THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in doubt as to any aspect of this circular or as to the action you should take, you should consult a licensed securities dealer or registered institution in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Smart Union Group (Holdings) Limited (Provisional Liquidators Appointed), you should at once hand this circular and the accompanying form of proxy to the purchaser or transferee or to the bank, the licensed securities dealer or registered institution or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

This circular is for information purpose only and does not constitute an invitation or offer to acquire, purchase or subscribe for the shares or other securities of the Company.

Smart Union

SMART UNION GROUP (HOLDINGS) LIMITED

(Provisional Liquidators Appointed)

合俊集團（控股）有限公司

（已委任臨時清盤人）

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2700)

(1) RESTRUCTURING OF SMART UNION GROUP (HOLDINGS) LIMITED (PROVISIONAL LIQUIDATORS APPOINTED) INVOLVING, INTER ALIA, (A) PROPOSED CAPITAL RESTRUCTURING; (B) CREDITORS' SCHEME OF ARRANGEMENT AND GROUP REORGANISATION; (C) SUBSCRIPTION OF SUBSCRIPTION SHARES; (D) PLACING OF CONVERTIBLE BONDS; (E) PLACING OF PLACING SHARES; AND (F) APPLICATION FOR WHITEWASH WAIVER;

(2) CHANGE IN BOARD LOT SIZE;

AND

(3) NOTICE OF EGM

Financial Adviser to the Company and the Placing Agent

ASIAN CAPITAL
(CORPORATE FINANCE) LIMITED
卓亞(企業融資)有限公司

Independent Financial Adviser to Independent Shareholders

CIMB

CIMB Securities (HK) Limited

A letter of advice from CIMB to the Independent Shareholders is set out on pages 59 to 81 of this circular.

Notice convening the EGM to be held at Auditorium, 1/F Duke of Windsor Social Service Building, 15 Hennessy Road, Wanchai, Hong Kong at 10:00 a.m. on 16 September 2011 is set out on pages EGM-1 to EGM-7. Whether or not you intend to attend the EGM, you are requested to complete the accompanying forms of proxy in accordance with the instructions printed thereon and return the same to the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited at 26/F, Tesbury Centre, 28 Queen's Road East, Hong Kong as soon as possible and in any event not later than 48 hours before the time fixed for the holding of the EGM or any adjournment thereof. Completion and return of the forms of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish.

24 August 2011

CONTENTS

In this circular, the following expressions have the following meanings, unless the context otherwise requires:

"acting in concert"	has the meaning ascribed to it under the Takeovers Code
"ANDA"	ANDA CPA Limited, Certified Public Accountants, the reporting accountants to the Company
"Asian Capital" or "Placing Agent"	Asian Capital (Corporate Finance) Limited, a corporation licensed to carry out type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities for the purposes of the SFO, the financial adviser to the Company and the placing agent of the Placing Shares and the Convertible Bonds
"associate(s)"	has the meaning ascribed to it in the Listing Rules
"Authorised Share Capital Cancellation"	the proposed cancellation of the authorised but un-issued share capital of the Company in its entirety immediately upon the Capital Reduction becoming effective as approved by the Grand Court in accordance with the provisions of the Companies Law
"Authorised Share Capital Increase"	the proposed increase of the authorised share capital of the Company to HK$40,000,000 immediately following the Authorised Share Capital Cancellation becoming effective
"Board"	the board of Directors
"Business Day"	any day (other than a Saturday or a Sunday or a day on which a tropical cyclone warning signal no. 8 or above or a black rainstorm warning signal is hoisted in Hong Kong at any time between 9:00 a.m. and 5:00 p.m.) on which banks are generally open for business in Hong Kong
"Capital Reduction"	the proposed reduction of the nominal value of each Consolidated Share from approximately HK$0.67 to HK$0.01

"Capital Restructuring"	the proposed restructuring of the capital of the Company comprising, *inter alia*, the Share Consolidation, the Capital Reduction, the Share Premium Cancellation, the Authorised Share Capital Cancellation, the Authorised Share Capital Increase and the cancellation of the Existing Convertible Securities, details of which are set out in the sub-section headed "Capital Restructuring" of the section headed "THE RESTRUCTURING AGREEMENT" in the letter from the Provisional Liquidators contained in this circular
"CB Placees"	subscribers other than the Investor to whom the Convertible Bonds are placed pursuant to the Restructuring Agreement and the Placing Agreement
"CCASS"	the Central Clearing and Settlement System established and operated by HKSCC
"Change in Board Lot Size"	the proposed change in board lot size as set out in the section headed "CHANGE IN BOARD LOT SIZE" in the letter from the Provisional Liquidators contained in this circular
"China Mining"	China Mining Corporation Limited, an associate of the Group, which beneficially owns 95% equity interests in Fujian Tiancheng
"CIMB"	CIMB Securities (HK) Limited, the independent financial adviser to the Independent Shareholders in relation to the transactions contemplated under the Restructuring Agreement and a corporation licensed under the SFO to carry on type 1 (dealing in securities), type 4 (advising on securities) and type 6 (advising on corporate finance) regulated activities for the purposes of the SFO

"Claim(s)"	as at the date when the Scheme becomes effective, all debts, obligations and liabilities of the Company, whether known or unknown, whether certain or contingent, whether present, future or prospective, whether or not its amount is fixed or unliquidated, whether arising at common law, in equity or by statute, in any jurisdiction or in any manner whatsoever, including without limitation a debt or liability to pay money or money's worth, any liability for breach of trust, any liability in contract, tort or bailment, any liability arising out of an obligation to make restitution and any liability arising out of any legal claims, whether certain or contingent
"Companies Law"	the Companies Law (2010 Revision) of the Cayman Islands, as amended from time to time
"Companies Ordinance"	the Companies Ordinance (Chapter 32 of the Laws of Hong Kong), as amended from time to time
"Company"	Smart Union Group (Holdings) Limited (Provisional Liquidators Appointed), a company incorporated in the Cayman Islands with limited liability and whose shares are listed on the Main Board of the Stock Exchange (Stock Code: 2700)
"Completion"	completion of the Proposed Restructuring
"Concert Group"	the Investor, Mr. Yang and Mr. Ting and any parties acting in concert with any of them
"Condition(s) Precedent"	the condition(s) precedent to Completion
"connected person(s)"	has the meaning ascribed to it under the Listing Rules
"Consolidated Share(s)"	the ordinary share(s) of approximately HK$0.67 each in the capital of the Company immediately following the Share Consolidation becoming effective
"Convertible Bonds"	the convertible bonds to be issued by the Company in the aggregate principal amount of HK$85,100,000 convertible into Conversion Shares at a conversion price of HK$0.185 per Conversion Share, subject to adjustment

"Conversion Share(s)"	the 460,000,000 New Shares (subject to any adjustment as set out in the terms and conditions of the Convertible Bonds), representing approximately 44.40% of the Enlarged Issued Share Capital to be issued to the holders of the Convertible Bonds, upon full conversion of the Convertible Bonds
"Creditor(s)"	collectively the Ordinary Creditors and the Preferential Creditors
"Creditors Shares"	the 34,100,000 New Shares to be issued and allotted as fully paid by the Company to the Scheme Administrators or designated nominee for the benefit of the Scheme Creditors
"Director(s)"	the director(s) of the Company
"Earnest Money"	the sum of HK$5,000,000 paid by the Investor to the Escrow Agent for the benefit of the Scheme Creditors prior to the signing of the Restructuring Agreement
"EGM"	the extraordinary general meeting of the Company to be convened for the purposes of considering, and if thought fit, approving, among other matters, the Capital Restructuring, the Subscription, the issue of the Creditors Shares, the placing of the Placing Shares and the Convertible Bonds and the Whitewash Waiver
"Enlarged Issued Share Capital"	the issued share capital of the Company after the Capital Restructuring as enlarged by the issue of the Subscription Shares, the Creditors Shares, the Placing Shares and the Conversion Shares upon full conversion of the Convertible Bonds
"Escrow Agent"	John Lees & Associates Limited, a company incorporated in Hong Kong with limited liability
"Escrow Share(s)"	the 118,000,000 Existing Shares issued under the name of Mr. Tang which forms part of the consideration paid for the acquisition of 45.51% of the then total issued share capital of China Mining by SU Mining pursuant to the Mining Agreement, details of which are set out in the Company's announcements dated 26 October 2007 and 2 May 2008

"Excluded Companies"	SU Investments and its subsidiaries
"Exclusivity Agreement"	the exclusivity agreement dated 12 May 2009 as supplemented by a supplemental exclusivity agreement dated 27 May 2010 both entered into among the Investor, Mr. Yang, Mr. Ting, the Company and the Provisional Liquidators granting the Investor the Exclusivity Period to prepare the Resumption Proposal and enter into the Restructuring Agreement for the implementation of the Resumption Proposal
"Exclusivity Period"	the exclusivity period granted to the Investor under the Exclusivity Agreement to prepare the Resumption Proposal and to negotiate in good faith and enter into the Restructuring Agreement to implement the Proposed Restructuring
"Executive"	the Executive Director of the Corporate Finance Division of the SFC from time to time or any of his delegates
"Existing Convertible Securities"	all the convertible bonds, options, derivatives and all other securities issued by the Company which are convertible into shares of the Company or confer on the holder thereof the rights to subscribe for any Shares, if any
"Existing Shares"	ordinary share(s) of HK$0.10 each in the capital of the Company prior to the Capital Restructuring becoming effective
"Fujian Tiancheng"	Fujian Tiancheng Mining Corporation, which held the relevant exploration rights of the Mine
"Grand Court"	the Grand Court of the Cayman Islands
"Grantee(s)"	grantee(s) under the Share Option Scheme whose Share Options remain outstanding as at the Latest Practicable Date
"Group"	the Company and its subsidiaries

