0.10 each	552,586,000	55,259
Share consolidation of 20 existing shares of HK$0.10 each into 3 Consolidated Shares of HK$0.67 each *(Note (i))*	(469,698,100)	–
Capital reduction of the par value of the Consolidated Shares of HK$0.67 each into New Shares of HK$0.01 each *(Note (i))*	–	(54,430)
Issue of Subscription Shares *(Note (ii))*	432,000,000	4,320
Issue of Placing Shares *(Note (ii))*	27,020,000	270
Issue of Creditors Shares *(Note (ii))*	34,100,000	341
Issue of shares upon conversion of convertible bonds *(Note (iii))*	27,000,000	270
At 31 December 2011	603,007,900	6,030

Notes:

(i) Pursuant to the Restructuring Agreements entered into between the Company, the Provisional Liquidators, the Investor, Mr. Yang and Mr. Ting, which were approved by the independent shareholders of Company on 16 September 2011, sanctioned by the Grand Court of the Cayman Islands on 27 October 2011 and implemented by the Company on 7 November 2011, the share capital of the Company was restructured as follows:

- Share consolidation of every twenty 20 existing shares of HK$0.10 each was consolidated into 3 Consolidated Shares of HK$0.67 each;
- Capital reduction upon the Share Consolidation became effective, by reducing the nominal value of the Consolidated Shares from HK$0.67 each to HK$0.01 each; and
- The authorised share capital was increased to HK$40,000,000, which was divided into 4,000,000,000 New Shares of HK$0.01 each.

(ii) Pursuant to the Restructuring Agreements and upon completion of the Group Restructuring on 7 November 2011, the Company issued and allotted the following New Shares of HK$0.01 each:

- 432,000,000 Subscription Shares were issued to the Investor at a subscription price of HK$0.185 per New Share;
- 27,020,000 Placing Shares were issued through the placing agent at a price of HK$0.185 per New Share; and
- 34,100,000 Creditors Shares were issued to the scheme administrators for the benefit of the Scheme Creditors for full and final settlement of the claims by the creditors of the Company.

(iii) On 9 December 2011, certain of the Convertible Bonds with a total principal amount of HK$4,995,000 were converted into the shares of the Company at a conversion price of HK$0.185 per share and accordingly, the Company issued and allotted a total of 27,000,000 shares to the Convertible Bond holders.

17 OPERATING LEASE COMMITMENTS

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	2011	2010
	HK$'000	*HK$'000*
Not later than one year	**1,981**	1,743
Later than one year and not later than five years	**3,592**	4,715
	5,573	6,458

18 POST BALANCE SHEET EVENT

On 23 February 2012, the Company, through a newly incorporated subsidiary, entered into a sales and purchase agreement with a customer of the Company for the acquisition of 55% equity interest in a company (the "Target Company") principally engaged in the trading of toys at a consideration of HK$30,000,100 which is adjustable by the actual profit against the benchmark profit (the "Adjustment") of the Target Company for the financial years ending 31 December 2012, 2013 and 2014. A major portion of the consideration, in the amount of HK$30,000,000, shall be settled by the issue of convertible notes in three tranches of HK$10,000,000 each, adjustable by the Adjustment, if any, which entitles the holder of the convertible notes to convert into the shares of the Company at a conversion price of HK$0.50 per share within three years from its issuance. The Company is also committed to advance an interest free loan in the amount of HK$10,000,000 to the Target Company as its working capital upon completion of the acquisition.

EXTRACT OF DRAFT INDEPENDENT AUDITOR'S REPORT

Basis for disclaimer of opinion

(i) Investments in unconsolidated subsidiaries

As further explained in Note 3.2 to the consolidated financial statements, the directors are unable to get access to certain books and records of Smart Union Industrial Limited ("SU Industrial"), a subsidiary of the Company, which was disposed of on 7 November 2011 upon completion of a group restructuring (the "Group Restructuring") (see Note 2 to the consolidated financial statements). Due to the insufficiency in accounting information of SU Industrial, the financial statements of SU Industrial and its subsidiary, Perfect Design and Product Development Limited ("Perfect Design"), have not been consolidated in the Group's consolidated financial statements since 2008 and up to the date of disposal in November 2011.