"Group Reorganisation"	the proposed reorganisation of the Group's structure which envisages that the entire shareholding of SU Investments be transferred to the special purpose vehicle controlled or to be controlled by the Scheme Administrators
"High Court"	the High Court of Hong Kong
"HKSCC"	Hong Kong Securities Clearing Company Limited
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Independent Shareholder(s)"	the independent Shareholder(s), to the extent applicable in respect of each resolution, who are not members of the Concert Group and/or not involved or interested in (other than solely as a Shareholder) the transactions contemplated under the Restructuring Agreement and therefore permitted to vote in respect of the resolution(s) to approve the Subscription, the issue of the Creditors Shares, the placing of the Placing Shares and the Convertible Bonds and the Whitewash Waiver at the EGM
"Investor"	Gold Bless International Invest Limited, a company incorporated in the British Virgin Islands with limited liability which is ultimately beneficially owned as to 85% by Mr. Yang and 15% by Mr. Ting
"Last Trading Day"	14 October 2008, being the last trading date before suspension of trading in the Shares
"Latest Practicable Date"	22 August 2011, being the latest practicable date prior to the printing of this circular for ascertaining certain information in this circular
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange from time to time
"Long Stop Date"	30 November 2011
"Memorandum and Articles of Association"	the memorandum and articles of association of the Company

"Mine"	the Da An Silver Mine located in Fujian Province of the PRC for which Fujian Tiancheng held the relevant exploration permit
"Mining Agreement"	the agreement dated 17 October 2007 entered into among Mr. Tang, China Mining and SU Mining pursuant to which SU Mining (i) acquired 45.51% of the total issued share capital of China Mining from Mr. Tang for a total consideration of HK$269,355,000 and (ii) subscribed the zero coupon convertible bonds with principal amount of HK$40,000,000 issued by China Mining to SU Mining, details of which are set out in the Company's announcements dated 26 October 2007 and 2 May 2008
"Model Code"	Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules
"Mr. Tang"	Mr. Tang Xue Jin, the vendor under the Mining Agreement
"Mr. Ting"	Mr. Ting Wai-min, the ultimate beneficial owner interested in 15% of the issued share capital of the Investor
"Mr. Yang"	Mr. Yang Wang-jian, the ultimate beneficial owner interested in 85% of the issued share capital of the Investor and the sole director of the Investor
"New Share(s)"	the ordinary share(s) of HK$0.01 each in the capital of the Company immediately following the Capital Restructuring becoming effective
"ODM"	acronym for original design manufacturing, under which products are designed and manufactured in whole or in part by the Group and are marketed under the customer's brand name using the customer's character licensed products
"OEM"	acronym for original equipment manufacturing, under which products are manufactured in whole or in part in accordance with customer's specifications and are marketed under the customer's brand name using the customer's character licensed products

"Ordinary Creditors"	all those creditors of the Company who have a Claim against the Company as at the date on which the Scheme becomes effective other than the Preferential Creditors to the extent of their respective preferential claim amounts and the Investor
"Placees"	any individual, institutional or professional investors who are public shareholders for the purpose of the Public Float
"Placing Agreement"	the agreement (or agreements) entered into between the Company and the Placing Agent in respect of the placing of the Placing Shares and Convertible Bonds, details of which are set out in the section headed "PLACING AGREEMENT" in the letter from the Provisional Liquidators contained in this circular
"Placing Shares"	27,020,000 New Shares to be issued and placed to Placees to restore the Public Float under the Restructuring Agreement and the Placing Agreement
"PRC"	the People's Republic of China which, for the purpose of this circular only, excludes Hong Kong, the Macau Special Administrative Region and Taiwan
"Preferential Creditors"	all those creditors of the Company who have a Claim against the Company as at the date on which the Scheme becomes effective, which is preferential in accordance with the laws of Hong Kong and of which the Scheme Administrators have been specifically notified prior to the date specified as the cut-off date for the notification before the time intended for payment of the first dividend under the Scheme to Scheme Creditors
"Proposed Restructuring"	the proposed restructuring of the Group involving, among other things, the Capital Restructuring, the Scheme, the Group Reorganisation, the Subscription, the placing of the Placing Shares and the Convertible Bonds, and the Whitewash Waiver
"Provisional Liquidators"	Mr. John Robert Lees and Mr. Mat Ng, the joint and several provisional liquidators of the Company, both of John Lees & Associates Limited acting without personal liability

"Public Float"	has the meaning ascribed to it under Rule 8.08 (as amended from time to time) of the Listing Rules and as applicable to the Company
"Relevant Period"	the period beginning six months prior to 18 March 2011 (being the date of the Company's first announcement in respect of, among other things, the Proposed Restructuring), and ended on the Latest Practicable Date
"Restructured Group"	the Group after the completion of the Group Reorganisation, which consists of the Company, Sino Front and its subsidiaries
"Restructuring Agreement"	the restructuring agreement dated 31 December 2010 entered into between the Company, the Provisional Liquidators, the Investor, Mr. Yang and Mr. Ting in respect of the Proposed Restructuring as supplemented by the Supplemental Restructuring Agreements
"Restructuring Costs"	fees, charges, costs, expenses and disbursements of the Company, the Provisional Liquidators and the Scheme Administrators incurred in connection with the provisional liquidation, the negotiation, preparation and implementation of the Scheme, the Resumption Proposal and the Restructuring Documents
"Restructuring Documents"	the Restructuring Agreement and all other documents necessary to document and implement the transactions contemplated in, among others, the Resumption Proposal and the Restructuring Agreement
"Resumption Proposal"	the resumption proposal submitted to the Stock Exchange for the purpose of seeking approval of the Stock Exchange for the resumption of trading of the Shares on the Stock Exchange
"Scheme"	the scheme of arrangement proposed to be made between the Company and the Creditors pursuant to section 166 of the Companies Ordinance with, or subject to, any modification, addition or conditions approved or imposed by the High Court

"Scheme Administrators"	Mr. John Robert Lees and Mr. Mat Ng jointly and severally or their successors to be appointed pursuant to the Scheme as administrators of the Scheme
"Scheme Costs"	all costs including, without limitation charges, expenses, disbursements, legal expenses and liabilities of relevant professional parties, incurred in connection with the provisional liquidation of the Company, the administration and implementation of the Scheme and the Restructuring Costs (other than the Restructuring Costs in the sum of HK$17 million to be borne by the Investor)
"Scheme Creditors"	all Ordinary Creditors having a Claim against the Company which has been admitted by the Scheme Administrators in accordance with the Scheme
"Scheme Documents"	the documentation and all other necessary documents in relation to the Scheme to be filed at the High Court
"SFC"	the Securities and Futures Commission of Hong Kong
"SFO"	The Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Share Consolidation"	the proposed consolidation of twenty (20) Existing Shares of HK$0.10 each into three (3) Consolidated Shares of approximately HK$0.67 each
"Share Option(s)"	the outstanding share option(s) issued by the Company under the Share Option Scheme as at the Latest Practicable Date
"Share Option Scheme"	the share option scheme adopted by the Company on 2 September 2006
"Share Placees"	Placees to whom the Placing Shares are placed pursuant to the Restructuring Agreement and the Placing Agreement
"Share Premium Cancellation"	the proposed share premium cancellation of the Company upon the Capital Reduction becoming effective
"Share(s)"	ordinary share(s) of the Company

"Shareholder(s)"	holder(s) of the Share(s)
"Sino Front"	Sino Front Limited, a company incorporated under the laws of Hong Kong with limited liability, being a direct wholly-owned subsidiary of the Company
"Smart Place"	Smart Place Investments Limited, a company incorporated in the British Virgin Islands, the entire share capital of which is held as to 38.5% by Mr. Wu Kam Bun, 38.5% by Mr. Lai Chiu Tai (deceased), 10% by Mr. Ho Wai Wah, 10% by Mr. Lo Kwok Choi and 3% by Mr. Wong Wai Chuen, all being executive Directors or former executive Directors
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"SU Investments"	Smart Union Investments Limited (Provisional Liquidators Appointed), a direct wholly-owned subsidiary of the Company incorporated in the British Virgin Islands
"SU Mining"	Smart Union Mining Investments Limited (Provisional Liquidators Appointed) (formerly known as Queen Glory Limited), an indirect wholly-owned subsidiary of the Company incorporated in the British Virgin Islands
"Subscription"	the proposed subscription by the Investor for the Subscription Shares under the Proposed Restructuring
"Subscription Share(s)"	the 432,000,000 New Shares, representing approximately 41.70% of the Enlarged Issued Share Capital, to be subscribed by the Investor (or its designated nominee) pursuant to the Restructuring Agreement
"Substantial Shareholder(s)"	has the meaning ascribed to it in the Listing Rules
"Supplemental Restructuring Agreements"	the supplemental agreements dated 31 May 2011 and 20 June 2011 and a side letter dated 20 July 2011 entered into between the Company, the Provisional Liquidators, the Investor, Mr. Yang and Mr. Ting in respect of the Restructuring Agreement
"Takeovers Code"	the Hong Kong Code on Takeovers and Mergers

"Undertakings"	the undertakings by Mr. Tang and China Mining to procure (i) China Mining to become the legal and beneficial owner of the 95% equity interests in the registered capital of Fujian Tiancheng; and (ii) Fujian Tiancheng to obtain the mining licence and any other necessary approvals and consents for the mining of the Mine on or before 31 August 2008 pursuant to the Mining Agreement, details of which are set out in the Company's announcements dated 26 October 2007 and 2 May 2008
"U.S.A."	the United States of America
"Whitewash Waiver"	a whitewash waiver pursuant to Note 1 on Dispensations from Rule 26 of the Takeovers Code granted or to be granted by the Executive in respect of the obligations of the Concert Group to make a mandatory general offer for all the securities of the Company not already owned or agreed to be acquired by them which may arise as a result of the Subscription under the Restructuring Agreement
"Working Capital Facility"	the sum of HK$55 million advanced by the Investor to Sino Front pursuant to the working capital facility agreement dated 17 June 2009 as amended and supplemented by the supplemental agreements dated 27 May 2010 and 16 June 2011 entered into between the Investor and Sino Front
"%"	per cent
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"RMB"	Renminbi, the lawful currency of the PRC
"US$"	United States dollars, the lawful currency of the U.S.A.