Whilst the directors consider that the exclusion of these subsidiaries is the best way of presenting the Group's financial position and the results and cash flows for the year in the circumstances, the exclusion of the financial position, results and cash flows of these subsidiaries in the consolidated financial statements is a departure from the requirements of Hong Kong Accounting Standard 27 "Separate and Consolidated Financial Statements".

Due to the lack of complete books and records of SU Industrial and Perfect Design, we have not been able to obtain sufficient appropriate audit evidence and explanations to assess the carrying values of the investment in SU Industrial and its subsidiary as at 31 December 2010, their operating results for the period from 1 January 2011 to the date of disposal, and the resulting gain on disposal upon completion of the Group Restructuring. Any adjustment that would be required may have a consequential significant effect on the net liabilities of the Group as at 31 December 2010 and the profit attributable to the equity holders of the Company for the year ended 31 December 2011.

(ii) Investment in a former subsidiary

As further explained in Note 3.2 to the consolidated financial statements, Smart Union (Qingyuan) Industrial Limited ("SU Qingyuan"), a former subsidiary, was deconsolidated by the Group due to the loss of control on 14 October 2008. The directors are of the view that the investment in this former subsidiary of approximately HK$30,000,000 cannot be recovered and had made a full provision for the impairment loss of this former subsidiary in prior years. The investment in this former subsidiary was disposed of in November 2011 upon completion of the Group Restructuring.

Due to the lack of complete books and records of SU Qingyuan, we have not been able to obtain sufficient appropriate audit evidence to assess the carrying value of the investment in SU Qingyuan as at 31 December 2010, its operating results for the period from 1 January 2011 to the date of disposal on 7 November 2011 and the resulting gain on disposal of SU Qingyuan upon completion of the Group Restructuring. Any adjustment that would be required may have a consequential significant effect on the net liabilities of the Group as at 31 December 2010 and the profit attributable to the equity holders of the Company for the year ended 31 December 2011.

(iii) Balances with unconsolidated subsidiaries and a former subsidiary

As further explained in Note 3.2 to the consolidated financial statements, the Group and the Company had a total amount due from SU Industrial and Perfect Design, of approximately HK$231,939,000 and HK$188,373,000 respectively and the Group had an amount due from SU Qingyuan, of approximately HK$32,241,000 as at 31 December 2010. The directors are of the view that the carrying values of these amounts were not recoverable and full provisions had been made for all the above receivable balances in prior years. In addition, there was a total amount due to SU Industrial and Perfect Design, of approximately HK$112,362,000 as at 31 December 2010. These receivables were transferred and payables were discharged upon completion of the Group Restructuring.

Due to the lack of complete books and records of these companies, we have not been able to obtain sufficient appropriate audit evidence to determine whether the balances with the above companies are free from material misstatements. Any adjustment to these amount may have a consequential significant effect on the net liabilities of the Group as at 31 December 2010 and the profit attributable to the equity holders of the Company for the year ended 31 December 2011.

(iv) Lack of complete books and records of a subsidiary

As further explained in Note 9(a) to the consolidated financial statements, since 2008 the directors have not been able to obtain sufficient information to satisfy themselves regarding the completeness and accuracy of the books and records of a subsidiary, Dream Link Limited, or to represent that all transactions entered into by this subsidiary have been properly reflected in the consolidated financial statements. Accordingly, we have also not been able to obtain sufficient appropriate audit evidence to determine whether the recorded transactions and balances are free from material misstatements. This subsidiary was disposed of upon completion of the Group Restructuring. Any adjustment to the above mentioned financial information may have a significant effect on the net liabilities of the Group as at 31 December 2010 and the profit attributable to the equity holders of the Company for the year ended 31 December 2011.

(v) Investment in an associated company

As further explained in Note 10 to the consolidated financial statements, the directors are of the view that the carrying value of the investment in China Mining Corporation Limited, an associated company, of approximately HK$257,555,000 had been fully impaired and, accordingly, an impairment loss had been made as at 31 December 2010. This associated company was disposed of upon completion of the Group Restructuring. However, due to the lack of sufficient financial information in respect of the associated company, we have not been able to obtain sufficient appropriate audit evidence or to carry out the alternative audit procedures that we considered necessary to assess the valuation of the investment in the associated company. Any adjustment to the investment in associated company would have a consequential effect on the net liabilities of the Group as at 31 December 2010 and the profit attributable to the equity holders of the Company for the year ended 31 December 2011.