Unless the context requires otherwise, translations of HK$ into RMB and HK$ into US$ are made in this circular, for illustrative purposes only, at the exchange rate of approximately HK$1.00=RMB0.85 and HK$1.00=US$0.129 respectively. Such exchange rates do not constitute a representation that any amount has been, could have been, or may be exchanged at such or at any other rate at all.

Certain amounts and percentage figures included in this circular have been subject to rounding adjustments. Accordingly, figures shown as totals in this circular may not be an arithmetic aggregation of the figures preceding them.

The expected timetable for the Proposed Restructuring set out below is for indicative purposes only and has been prepared based on the assumption that all the conditions of the Proposed Restructuring will be fulfilled. The expected timetable is subject to change, and any changes will be announced in a separate announcement by the Company as and when appropriate.

Event	Expected time/date (2011)
Latest time to lodge the form of proxy for the EGM	10:00 a.m., 14 September 2011
EGM	10:00 a.m., 16 September 2011
Announcement of results of the EGM	16 September 2011
Filing of the court order sanctioning the Scheme *(notes 2, 3)*	on or before 27 September 2011
Grand Court hearing for the Capital Reduction *(notes 2, 3)*	before 29 September 2011
Announcement of results of Grand Court hearing for the Capital Reduction *(notes 2, 3)*	before 30 September 2011
Grand Court order sanctioning the Capital Reduction received and the necessary filing and registration made in the Cayman Islands *(notes 2, 3)*	on or before 14 October 2011
Completion *(note 3)*	on or before 28 October 2011
Expected time and date of the resumption of trading in the Shares *(note 3)*	on or before 31 October 2011

Notes:

(1) All references to time in this circular are references to Hong Kong time.

(2) The dates of hearings by the courts for sanction of the Scheme, the Capital Reduction and their respective effective dates will depend on, *inter alia*, the availability of the High Court and the Grand Court as applicable.

(3) Further announcement(s) in relation to the timetable of the Proposed Restructuring including, inter alia, the Capital Restructuring and the Scheme, will be made where appropriate.

SMART UNION GROUP (HOLDINGS) LIMITED

(Provisional Liquidators Appointed)

合俊集團（控股）有限公司

（已委任臨時清盤人）

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2700)

Provisional Liquidators:
Mr. John Robert Lees
Mr. Mat Ng

Executive Directors:
Mr. Wu Kam Bun *(Chairman)*
Mr. Ho Wai Wah
Mr. Wong Wai Chuen

Registered office:
Cricket Square, Hutchins Drive
P.O. box 2681
Grand Cayman KY1-1111
Cayman Islands

Principal place of business:
20/F Henley Building
5 Queen's Road Central
Hong Kong

24 August 2011

To the Shareholders

Dear Sir or Madam,

**(1) RESTRUCTURING OF
SMART UNION GROUP (HOLDINGS) LIMITED
(PROVISIONAL LIQUIDATORS APPOINTED)
INVOLVING, INTER ALIA,
(A) PROPOSED CAPITAL RESTRUCTURING;
(B) CREDITORS' SCHEME OF ARRANGEMENT AND
GROUP REORGANISATION;
(C) SUBSCRIPTION OF SUBSCRIPTION SHARES;
(D) PLACING OF CONVERTIBLE BONDS;
(E) PLACING OF PLACING SHARES; AND
(F) APPLICATION FOR WHITEWASH WAIVER;
(2) CHANGE IN BOARD LOT SIZE;
AND
(3) NOTICE OF EGM**

INTRODUCTION

Reference is made to the announcements of the Company dated 18 March 2011, 7 June 2011, 30 June 2011 and 22 August 2011, in which the Company announced that, after arm's length negotiations, the Company, the Provisional Liquidators, the Investor, Mr. Yang and Mr. Ting entered into the Restructuring Agreement, which provides for, among other things, the Capital Restructuring, the Scheme, the Subscription, the placing of the Placing Shares and the Convertible Bonds, the Group Reorganisation and the Whitewash Waiver.

The purpose of this circular is to provide the Shareholders with details of (i) the Restructuring Agreement; (ii) a letter of advice from CIMB to the Independent Shareholders in relation to the Restructuring Agreement; and (iii) a notice of the EGM as set out on pages EGM-1 to EGM-7 of this circular.

THE RESTRUCTURING AGREEMENT

Date: 31 December 2010 (as supplemented by the Supplemental Restructuring Agreements)

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

Capital Restructuring

It is proposed that the Capital Restructuring will comprise:

(i) the Share Consolidation – every twenty (20) Existing Shares of HK$0.10 each will be consolidated into three (3) Consolidated Shares of approximately HK$0.67 each;

(ii) the Capital Reduction – upon the Share Consolidation becoming effective, the nominal value of the Consolidated Shares will be reduced from approximately HK$0.67 each to HK$0.01 each. The credit generated from the Capital Reduction will be applied in a manner as permitted by the Companies Law and by the Memorandum and Articles of Association, including but not limited to setting off part of the accumulated losses of the Company;

(iii) the Share Premium Cancellation – upon the Capital Reduction becoming effective, the entire amount standing to the credit of the share premium account of the Company will be cancelled. The credit arising from the Share Premium Cancellation will be applied to set off part of the accumulated losses of the Company;

(iv) the Authorised Share Capital Cancellation – upon the Capital Reduction becoming effective, all the existing authorised but un-issued Shares will be cancelled in their entirety;

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

(vi) cancellation of the Existing Convertible Securities – any rights arising under the Existing Convertible Securities will be cancelled so far as possible by such means as shall give effect to such cancellation subject to any necessary approval.

As at the Latest Practicable Date, it is believed that the only Existing Convertible Securities outstanding are the Share Options, which will lapse on the earlier of the date two calendar months after the date on which notices to convene a meeting of the Scheme Creditors are despatched and the date the Scheme is sanctioned by the High Court (except insofar as a Grantee has exercised his Share Option(s) in accordance with the terms of the Share Option Scheme, such exercise being conditional upon the Scheme being sanctioned as aforesaid and being effective).

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

Effects of the Capital Restructuring

As at the Latest Practicable Date, the authorised share capital of the Company is HK$200,000,000 comprising 2,000,000,000 Existing Shares of HK$0.10 each, of which 552,586,000 Existing Shares have been issued and fully paid. Assuming there is no change in the number of Shares from the Latest Practicable Date to immediately upon the Capital Restructuring becoming effective, the authorised share capital of the Company will become HK$40,000,000 divided into 4,000,000,000 New Shares of HK$0.01 each, of which 82,887,900 New Shares will be in issue.

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

	Before the Capital Restructuring	**Immediately after the Capital Restructuring**
Nominal value	HK$0.10	HK$0.01
Authorised share capital	HK$200,000,000 divided into 2,000,000,000 Existing Shares	HK$40,000,000 divided into 4,000,000,000 New Shares
Issued and paid-up share capital	HK$55,258,600 divided into 552,586,000 Existing Shares	HK$828,879 divided into 82,887,900 New Shares

Status of the New Shares after the Capital Restructuring

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

Conditions of the Capital Restructuring

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

(i) the passing of a special resolution by the Shareholders by way of poll at the EGM to approve the Capital Restructuring;

(ii) the Grand Court granting an order confirming the Capital Reduction;

(iii) the registration with the Registrar of Companies in the Cayman Islands of a copy of the Grand Court order confirming the Capital Reduction and the minutes containing the particulars required under the Companies Law;

(iv) compliance with any conditions or directions as may be imposed by the Grand Court; and

(v) the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the New Shares in issue upon the Capital Restructuring becoming effective.

Expected effective date of the Capital Restructuring

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

Subject to completion of the Capital Restructuring, the Company will post the new share certificates in green colour for the New Shares to the Shareholders at its expense. Certificates for the Existing Shares, which are blue in colour, will be automatically void upon the despatch of the new share certificates.

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

Reasons for the Capital Restructuring

The Capital Reduction is necessary in order to ensure that the Company's share capital more appropriately reflects the Company's available assets. The net assets of the Company have been substantially depleted by the audited accumulated losses of approximately HK$734 million as at 31 December 2010 as disclosed in the annual report of the Company for the year ended 31 December 2010.

The Capital Restructuring will facilitate the re-capitalisation of the share capital of the Company through the issue of New Shares; it is considered that it would be extremely difficult to raise new capital for the Company without the Capital Reduction. In addition, completion of the Capital Restructuring is one of the Conditions Precedent for the placing of the Placing Shares and the Convertible Bonds and the Subscription, the proceeds of which will be applied towards discharge of the Company's liabilities and in support of the ongoing operation of the Restructured Group as general working capital.

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

Scheme

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

(i) a sum of HK$50 million out of the total consideration paid or payable to the Company upon Completion less any Scheme Costs shall be transferred to the Scheme Administrators for the benefit of the Scheme Creditors;

(ii) 34,100,000 Creditors Shares, representing approximately 5.92% of the issued share capital of the Company as enlarged by the issue of the Subscription Shares, the Creditors Shares and the Placing Shares; and approximately 3.29% of the Enlarged Issued Share Capital, shall be issued and allotted by the Company to the Scheme Administrators or designated nominee at Completion for the benefit of the Scheme Creditors; and

(iii) immediately prior to the Scheme taking effect, all the assets of the Company (other than the shareholding in and the assets of Sino Front and its subsidiaries) including but not limited to all cash and cash equivalents held by the Company, all intercompany receivables, all causes of actions and claims which the Company has against any person whether or not known to the Company as at the date when the Scheme takes effect and the Excluded Companies shall be transferred to a special purpose vehicle controlled by the Scheme Administrators for the benefit of the Scheme Creditors.

The implementation of the Scheme is conditional upon Completion. The Creditors Shares will be identical to and rank *pari passu* in all respects with the New Shares to be issued as at the date of allotment and issue of the Creditors Shares. On 16 August 2011, the convening of a creditors meeting to consider the Scheme was approved by an order of the High Court. Detailed terms of the Scheme will be set out in the Scheme Documents available to Creditors.

According to the information available to the Provisional Liquidators as at the Latest Practicable Date, there were 5,760,000 outstanding Share Options granted to eight Grantees with an exercise price of HK$0.78 each as at the Latest Practicable Date. Pursuant to the Share Option Scheme, the Company gave notice of the Scheme to all Grantees (who have not exercised their Share Options prior to the date of such notice) on the same date as it despatched the notice of creditors meeting to consider the Scheme, and thereupon the Grantee may forthwith and until the expiry of the period commencing from such date and ending on the earlier of (i) the date two calendar months thereafter or (ii) the date on which the Scheme is sanctioned by the High Court, be entitled to exercise his Share Options, but the exercise of such Share Options shall be conditional upon the Scheme being sanctioned by the High Court and becoming effective. As at the Latest Practicable Date, none of the Grantees has exercised their Share Options or indicated to the Company whether they will exercise their Share Options. Upon the Scheme becoming effective, all Share Options shall lapse except insofar as exercised under the aforesaid arrangement.

Subscription Shares

Pursuant to the Restructuring Agreement, at Completion, the Investor shall subscribe for, and the Company shall issue, 432,000,000 Subscription Shares at HK$0.185 per Subscription Share subject to the fulfilment of all the Conditions Precedent. The Subscription Shares will rank *pari passu* in all respects with the New Shares to be issued as at the date of allotment and issue of the Subscription Shares.

The Subscription Shares represent:

(i) approximately 521.19% of the issued share capital of the Company upon completion of the Capital Restructuring;

(ii) approximately 75.00% of the issued share capital of the Company upon completion of the Capital Restructuring as enlarged by the allotment and issue of the Subscription Shares, the Placing Shares and the Creditors Shares;

(iii) approximately 79.57% of the issued share capital of the Company upon completion of the Capital Restructuring as enlarged by the allotment and issue of the Conversion Shares upon full conversion of the Convertible Bonds; and

(iv) approximately 41.70% of the Enlarged Issued Share Capital.

Placing Shares

In order to restore the Public Float after the issuance of Subscription Shares and Creditors Shares, 27,020,000 Placing Shares will be issued by the Company and placed to Placees at HK$0.185 per Placing Share through the Placing Agent pursuant to the Placing Agreement upon Completion. The gross proceeds from this placing shall not be less than HK$4,998,700.

The Placing Shares represent:

(i) approximately 32.60% of the issued share capital of the Company upon completion of the Capital Restructuring;

(ii) approximately 4.69% of the issued share capital of the Company upon completion of the Capital Restructuring as enlarged by the allotment and issue of the Subscription Shares, the Placing Shares and Creditors Shares;

(iii) approximately 4.98% of the issued share capital of the Company upon completion of the Capital Restructuring as enlarged by the allotment and issue of the Conversion Shares upon full conversion of the Convertible Bonds; and

(iv) approximately 2.61% of the Enlarged Issued Share Capital.

The net aggregate proceeds from the placing of Placing Shares, after deduction of relevant expenses, is estimated to be approximately HK$4.85 million. The net price per Placing Share is approximately HK$0.179 after deduction of relevant expenses of this placing.

Placing of the Convertible Bonds

Upon Completion, the Convertible Bonds in the aggregate principal amount of HK$85,100,000 will be issued by the Company and placed through the Placing Agent to the subscribers of the Convertible Bonds. In order to ensure that the Company will raise the funds through the placing of the Convertible Bonds, the Company and the Placing Agent have entered into the Placing Agreement, details of which are set out in the section headed "PLACING AGREEMENT" in the letter from the Provisional Liquidators contained in this circular. The Investor has committed to take up up to HK$63,825,000 in principal amount of the Convertible Bonds, whilst the remaining balance of Convertible Bonds will be taken up by the CB Placees (and/or the Placing Agent under the underwriting arrangement pursuant to the Placing Agreement).

Details of the principal terms of the Convertible Bonds are as follows:

Aggregate principal amount	HK$85,100,000
Interest	Five per cent per annum on the principal amount of the Convertible Bonds payable quarterly in arrears
Maturity	Two years from (and excluding) the date of Completion
Redemption	Subject to mutual agreement by the Company and respective holder of the Convertible Bonds, the Convertible Bonds may be early redeemed at 100% of the outstanding principal amount of the Convertible Bonds (in whole or in part) together with any accrued interest at any time and from time to time at the request of either party prior to the maturity date of the Convertible Bonds with written notice. Early redemption at the face value of the Convertible Bonds together with any accrued interest at the option of the holders of the Convertible Bonds if: (1) there is a change of control (as defined under the Takeovers Code) of the Company after the date of Completion;

(2) the Company consolidates with or merges into or sells or transfers all or substantially all of its assets to any other person, unless the consolidation, merger, sale or transfer will not result in the other person or persons acquiring control over the Company or the successor entity; or

(3) the Shares cease to be listed or admitted to trading on the Stock Exchange or, if applicable, any alternative stock exchange

Listing: No listing of the Convertible Bonds will be sought on the Stock Exchange or any other stock exchange

Conversion:

(a) A holder of Convertible Bonds shall have the right to convert all or part of his holding of Convertible Bonds into ordinary shares in the capital of the Company at any time from the date of the successful resumption of trading in Shares and ending on the second anniversary of the date of Completion or such other date as may be required by the Stock Exchange

(b) A holder of Convertible Bonds shall not convert any Convertible Bonds if such conversion would result in less than 25% of the ordinary shares in the Company being held by persons who are deemed by the Stock Exchange to be public Shareholders for the purposes of the Public Float

Conversion price: The initial price at which the Conversion Shares will be issued is HK$0.185 per Conversion Share. Such initial conversion price will be subject to adjustment for consolidations or subdivisions or reclassification of shares, capitalisation of profits or reserves, capital distributions, rights issues and other events which may have a diluting effect on the holders of the Convertible Bonds

As to further participation	The Convertible Bonds shall not carry any right to participate in profits or assets of the Company beyond such rights as are set out above

Assuming full conversion of the Convertible Bonds in the aggregate principal amount of HK$85,100,000, the 460,000,000 Conversion Shares to be allotted and issued at HK$0.185 per Conversion Share represent:

(i) approximately 554.97% of the issued share capital of the Company upon completion of the Capital Restructuring;

(ii) approximately 79.86% of the issued share capital of the Company upon completion of the Capital Restructuring as enlarged by the allotment and issue of the Subscription Shares, the Placing Shares and Creditors Shares;

(iii) approximately 84.73% of the issued share capital of the Company upon completion of the Capital Restructuring as enlarged by the allotment and issue of the Conversion Shares upon full conversion of the Convertible Bonds; and

(iv) approximately 44.40% of the Enlarged Issued Share Capital.

It is expected that the net proceeds from the placing of the Convertible Bonds, after deducting applicable costs and expense will amount to approximately HK$82.55 million.

The subscription prices of the Subscription Shares and the Placing Shares and conversion price of the Conversion Shares

The subscription prices of each of the Subscription Shares and the Placing Shares and the conversion price of each of the Conversion Shares are all HK$0.185 per New Share, which represent:

(i) a discount of approximately 71.97% to the adjusted closing price of HK$0.660 per New Share, based on the closing price of HK$0.099 per Share as quoted on the Stock Exchange on the Last Trading Day and adjusted for the effects of the Capital Restructuring;

(ii) a discount of approximately 77.63% to the adjusted average closing price of approximately HK$0.827 per New Share, based on the average closing price of approximately HK$0.124 per Share as quoted on the Stock Exchange for the five consecutive trading days up to and including the Last Trading Day and adjusted for the effects of the Capital Restructuring; and

(iii) a discount of approximately 80.32% to the adjusted average closing price of HK$0.940 per New Share, based on the average closing price of approximately HK$0.141 per Share as quoted on the Stock Exchange for the ten consecutive trading days up to and including the Last Trading Day and adjusted for the effects of the Capital Restructuring.

Group Reorganisation

As disclosed above, the Scheme envisages that SU Investments (which directly or indirectly owns the other Excluded Companies) be transferred at a nominal value to the special purpose vehicle controlled by the Scheme Administrators who shall endeavour to realize all the assets of the Excluded Companies pursuant to the Scheme. Any surplus assets after settlement of the liabilities of the relevant Excluded Companies shall (after deduction of applicable costs and expenses) be distributed for the benefit of the Scheme Creditors.