In addition, due to the lack of adequate financial information, the consolidated financial statements have not equity accounted for the net assets and results of this associated company and have not presented certain disclosures on financial information of this associated company as required by Hong Kong Accounting Standard 28 “Investments in Associates”.

(vi) Convertible bonds from an associated company

As explained in Note 15 to the consolidated financial statements, the Group held convertible bonds issued by China Mining Corporation Limited of HK$40,000,000. The directors consider the carrying value of these convertible bonds had been fully impaired and, accordingly, an impairment loss had been made as at 31 December 2010. The investment in this associated company together with the convertible bonds was disposed of upon completion of the Group Restructuring. Due to the lack of financial information in respect of the associated company, we have not been able to obtain sufficient appropriate audit evidence and explanations to assess the carrying value of the investment in an associated company and the convertible bonds. Any adjustment to the valuation of the investment in the associated company and, accordingly, the convertible bonds would have a consequential effect on the net liabilities of the Group as at 31 December 2010 and the profit attributable to the equity holders of the Company for the year ended 31 December 2011.

(vii) Other secured borrowings and provision for financial guarantees to an unconsolidated subsidiary

As further explained in Notes 22 and 23 to the consolidated financial statements, as at 31 December 2010, the Group had other secured borrowings and provision for financial guarantees to an unconsolidated subsidiary, including related accrued interest and other charges, of approximately HK$41,418,000 and HK$185,827,000 respectively. Such other secured borrowings and financial guarantees were waived or discharged upon completion of the Group Restructuring. Since confirmations of such balances have not been received from the respective creditors, we have not been able to assess the accuracy and completeness of the above liabilities. There are no other satisfactory alternative procedures that we could perform to satisfy ourselves that these balances, the gain on discharging of such liabilities in 2011 and the related disclosures have been properly recorded and reflected in the consolidated financial statements as at and for the year ended 31 December 2011.

Disclaimer of opinion

Because of the significance of the matters described in the basis for disclaimer of opinion paragraphs, we have not been able to obtain sufficient audit evidence to provide a basis for an opinion. Accordingly, we do not express an opinion on the consolidated financial statements and as to whether the consolidated financial statements have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

MANAGEMENT DISCUSSION AND ANALYSIS

GROUP RESTRUCTURING, DISMISSAL OF THE WINDING UP PETITION, DISCHARGE OF THE PROVISIONAL LIQUIDATORS AND RESUMPTION OF TRADING

During the year, the Group has completed the Group Restructuring as detailed in note 2 to the financial statements, which contemplates, among other things, the following:

(a) Capital Restructuring

It is proposed that the capital structure of the Company will be restructured (the "Capital Restructuring") as follows:

(i) a share consolidation (the "Share Consolidation") of every twenty (20) existing shares of HK$0.10 each into three (3) consolidated shares (the "Consolidated Shares") of HK$0.67 each;

(ii) the reduction of capital (the "Capital Reduction") upon the Share Consolidation becoming effective, by reducing the nominal value of the Consolidated Shares from HK$0.67 each to HK$0.01 each (the "New Shares");

(iii) the cancellation of all unissued authorised share capital of HK$0.10 each and the increase of the authorised share capital to HK$40,000,000, divided into 4,000,000,000 New Shares of HK$0.01 each;

(iv) 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 as at 31 December 2010; and

(v) any rights arising under the existing convertible securities will be cancelled.

(b) Subscription of shares ("Subscription Shares")

432,000,000 Subscription Shares were subscribed by the Investor at a subscription price of HK$0.185 per New Share.

(c) Placing of placing shares ("Placing Shares")

The placing of 27,020,000 Placing Shares by the placing agent at HK$0.185 per New Share.

(d) Placing of convertible bonds ("Convertible Bonds")

The placing of an aggregate principal amount of HK$85,100,000 Convertible Bonds of which HK$63,825,000 in aggregate principal amount will be placed to the Investor. The holders of the Convertible Bonds are entitled to convert the Convertible Bonds into the New Shares of the Company at a conversion price of HK$0.185 per New Share within a period of two years.