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

Conditions Precedent

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

(i) as required, the signing of all Restructuring Documents by all the parties thereunder;

(ii) all necessary approvals and sanctions, if any, from the High Court for the Company and the Provisional Liquidators to enter into the Restructuring Documents or to implement any transactions contemplated under the Restructuring Documents having been obtained;

(iii) the Grand Court having granted an order confirming the Capital Reduction;

(iv) the registration with the Registrar of Companies in the Cayman Islands of a copy of the Grand Court order and the minutes containing the particulars required under the Companies Law having been completed;

(v) all necessary approvals, sanctions and filings having been obtained and completed and not revoked for the purpose of the Scheme to take effect;

(vi) completion of the Group Reorganisation;

(vii) all necessary resolutions having been passed and approvals given by the requisite majorities of the Shareholders (and where required by the Independent Shareholders by way of poll) and not having been revoked in respect of the matters contemplated under the Restructuring Agreement which shall include if necessary, but are not limited to, the following at the EGM:

a. the issue by the Company of the Subscription Shares, the Placing Shares, the Convertible Bonds and the Creditors Shares;

b. the Capital Restructuring; and

c. any other transactions contemplated under the Restructuring Agreement which require the approval of the Shareholders and/or the Independent Shareholders (where required);

(viii) the Independent Shareholders approving the Whitewash Waiver;

(ix) the granting of the Whitewash Waiver by the SFC and such Whitewash Waiver not having been revoked;

(x) the granting of the listing of and permission to deal in the New Shares, the Subscription Shares, the Placing Shares, the Conversion Shares and the Creditors Shares by the Stock Exchange which may only be subject to (i) the formal issue and allotment of such New Shares, the Subscription Shares, the Placing Shares, the Conversion Shares and the Creditors Shares; (ii) the formal issue of the Convertible Bonds; (iii) such other administrative conditions as are customarily stipulated by the Stock Exchange for resumption of trading or listing of the Shares; and (iv) (if applicable) restoration of Public Float, and such approval not having been revoked;

(xi) the Stock Exchange having conditionally or unconditionally approved, or decided to allow the Company to proceed with, the resumption of trading in the Shares on the Stock Exchange and all the conditions attached to such approval or decision (if any) having been fulfilled (other than those conditions relating to or in connection with the Completion or restoration of Public Float) or waived by the Stock Exchange;

(xii) all other necessary waivers, consents and approvals including but not limited to those from the Stock Exchange, the SFC and any other relevant government or regulatory authorities, which are required (if any) for the implementation of the Resumption Proposal, the Restructuring Documents and all transactions contemplated under the Restructuring Documents having been obtained; and

(xiii) the removal and discharge of the Provisional Liquidators.

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

Termination

The Restructuring Agreement can be terminated:

(i) if the Conditions Precedent (which have not previously been waived) have not been satisfied or waived on or before the Long Stop Date (or such later date as may be agreed in writing by the parties to the Restructuring Agreement); or

(ii) upon notice by the other party to the Restructuring Agreement, if any party to the Restructuring Agreement fails to comply fully with its obligations at Completion; or

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

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

Completion

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

Reasons for the Subscription and the placing of the Placing Shares and Convertible Bonds and use of proceeds

Given the financial situation of the Group, the Provisional Liquidators consider that it is in the best interests of the Company to raise funds by way of the Subscription and the placing of the Placing Shares and the Convertible Bonds. Its entry into the Restructuring Agreement should enable the Company to strengthen its financial position and to discharge the indebtedness of the Company. It will also provide the Restructured Group with new funds to enhance its existing business operations and flexibility to make investments in new acquisitions or business ventures when suitable opportunities arise in the future.

Gross proceeds from the Subscription and the placing of Placing Shares and Convertible Bonds will be in the aggregate amount of HK$170,018,700. Such proceeds will be paid and applied in the following manner at Completion:

(i) the Earnest Money of HK$5 million paid by the Investor to the Escrow Agent prior to the signing of the Restructuring Agreement will be released to the Scheme Administrators and may be used in part settlement of the Claims of the Scheme Creditors;

(ii) a sum of HK$45 million shall be used in part settlement of the Claims of the Scheme Creditors;

(iii) a sum of HK$17 million (of which a sum of HK$13.25 million has already been paid by the Investor to the Provisional Liquidators as at the Latest Practicable Date) shall be used towards settlement of the Restructuring Costs;

(iv) the Working Capital Facility of HK$55 million advanced by the Investor to Sino Front together with interest accrued thereon shall be applied in full in part payment; and

(v) the remaining balance of the gross proceeds, after deducting the relevant expenses (including but not limited to placing commission, legal expenses and disbursements) in relation to the placing of the Placing Shares and the Convertible Bonds, shall be retained as working capital of the Restructured Group post Completion.

The Company once considered the inclusion of an open offer in the Proposed Restructuring, details of which have been disclosed in the Company's announcement dated 18 March 2011. However, after the review of the Resumption Proposal by the Stock Exchange, the Company and Investor both considered that it is not beneficial to the Company and the Shareholders as a whole to include such open offer for various reasons including those set out below:

1. It is recognized that the Stock Exchange wishes to minimize the dilution effects on the shareholding of the existing Shareholders. Based on the Proposed Restructuring, the existing Shareholders would hold in aggregate not less than 8% of the Enlarged Issued Share Capital. The absence of an open offer will mean that the existing Shareholders are not required to pay any subscription money to retain an aggregate of not less than 8% shareholding in the Company. In addition, the lack of an open offer is considered not uncommon in similar restructuring cases on the Stock Exchange and can be seen in recent cases.

2. As set out in the Company's announcement dated 18 March 2011, in the event that an open offer had been included, the dilution effect on the shareholding of the existing Shareholders would have resulted in their aggregate shareholding ranging from 3.89% to 17.35%, depending on the level of participation by the existing Shareholders. However, based on the information available to the Company as at the Latest Practicable Date, certain substantial Shareholders had either pledged their Shares or their ownership of certain Shares may be challenged by the Provisional Liquidators on behalf of the Company. As such, it was considered likely that only a small percentage of the existing Shareholders would participate in any open offer. Therefore, it was considered likely that a significant quantity of shares under the open offer would eventually have had to be taken up by the underwriter of the open offer.

3. The Company and the Investor are of the view that with the volatile equities market, it may be difficult to find an underwriter who is willing to underwrite a sizeable open offer on terms acceptable to the Company. Even if a willing underwriter is available, the professional costs and expenses associated with the preparation of the relevant prospectus, which would be paid out of the Company's assets, would not be beneficial to the Shareholders as a whole especially if the open offer ends up with a substantial amount of Shares under the open offer in the hands of the underwriters or subscribers procured by them. In particular, an open offer would not be cost efficient if only a small amount of proceeds could be raised.

Listing and dealings

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

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

Whitewash Waiver

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

Upon Completion but before conversion of any Convertible Bonds, the Concert Group will, in aggregate, hold approximately 75% of the share capital of the Company as enlarged by the issue of the Subscription Shares, the Creditors Shares and the Placing Shares and this will give rise to (in the absence of the Whitewash Waiver) an obligation on the part of the Concert Group to make a mandatory general offer for all the New Shares (not already owned or agreed to be acquired by the Concert Group) under Rule 26.1 of the Takeovers Code. Given that the Company shall issue the Convertible Bonds in the aggregate principal amount of HK$85,100,000 out of which the Investor has committed to take up an amount up to HK$63,825,000, in the event that the Investor has subscribed for the Convertible Bonds in such maximum amount and subsequently:

(i) all the holders of the Convertible Bonds (including the Investor) fully convert their Convertible Bonds into Conversion Shares, the Concert Group will in aggregate continue to hold approximately 75% of the Enlarged Issued Share Capital; or

(ii) only the Investor converts its Convertible Bonds into Conversion Shares, the Concert Group will in aggregate hold 84.36% of the share capital of the Company as enlarged by the issue of the Subscription Shares, the Creditors Shares, the Placing Shares and the Conversion Shares after full conversion of the Convertible Bonds held by the Investor (this is for illustrative purpose only as this does not meet the Public Float requirement as stipulated in the Listing Rules).

Pursuant to the principal terms of the Convertible Bonds set out in the Restructuring Agreement, the Investor shall not convert any Convertible Bonds held by it, if any, if such conversion would result in less than 25% of the issued share capital of the Company being held by persons who are public Shareholders for the purpose of the Public Float.

An application has been made by the Investor to the Executive for the Whitewash Waiver which, if granted, will be subject to, among other things, the approval by the Independent Shareholders by way of a poll at the EGM. The Executive has indicated that it is minded to grant the Whitewash Waiver and will be conditional upon, among other things, the approval of the Independent Shareholders at the EGM by way of poll.

Upon Completion, the Investor will hold more than 50% of the then issued share capital of the Company in which case, the Investor may acquire further voting rights in the Company without incurring any further obligation under Rule 26 of the Takeovers Code to make a general offer.

The Concert Group and parties interested or involved in the transactions contemplated under the Proposed Restructuring will not be eligible to vote on the resolutions approving the Subscription, the issue of the Creditors Shares, the placing of the Placing Shares and the Convertible Bonds and the Whitewash Waiver.

PLACING AGREEMENT

In order to ensure that the Placing Shares and the Convertible Bonds will be fully taken up, on 22 August 2011, the Company and the Placing Agent entered into the Placing Agreement, pursuant to which Asian Capital conditionally agrees to place the Placing Shares and Convertible Bonds on a fully underwritten basis.

Asian Capital, except for acting as the Placing Agent and being the financial adviser of the Company, is a third party independent of the Company and any of the Directors, chief executive, substantial shareholders of the Company and any of their respective associates. Save for the arrangements as disclosed in this circular, there is no agreement or arrangement between Asian Capital and the Company or any member of the Concert Group.

Placing commission

The Placing Agent will receive a placing commission of 3.0% on the gross consideration of the placing of Placing Shares and Convertible Bonds. Such placing commission was arrived at after arm's length negotiation between the Company and the Placing Agent by reference to the size, the current market condition and the time allowed for the Placing Agent to procure the placing of the Placing Shares and the Convertible Bonds.

The Provisional Liquidators are of the view that the placing commission payable under the Placing Agreement is fair and reasonable.

Conditions precedent of the Placing Agreement

The completion of the Placing Agreement is conditional upon (i) the satisfaction of all the Conditions Precedent as set out in the Restructuring Agreement; and (ii) the completion of the Restructuring Agreement having taken place in accordance with the terms therein.

Share Placees

The Placing Shares will be placed to not less than six independent Share Placees, failing which the Company will disclose their identities in an announcement upon completion of the placing of Placing Shares pursuant to the Listing Rules. Nevertheless, the Share Placees and their ultimate beneficial owners shall not be connected persons of the Company pursuant to the Listing Rules and not members of the Concert Group under the Takeovers Code. It is expected that none of the Share Placees will become a substantial Shareholder (as defined in the Listing Rules) immediately after the completion of the placing of the Placing Shares.

CB Placees

Other than the Convertible Bonds that may be placed to the Investor, the remaining portion of the Convertible Bonds will be placed to not less than six independent CB Placees, failing which the Company will disclose their identities in an announcement upon completion pursuant to the Listing Rules. Nevertheless, the CB Placees and their ultimate beneficial owners, shall not be connected persons of the Company pursuant to the Listing Rules and not members of the Concert Group under the Takeovers Code.

Termination

If any of the Conditions Precedent of the Restructuring Agreement is not fulfilled or waived (as the case may be) by the Long Stop Date or if the completion of the Restructuring Agreement fails to take place in accordance with its terms, either party to the Placing Agreement may by way of giving written notice to the other party to terminate the Placing Agreement, in which case, parties to the Placing Agreement shall be released and discharged from their obligations under the Placing Agreement.

Issue under specific mandate

The Placing Shares and the Conversion Shares upon conversion of the Convertible Bonds will be issued pursuant to a specific mandate to be obtained upon approval by the Independent Shareholders at the EGM.

Undertaking and commitment of the Investor

The Investor has undertaken to and covenanted with the Company and the Placing Agent that in the event that any of the Convertible Bonds is placed to the Investor (or its associates or nominees), unless with the prior written consent of the Company and the Placing Agent, the Investor (including its associates or nominees) will not within the first 12 months after the resumption of trading in the Shares (1) convert any part of the Convertible Bonds into Conversion Shares or (2) transfer the Convertible Bonds or any part thereof to any third party except by a transfer to the subsidiaries (as defined in the Listing Rules) or the holding company (as defined in the Companies Ordinance) of the Investor.

The Investor has committed to take up Convertible Bonds in the principal amount up to HK$63,825,000.

Sub-underwriting arrangement

The Company understands that the Placing Agent has entered into sub-underwriting arrangements of even date with sub-underwriters, with respect to the Convertible Bonds, which include the commitment of the Investor in respect of the Convertible Bonds in the principal amount of HK$63,825,000.

CHANGE IN BOARD LOT SIZE

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

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

EFFECT ON SHAREHOLDING STRUCTURE OF THE COMPANY

The changes in the shareholding structure of the Company arising from the Capital Restructuring, the placing of the Placing Shares and the Convertible Bonds, the issue of the Creditors Shares and the Subscription (assuming no exercise of the Share Options and all Share Options lapse upon the Scheme taking effect) are set out in the following table for illustrative purposes only:

Shareholders	As at the Latest Practicable Date		Immediately following the completion of the Capital Restructuring		Immediately following the completion of the Capital Restructuring, the issue of the Creditors Shares, the Subscription, and placing of Placing Shares and Convertible Bonds but before any of its conversion		Immediately following the Completion and full conversion of Convertible Bonds taken up by CB Placees and/or Placing Agent *(Note 4)*		Immediately following the Completion and full conversion of Convertible Bonds taken up by the Investor only *(Notes 5, 6)*		Immediately following the Completion and full conversion of the Convertible Bonds *(Note 5)*	
	No. of Existing Shares	*%*	*No. of New Shares*	*%*	*No. of New Shares*	*%*	*No. of New Shares*	*%*	*No. of New Shares*	*%*	*No. of New Shares*	*%*
Existing Shareholders												
Smart Place and its associates *(Note 1)*	181,604,000	32.86	27,240,600	32.86	27,240,600	4.73	27,240,600	2.63	27,240,600	2.96	27,240,600	2.63
Mr. Tang *(Note 2)*	118,000,000	21.35	17,700,000	21.35	17,700,000	3.07	17,700,000	1.71	17,700,000	1.92	17,700,000	1.71
Sky Metro Limited and its associates	92,096,000	16.67	13,814,400	16.67	13,814,400	2.40	13,814,000	1.33	13,814,400	1.50	13,814,400	1.33
Other existing public Shareholders	160,886,000	29.12	24,132,900	29.12	24,132,900	4.19	24,132,900	2.33	24,132,900	2.62	24,132,900	2.33
Sub-total	552,586,000	100.00	82,887,900	100.00	82,887,900	14.39	82,887,900	8.00	82,887,900	9.00	82,887,900	8.00
The Investor and its concert parties	–	–	–	–	432,000,000	75.00	432,000,000	41.70	777,000,000	84.36	777,000,000	75.00
Placees and/or Placing Agent	–	–	–	–	27,020,000	4.69	27,020,000	2.61	27,020,000	2.93	27,020,000	2.61
CB Placees and/or Placing Agent *(Note 3)*	–	–	–	–	–	–	460,000,000	44.40	–	–	115,000,000	11.10
Scheme Creditors	–	–	–	–	34,100,000	5.92	34,100,000	3.29	34,100,000	3.70	34,100,000	3.29
Total	552,586,000	100.00	82,887,900	100.00	576,007,900	100.00	1,036,007,900	100.00	921,007,900	100.00	1,036,007,900	100.00

Notes:

1. Based on the information available to the Provisional Liquidators as at the Latest Practicable Date, the Shares held by Smart Place are pledged to two Creditors, who have not yet exercised any of their purported security interest over the Existing Shares held by Smart Place. As such, Smart Place, being the registered Shareholder, has the voting rights attached to these Existing Shares. If these Creditors exercise any of their purported security interest over the Existing Shares held by Smart Place and be successfully registered as a Shareholder before the EGM, they will be required to abstain from voting in the EGM in respect of those resolutions that pertain to the Subscription, the issue of the Creditors Shares, Placing Shares and the Convertible Bonds, the Group Reorganisation and the Whitewash Waiver. Further announcement will be made by the Company in such event.

2. This line represents the Escrow Shares currently registered under the name of Mr. Tang and held in safe custody by SU Mining for realization for the satisfaction of the debt owing by Mr. Tang as a result of his breach of the Undertakings under the Mining Agreement. Details are set out in the section headed "EGM" in this circular.

3. Pursuant to the Placing Agreement, neither the Placing Agent nor the CB Placees will be allotted an amount of Convertible Bonds which, upon full conversion, would give rise to an obligation on the part of the Placing Agent, CB Placees or parties acting in concert with any of them to make a mandatory general offer for all the New Shares (not already owned by any of them) under the Takeovers Code.

4. In this scenario, the Convertible Bonds in principal amount of HK$85,100,000, representing the entire amount of the Convertible Bonds to be issued, will be taken up by the CB Placees (and/or the Placing Agent under the underwriting arrangement).

5. In this scenario, the Investor will subscribe for the Convertible Bonds in the principal amount of HK$63,825,000, the maximum amount the Investor can subscribe under the Restructuring Agreement, and 75% of the total amount of Convertible Bonds to be issued with the remaining Convertible Bonds in principal amount of HK$21,275,000 being taken up by the CB Placees (and/or the Placing Agent under the underwriting arrangement).

6. Given that it does not meet the Public Float requirement as stipulated in the Listing Rules, this scenario is for illustrative purposes only.

PREVIOUS FUND RAISING EXERCISE IN THE PRIOR 12-MONTH PERIOD

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

FINANCIAL EFFECTS OF THE PROPOSED RESTRUCTURING

Assets and liabilities

Upon the completion of the Group Reorganisation, the assets and liabilities of the Excluded Companies will no longer be consolidated into the financial statements of the Group. In addition, all the liabilities of the Company incurred before the appointment of the Provisional Liquidators will be settled under the Scheme under Hong Kong law.

According to the financial information of the Group set out in Appendix I to this circular, the total assets and liabilities of the Group as at 30 June 2011 were approximately HK$325 million and HK$628 million, respectively, representing net liabilities of approximately HK$303 million.

As illustrated in the unaudited pro forma consolidated statement of financial position of the Group set out in Appendix III to this circular, the assets and liabilities would have become approximately HK$351 million and HK$267 million respectively, representing net assets of approximately HK$84 million, if the Proposed Restructuring had been completed on 30 June 2011.

Earnings

For the financial year ended 31 December 2010, the net profit of the Group amounted to approximately HK$22 million. The operating results of the Excluded Companies will continue to be consolidated into the financial statements of the Group prior to the completion of the Group Reorganisation. As illustrated in the unaudited pro forma consolidated statement of financial position of the Group set out in Appendix III to this circular, the estimated, unaudited gain of the Proposed Restructuring would amount to approximately HK$281 million.

THE AUDIT QUALIFICATIONS

As set out in pages I-14 to I-18 in this circular, the auditors of the Company have given disclaimed opinions on the consolidated financial statements of the Company for the year ended 31 December 2010. These audit qualifications related to (i) the financial positions of the Excluded Companies and (ii) the going concern basis of accounting adopted by the Group.

As illustrated above, the assets and liabilities leading to the audit qualifications will no longer be integral parts of the Group after completion of the Group Reorganisation. All the assets and liabilities of the Restructured Group have not given rise to any audit qualifications in prior years.

Following the completion of the Scheme, all the Claims of the Creditors will be settled and discharged and the Company will be free of any material liabilities in each case as a matter of Hong Kong law. The asset position of the Company will be strengthened substantially following the Subscription and the placing of the Placing Shares and the Convertible Bonds. This will also turn the Group's net liability position into a net asset position after the completion of the Proposed Restructuring.

Having considered the above, upon the Completion, and barring any unforeseen circumstances, the Provisional Liquidators consider that the above audit qualifications do not have any implications on the profit forecast as set out in Appendix V to this circular, save for in the event that the opening balance of the Group's financial position (certain items of which were qualified by the auditors due to the limitation of scope) has to be restated which will in turn affect the one-off gain from the Proposed Restructuring during the year ending 31 December 2011. ANDA concurred with this view. After considering ANDA's view on this matter, Asian Capital also concurred with the view of the Provisional Liquidators.

BUSINESS OVERVIEW

Business

The Group is principally engaged in manufacturing and trading of toys with its production lines in the PRC.