(e) Proposed scheme and group restructuring (the "Group Restructuring")

Pursuant to the terms of the Restructuring Agreements, on completion, all the debts, obligations and liabilities of the Company, whether known or unknown, whether certain or contingent, whether present, future or prospective, of the creditors (the "Scheme Creditors") shall be compromised and discharged by the arrangements contemplated under the scheme of arrangement (the "Scheme") proposed to be made between the Company and the Creditors pursuant to section 166 of the Companies Ordinance, which shall include, among other things, the following:

(i) The payment of a sum of HK$50 million less any costs of the Scheme, out of the Subscription, by the Provisional Liquidators for and on behalf of the Company to the scheme administrators for the benefit of the Scheme Creditors;

(ii) The issue and allotment of 34,100,000 New Shares by the Company to the Provisional Liquidators or scheme administrators for the benefit of the Scheme Creditors; and

(iii) Immediately prior to the Scheme taking effect, all the assets of the Company and its subsidiaries (other than the shareholding in and the assets of Sino Front Limited and its subsidiaries) (the "Excluded Companies") 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 independent shareholders of the Company resolved and approved all of the transactions contemplated under the Restructuring Agreements in an extraordinary general meeting held on 16 September 2011.

The Capital Reduction was heard and sanctioned by the Grand Court of the Cayman Islands on 27 October 2011 (Cayman Islands time) whilst the Scheme was sanctioned by the High Court on 31 October 2011. The Capital Restructuring, the Scheme and the Group Restructuring were properly implemented on 7 November 2011.

The High Court order for the dismissal of the winding up order against the Company and the discharge of the Provisional Liquidators was granted on 7 November 2011. The Provisional Liquidators were released and discharged with effect from 7 November 2011 and the shares of the Company resumed trading on 11 November 2011.

PERFORMANCE FOR THE YEAR

The Group is delighted to report an increase of revenue by approximately 60% for the year ended 31 December 2011, as compared to the corresponding period in 2010. The Board considers that this increase in revenue is principally attributable to an increase in both number and size of sales orders and higher sales prices which lead to a slight overall enhancement of the gross profit margin.

The profit for the year attributable to the equity holders of the Company amounted to approximately HK$305.3 million whist it was approximately HK$18.9 million for the year 2010. The overall increase in the Group's profit was mainly attributable to the gain on Group Restructuring of approximately HK$300 million.

The Group would also like to highlight that the trade receivable aging period may seem long. There are several reasons that contributed to this. The global economy condition has put strain on trading. This has also affected the Group's customers. In view of that, the Group may extend the credit period to long time customers with good standing relationships. Despite the trade receivables aging of the Group reflects a longer period when comparing to the industry standard practice of 90-120 days, the Directors are confident that none of which will have any collectibility difficulties.

BUSINESS REVIEW

The business revenue is mainly based on 3 major customers.

The Group acquired 5 production lines from a subcontractor during the year 2010 to set up its production facilities. The Group has also completed the acquisition of a manufacturing factory with 3 production lines in August 2011 to further strengthen its production base. This provides greater flexibility in respect of business operation. The Group also has devoted resources in research and development for a long term business growth. The Group is also seeking to co-operate and form joint ventures with other prospective companies.

The Group focused on maintaining business operations in 2010 and 2011. It also made significant efforts to obtain the approval for resumption of trading on the Stock Exchange. On 11 November, 2011, the Company successfully resumed trading on the Stock Exchange.

BUSINESS PROSPECTS

Business Objective: After the resumption of trading in the Shares on 11 November 2011, the Group aims to become a renowned toys manufacturer with one-stop shop service from importing raw materials, self-designing, self-manufacturing toy products to exporting finished toys. To reduce its reliance on the subcontractor for its sub-contracting products so as to reduce the cost, the Group intends to further strengthen its manufacturing capability. For its self-developed products, the Group intends to implement strategies to (i) expand its customer base; and (ii) strengthen its own ODM platform.

Expansion of Customer Base: In the wake of the global economic turmoil and the introduction of a series of economic stimulus measures, the Group expects the worldwide economy to gradually recover and improve demand of consumer products like toys. Nevertheless, overseas customers are expected to be more cautious in placing their orders and will be more demanding in their expectations of the quality of products.

Further Strengthen of Manufacturing Capability: Currently, the Group has 8 production lines for the manufacturing of toys in the PRC. In order to stay flexible and competitive, depending on the pace of its business expansion and its financial condition, the Group intends to further strengthen its manufacturing capability by acquiring or installing more plant and machinery for the manufacturing of toys.

Joint Venture: The Group will reform its subsidiaries by setting up a joint venture to better manage the production lines. There are plans to work with a current customer to set up a joint venture to act as an agent for the Group. This joint venture will give the Group a stable customer base in spite of the current economic turmoil.