The operation of the Group substantially ceased after the major assets and production facilities of certain subsidiaries had been subject to freezing orders obtained by certain creditors in the PRC since October 2008. To resurrect the Group's operations, in June 2009, Sino Front, a wholly-owned subsidiary of the Company, was initially set up to continue the Group's trading business with the provision of working capital facility provided by the Investor.

The Group currently owns 8 production lines in Dongguan, the PRC. In addition to its own production facilities, the Group also subcontracts part of its production to sub-contractors, including original equipment manufacturers, to meet additional demand from its customers. The 8 production lines has an aggregate annual production capacity representing sales revenue of approximately HK$126 million, of which the 5 production lines and the 3 production lines were acquired in July 2010 and August 2011 respectively. The production lines are equipped with ancillary facilities and machineries including plastic injection moulding machines and assembling lines. During the year ended 31 December 2010, the 5 production lines of the Group has been fully utilized.

Sino Front, a wholly-owned subsidiary of the Company, has entered into a processing agreement with 藍宇玩具有限公司 ("**Lanyu Toy**") managing the 5 production lines for a term of 3 years, which will expire on 30 June 2013. Pursuant to the processing agreement, the Group is responsible for the procurement and provision of raw materials and packaging materials specified in the production requirements, machineries for the production and the transportation costs for the finished goods, while Lanyu Toy is responsible for the provision of the leased factory floor, utilities, insurance and ancillary management services to support the operations of the 5 production lines. Lanyu Toy also provides 100 workers and arranges them to work exclusively for the Group.

The Group currently offers three types of products to its customers, namely (i) sub-contracting products; (ii) self-developed products which are manufactured by sub-contractors; and (iii) self-developed and self-manufactured products. These products are plastic toys and die-cast figurines. The following table sets out the breakdown of the Group's sales generated from different types of products for the year ended 31 December 2010:

Types of products	**Turnover** *(HK$ million)*
Sub-contracting products	282.0
Self-developed products which are manufactured by sub-contractors	45.0
Self-developed and self-manufactured products	35.0

Self-developed and self-manufactured products generate the highest gross profit margin, and after the acquisition of 東莞市金詡玩具有限公司 ("**Jinxu**") which has been completed in August 2011, the Group will continue to explore more business opportunities in this business segment to improve the overall profitability of the Group. As at the Latest Practicable Date, the 8 production lines produced over 35 types of self-developed and self-manufactured products.

Customers

The Group's customers are mainly located in Hong Kong and the PRC. These customers are mainly trading companies or agents, who then distribute their products to branded toy manufacturers such as American, Japanese and European branded toys with end-customers located in the U.S.A. and other European countries. For the year ended 31 December 2010, the Group generated sales of approximately HK$362 million from Hong Kong, representing the total sales of the Group.

For the year ended 31 December 2010, the entire sales of the Group were generated from 5 customers. The largest customer accounted for approximately 54.3% of the Group's revenue for the year ended 31 December 2010. Details of the top 5 customers are set out below:

Customer	Business nature	Major ultimate customers	Types of products sold	Customer since
Customer A	Toys trading	U.S.A., European and Japanese toy brands	Plastic toys	Second half of 2009
Customer B	Toys trading	U.S.A. toy brands	Die-cast figurines	Second half of 2009
Customer C	Toys trading	U.S.A. toy brands	Die-cast figurines	Second half of 2009
Customer D	Toys trading	U.S.A., and Japanese toy brands	Die-cast figurines	Second half of 2009
Customer E	Toys trading	U.S.A., and Japanese toy brands	Die-cast figurines	Second half of 2009

The high concentration of sales generated from a limited number of customers was mainly due to the norm of the toy industry. Branded toy retailers usually engage trading companies or agents for selection of and filter qualified toy manufacturers which meet their requirements. The completion of the acquisition of Jinxu will enable the Group to have a larger production capability to cover a wider range of products which would allow the Group to expand its customer base.

In May 2011, the Group entered into master purchase agreements with two of its customers, pursuant to which these two customers would place annual orders with an aggregate minimum amount of HK$280 million for a term of one year for the period up to May 2012 and August 2012 respectively.

The pricing of the Group's products is determined with reference to, inter alia, (i) the production cost of the products; (ii) the expected profit margin; (iii) the relationship with the customers; and (iv) competitors' pricing.

To the best of the Provisional Liquidator's knowledge, information and belief having made all reasonable enquiries, all the customers of the Group are third parties independent of the Company and its connected persons.

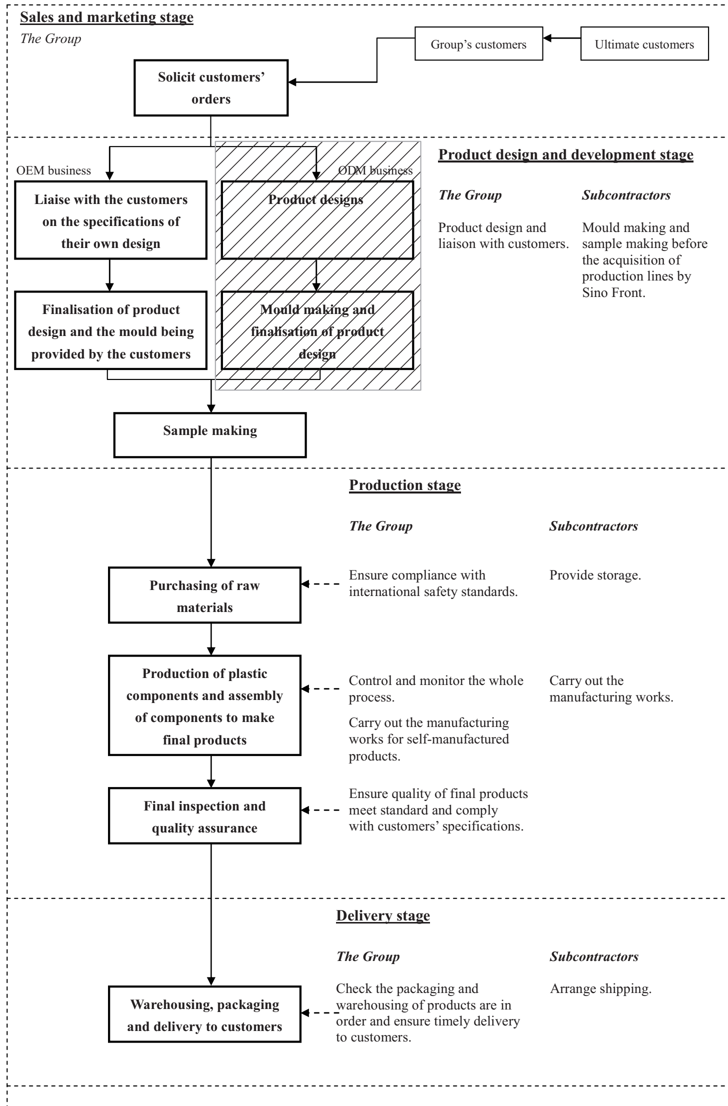
Suppliers

The Group mainly procures raw materials, such as plastic resin, from suppliers in Hong Kong. In order to control the inventory risk, the Group has not entered into any long-term supply contracts with any of its suppliers and generally procure raw materials based on the purchase orders. For the year ended 31 December 2010, save for the costs paid to the OEM manufacturers, the top 5 suppliers account for approximately 88.4% of the total cost of raw materials of the Group for the year ended 31 December 2010, of which the largest supplier represented approximately 43.1%.

Supplier	Business nature	Location of supplier	Type of products purchased	Supplier since
Supplier A	Plastic materials trading	Hong Kong	Plastic resins	Second half of 2009
Supplier B	Plastic materials trading	Hong Kong	Plastic resins	Second half of 2009
Supplier C	Plastic materials trading	Hong Kong	Plastic resins	Second half of 2009
Supplier D	Plastic materials trading	Hong Kong	Plastic resins	Second half of 2009
Supplier E	Plastic materials trading	Hong Kong	Plastic resins	Second half of 2009

To the best of the Provisional Liquidators' knowledge, information and belief having made all reasonable enquiries, all the suppliers of the Group are third parties independent of the Company and its connected persons.

The following sets out the operation process of the Group:



Sales and marketing

As at the Latest Practicable Date, the Group has two sales representatives who are responsible for maintaining client relationship and looking for potential new customers and one sales office is located in Hong Kong. The sales and marketing team of the Group is responsible for identifying new business opportunities, establishing and maintaining relationship with its customers and potential new customers. It also conducts regular meetings to discuss marketing strategies, sales performance and improvement in service quality. The sales and marketing team will also gather feedback from customers regularly to allow the Group to forge closer working relationships with its existing customers and secure new orders from them.

Product development

For the Group's OEM products, the product design and development team will liaise with the customers on the specifications of the products and prepare the moulds for the customers' confirmation. For the Group's ODM products, the product design and development team will discuss with the customers for the specification of the products, design the prototypes and further fine-tune with the customers. After finalizing the product specifications and the prototypes, the product design and development team will liaise with the production department to prepare the moulds of the products. The Group's product design and development team comprises 5 staff to conduct research and development of new products including plastic toys and die-cast figurines.

Production

Upon receipt of an order, the Group will assess the type and amount of raw materials that required for the particular order. The Group will ensure the raw materials complied with the international safety standards, if any, as requested by the customers.

The Group mainly produces plastic toys and die-cast figurines. The main steps of the Group's production process for the Group's plastic products are set out below:

Plastic Injection	– Use injection moulding machines, plastic resin is heated and pressured in a mould to form plastic toy parts of different shapes and
↓	
Planting	– Ink decoration will be added for parts using techniques of spray printing and tampo printing
↓	
Assembling	– Use hot stamping and ultrasonic machines to assemble different components together according to the product specifications
↓	
Inspection	– Inspect and perform quality control testing
↓	
Packaging	– Finished products are packaged
↓	
Warehousing	– Finished products are delivered to warehouse for storage and delivery according to customers' instruction

The Group currently owns 8 production lines in Dongguan, the PRC. In addition to its own production facilities, the Group also subcontracts part of its production to sub-contractors, including OEMs, to meet additional demand from its customers.