Nevertheless, management foresees a decline in consumption in the West. The main focus will be to develop its market share in Asia to offset the decrease in revenue. At the same time, the Group still maintains a strong relationship with the western customers.

Animation & Online Game Toys Development: The Group expects the sales revenue for years 2012 and 2013 will be focused on the growth in China market. The acquisition of the production lines can provide a stable productivity while controlling costs. The next step is to seek opportunity in development in other aspects such as animation and online-games.

The Group seeks to adopt the successful business model established by Bandai to further improve the business growth. More resources will be devoted into R&D of other prospective markets. The Group will determine the demand trend for the current products. Additional resources will be located to focus on action figures and other developments.

BUSINESS ENVIRONMENT FORECAST

Macro-Economic Environment

Western Economy: America and European countries led global economy development in the past decade. However, the current debt crisis is driving the global economy to a decline, employment rate and consumer confidence also decreased as a result. The global stock market is still contracting while exports from developing countries are also below expectation.

The current economic slowdown in Europe and America has a major effect in the business operation for the Group. There has been market data that shows the decline in CPI in Europe and USA. Previously these are the main source of revenue for the Company. The economy outlook is still uncertain. In view of that, the management will commit to develop further business opportunities in China.

According to data released by U.S. Census Bureau, the total trade between China and USA in 2011 was USD 503.2 billion, contributing to over 14% of USA's total international trades. The total trade between China and USA in 2010 was USD 456.8 billion. Although the data does not show signs of slowdown, management of the Group sees a high risk in having heavy dependence in US and European markets. The logical strategy is to diversify the business and develop a strong relationship with the Mainland China customers. In view of that, the Group intends to devote more resources to expand the business in Mainland China. In particular, the Group plans to focus on acquiring strong business and expand cautiously through co-operation and set up joint venture with established business partners.

China Economy: The Chinese economy is also affected by America and European countries. The exchange rate fluctuates and creates a risk for the Group. RMB value continues to rise and leads to decrease in international export.

The appreciation of RMB value would affect the export. As the exchange rate between RMB, USD and EUR fluctuates, the import and export are largely affected. The RMB/USD Exchange Rate rose over 20% in the past 5 years.

China export is declining because of the fluctuations in exchange rates, increase in costs and decrease in demand. Meanwhile, other statistics show that China internal demand is increasing. In light of that, the Group plans to expand its business in the internal consumer market of China and at the same time maintain the current revenue base in the Western economy.

Industry Analysis: Industry Development Challenges

There are many external factors that would affect the business development plan in China and which include the following:

Cost Increase: RMB value appreciation, staff salary and production material cost increases are major concerns for toy companies.

The rising cost of raw materials and wages has put a strain on the profit. It is also becoming harder to hire workers in the area. Workers from other provinces prefer to work in other areas such as western China due to the development plans of the Central Government.

Export Difficulties: European and North America governments set lots of entry barriers with laws and regulations. Some developing countries also build trade barriers with export quota or licenses to limit toys export from China. With the pressure of RMB's appreciation, it is becoming very hard to gain profit from exports.

Demand Decline: European and North America consumption decreases due to the economy contraction. Toys export also decreases, which leads to total profit decline.

Talents shortage: Toy companies do not have much design talents to support their development, research and innovation; meanwhile, sales staffs' shortage also decreases the effectiveness of marketing and sales.

Industry trend: The whole industry development trend is also heading downwards.

Industry Analysis: Industry Future Development Trend

Industry Segments: The toy industry will develop in different directions becoming more segmented and diversified.

Industry Competition: The toy industry is becoming more competitive. The profit margin will become lower and the new products will have shorter life cycle. To stand out in this environment, the Company must focus more on innovation and creativity.

Brand Development: An increasing number of enterprises are building their own brands, while focusing more on customer preference when designing their brands. The government, media and other social group will give attention to larger corporations.

Product Development: The other sectors of toy industry, such as animation toys and online game toys, are not fully developed in China. As a result, there are still a vast potentials on expansion and development.

Research shows the online game toys segment has large development potentials. At the same time, the initial online game research and development cost is high. The cost recovery period is long. Thus, it requires a long term commitment and detailed planning with a strong supportive management for this segment to prosper.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2011, the Group held cash and bank balances of approximately HK$22,265,000 (2010: approximately HK$16,562,000). Net current assets amounted to approximately HK$161,493,000 (2010 (Restated): net liabilities of approximately HK$317,169,000). Current ratio (defined as total current assets divided by total current liabilities) was 1.51 times (2010: 0.44 times). The gearing ratio of the Group (defined as total liabilities to total assets) was approximately 78.3% (2010: 227.5%). As at 31 December 2011, the Group had outstanding borrowings of approximately HK$2,300,000 (2010: HK$92,936,000).

FOREIGN EXCHANGE EXPOSURE

The Group is exposed to foreign exchange risk, with most of the Group's assets and liabilities, revenue and expenditure are denominated in Renminbi, United States dollars and Hong Kong dollars. As at 31 December 2011, the Group had insignificant exposure to foreign exchange risk as substantially all sales and purchases transactions, recognised assets and liabilities were primarily denominated in United States dollar, Hong Kong dollar and Renminbi.

DIVIDENDS

The Board does not recommend any dividend for the year ended 31 December 2011 (2010: Nil).

CAPITAL STRUCTURE

The Company has undergone a group restructuring during the year with details stated in Note 2 to the financial statements. The movement of the capital structure of the Company during the year is detailed in Note 16 to the financial statements.

CHARGES ON GROUP ASSETS

As at 31 December 2011, none of the Group's assets were pledged to secure any facilities and borrowings granted to the Group.

SIGNIFICANT ACQUISITION AND DISPOSAL OF ASSETS

The Company has undergone a group restructuring during the year with details stated in Note 2 to the financial statements. The assets and liabilities of the Group transferred to the Special Purpose Vehicle under the Scheme during the year are detailed in Note 6(ii) to the financial statements.

COMMITMENTS AND CONTINGENT LIABILITIES

The Group's commitments as at 31 December 2011 have been detailed in Note 17 to the financial statements. The Group did not have any contingent liabilities as at 31 December 2011.

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2011, the Group employed approximately 140 employees. The Group continues to maintain and upgrade the capabilities of its workforce by providing them with adequate and regular training. The Group remunerates its employees mainly based on industry practices and individual's performance and experience. On top of regular remuneration, discretionary bonus and share options may be granted to eligible staff by reference to the Group's performance as well as individual's performance.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

To the best knowledge of the Directors, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares during the year ended 31 December 2011.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company endeavours in maintaining good corporate governance for the enhancement of shareholders' value and the transparency in disclosure of material information. The Company has adopted the code provisions in the Code on Corporate Governance Practices (the "Code") set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") upon the completion of the Group Restructuring on 7 November 2011. The Company has complied with all the applicable code provisions in the Code since the completion of the Group Restructuring, the dismissal of the winding up order and the discharge of the Provisional Liquidators of the Company on 7 November, 2011.

MODEL CODE ON SECURITIES TRANSACTION BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions by the Directors upon the completion of the Group Restructuring on 7 November 2011. Having made specific enquiry of the Directors, the Directors have complied with the required standard set out in the Model Code since the resumption of trading of its shares on the Stock Exchange on 11 November 2011 to 31 December 2011.

REVIEW BY THE AUDIT COMMITTEE

The audit committee currently comprises three independent non-executive Directors, namely Mr. Wong Kwong Chung, James as the chairman, Mr. Yeung King Wah, Kenneth and Mr. Wu Hong. The audit committee has reviewed with the management the accounting principles and practices adopted by the Group and discussed the internal control and financial reporting matters including the review of the audited consolidated financial statements of the Group for the year ended 31 December 2011.

GENERAL INFORMATION

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

PUBLICATION OF RESULT ANNOUNCEMENT AND ANNUAL REPORT

This results announcement will be published on the websites of Hong Kong Exchange and Clearing Limited (www.hkex.com.hk) and the Company (www.irasia.com/listco/hk/smartunion/). The 2011 Annual Report will be dispatched to our shareholders and will be available at the websites on or before 30 April 2012.

SCOPE OF WORK OF PRICEWATERHOUSECOOPERS

The figures in respect of the preliminary announcement of the Group's results for the year ended 31 December 2011 have been agreed by the Group's auditors, PricewaterhouseCoopers, to the amounts set out in the Group's draft consolidated financial statements for the year. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by PricewaterhouseCoopers on the preliminary announcement.

By Order of the Board
Smart Union Group (Holdings) Limited
Yang Wang Jian
Chairman

Hong Kong, 29 March 2012