The production lead time for the OEM and ODM products of the Group usually take approximately 1 to 3 months from generating ideas to delivery of finished products.

Competition

The industry that the Group operates in is highly fragmented. There are over thousands of toys manufacturing companies operating in Hong Kong and major cities in the PRC. The Group also faces competition from toy manufacturing companies of other developing countries for the Group's international business. The Group expects to face intense competition from their existing competitors and new market entrants in the future. The main bases of competition in the toy industry are quality, scale of production capacity, pricing and timely delivery.

Staff

As at the Latest Practicable Date, the Group has 23 staff, of which (i) 2 of them are senior management; and (ii) 21 of them are responsible for daily operations, financial, quality control and supporting functions. In addition, 100 workers have been working for the Group exclusively under the processing arrangement for the Group. Their salaries and benefits are determined with reference to the prevailing market rates.

COMPETITIVE ADVANTAGES

The competitive advantages of the Group include (i) the expertise of Sino Front's chief executive officer ("**CEO**"); (ii) possession of its own production lines; and (iii) possession of its own product design and development team.

The expertise of the Company's CEO

The CEO of Sino Front, Mr. Ting, has over 40 years of experience in the manufacturing and trading of toys business. The experience and connection of Mr. Ting in the toy industry is beneficial to the Group enabling it to expand its business with local buyers and purchasing agents.

Possession of own production lines

The Group currently owns 8 production lines located in Dongguan, the PRC and are equipped with ancillary facilities and machineries including plastic injection moulding machines and assembling lines. With its own production lines, the Group has better control on product quality.

Possession of own product design and development team

The Group is committed to developing its own product lines. A product design and development team was established in May 2010 to conduct research and development of new products, which include plastic toys, die-cast figurines and premium gift products. The Company believes that such capability enables the Group to increase its overall marketing strength and enhance its ability to secure orders from its customers.

BUSINESS DEVELOPMENT PLAN

BUSINESS OBJECTIVE

After the resumption of trading in the Shares and before 31 December 2013, the Group aims to become a renowned toys manufacturer with one-stop shop service from importing raw materials, self-designing and self-manufacturing toy products, and exporting finished toys. To reduce its reliance on the subcontractor for its sub-contracting products, the Group intends to further strengthen its manufacturing capability. For its sell-developed products, the Group intends to implement strategies to (i) expand its customer base; and (ii) strengthen its own ODM platform.

Further strengthen its 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.

Expand its 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.

Besides expanding its business network with local buyers and purchasing agents through the networks of the management of the Group, the Group strives to develop its customer base of overseas customers, primarily in Europe and the U.S.A., through direct marketing to overseas suppliers by way of participation in trade shows such as local and international toy and premium gift fairs.

In addition, in order to further promote new products, the Group plans to set up a showroom with about 4,000 square feet in Sheung Wan, Hong Kong during the third quarter of 2011 to replace its Hong Kong office and market the products of the Company. Currently, the Group is in the process of renovating the showroom. Moreover, the Group is planning to actively participate in overseas toys' trade fairs to be held in the U.S.A. and Europe from January 2012 onwards to facilitate the development of its self-developed products and to explore the markets and customers there.

Strengthen its ODM platform

In order to reduce the risk of reliance on a few major customers, there is an industry trend for manufacturers to develop and provide their own expertise in design, engineering, modeling, tooling and quality control to customer. The Group recognizes the importance of keeping abreast of industry trends and staying competitive and is well aware of the keen competition in traditional toy industry, as such, the Group is strategically shifting focus to niche market of products that require integration of product lines across different industries.

Therefore, apart from maintaining a healthy growth in OEM business, the Group intends to strengthen its product design and development team to conduct research and development of new products, which will include plastic toys, die-cast figurines and premium gift products to develop its ODM platforms. With the development of its own products, the Group will dedicate more resources in developing new products and focus on the development of new products under its own brand name.

Capital expenditure

To accomplish the above business plan, it is currently expected that the capital expenditure of the Group will be spent before the year ending 31 December 2012 as follows:

(i) approximately HK$10 million for further strengthen its manufacturing capability;

(ii) approximately HK$3 million for expand its customer bases including expenditure for advertising, promotion and exhibition; and

(iii) approximately HK$3 million for development of its ODM platforms.

The abovementioned capital expenditure of approximately HK$16 million is expected to be financed by the Group's internal resources.

Please refer to the section headed "Profit Forecast for the year ending 31 December 2011" in Appendix V to this circular for details of the bases and assumptions for the business development plan of the Group.

RISK FACTORS

Risk relating to the Group

Reliance on major customers

During the years ended 31 December 2009 and 31 December 2010, the largest customer of the Group accounted for approximately 99.4% and 54.3% of the Group's total sales respectively. The Group may not be able to seek alternative customers within a short period of time if the largest customer terminates its relationship with the Group. Should the largest customer cease to purchase the Group's products or reduce its order size and the Group is unable to obtain substitute orders of comparable size, the Group's business and profitability may be adversely affected.

Reliance on the subcontractors

To enable the Group to resume its business activities quickly, Sino Front commenced its toy trading business by accepting orders from buyers and subcontracting them to OEM factories in the PRC, which deliver the finished products directly to overseas customers.

Given that the subcontracting arrangements constitute the principal part of the production capacity of the Group up to and until the establishment of the Group's own production facilities, the operation and profitability of the Group could be adversely affected if the Group fails to subcontract its sales orders for production by quality subcontractors whenever necessary.

No assurance of success of new expansion plan

The Group plans to further expand its manufacturing capability in the PRC. However, there is no assurance that the expansion plan can be implemented or completed as planned, either in terms of its schedule or its scale. Other factors, which are beyond the Group's control, such as economic environment, market demand and change in relevant rules and regulations in the PRC, may affect the progress and the scale of the expansion plan.

Reliance on key personnel

The Group's success is, to a significant extent, attributable to the experience and expertise and the continued efforts of the senior management of the Group. Should any of these key personnel cease to serve the Group in the future, and the Group is not able to recruit other personnel with suitable experience and qualification in replacement, the Group's business, operation and profitability may be adversely affected.

Reliance on customers

The Group's products are primarily produced and sold under the brand names specified by its customers. Sales of the Group's products are generally subject to customers' changing requirements and the Group's ability to maintain the requisite expertise and technical capability to keep pace with customers' changing requirements. Sino Front has also entered into master purchase agreements with two of the existing customers for one year term up to May 2012 and August 2012 for an aggregate order amounting to HK$280 million. Whilst these are stable orders, there is no assurance that any of these orders will not be curtailed or even cancelled for any reason. If that happens, it is difficult to predict whether the Group will be able to find alternative customers within a short period of time to replace any of the existing customers who may have reduced their orders or even terminated their relationship with the Group upon expiry of the current master purchase agreements. The Group's business, turnover and profitability could be adversely affected.

Seasonal fluctuation in turnover

Demand for the Group's products is subject to seasonal fluctuations. The peak seasons for the retail business of toys occur at Easter and Christmas. In order to meet the shipments for delivery to the retail shops in the U.S.A., which is the major market of Sino Front's products, peak season of the production normally commences from around March to October each year. It is possible that, due to seasonal fluctuations, the Group may not be able to generate sufficient sales to cover its expenses during the slack seasons. Thus, any drop in the sales of toys during the peak season could have a material adverse impact on the Group's sales and performance.

Fluctuation in the price of production materials

Most of the production materials are purchased by the Group in the open market. Resins are the principal production materials used by the Group in its manufacturing process. There is no arrangement between the Group and its customers to pass on price increases in production materials, nor is there any arrangement between the Group and its suppliers to secure the price, quality and delivery of the production materials. The prices of production materials may be subject to price fluctuation dependent on various factors, including the oil price and local and global supply and demand. Should the price of production materials increase and the Group is unable to find an alternative source of supply with lower price and comparable quality and delivery, the Group's performance and profitability could be adversely affected.

Rising payroll and subcontracting fees

There is an increase in statutory minimum wages and a shortage of labour in cities in Guangdong province. If these situations are aggravated in the future, the Group and external subcontractors may have difficulties in maintaining sufficient labour at relative low cost for production and the Group's cost of production and profitability may be adversely affected due to increasing labour costs and subcontracting fees.

Foreign exchange exposure

The Group's turnover is principally denominated in United States dollars and Hong Kong dollars while the production costs such as subcontracting fees are principally denominated in RMB and Hong Kong dollars. In the event of any significant change in the exchange rate of any of these currencies, the Group's financial condition and results of operations may be adversely affected.

Risk relating to the industry

Competition

The Group is principally engaged in the manufacturing and trading of toys products and faces keen competition from other manufacturers in the PRC and other countries in Asia. The Company believes that customers place considerable emphasis on price, quality, timely delivery and the ability to meet specific requirements when appointing a manufacturer. There is no assurance that the Group can maintain its competitive edge over its competitors, and the failure to do so may adversely affect the Group's profitability and future growth.

Anti-dumping measures initiated by countries where the Group exports a significant volume of products

Some of the Group's products are sold under the brand names specified by its customers and shipped to different markets in the U.S.A., Europe and Asian countries. Should there be any anti-dumping measures initiated by countries where the Group exports a significant volume of products to, there is no assurance that orders from the Group's existing customers could be maintained at any particular level. If, for this reason, any of the Group's existing customers should cease to place or reduce their order size with the Group and the Group is unable to secure substitute orders of comparable size, the Group's business and profitability could be adversely affected.

Risk relating to the PRC

The PRC has a long history of planned economy. Over the years, the PRC government has introduced substantial economic and political reforms. These reforms have resulted in a more significant role played by market force in the overall economic performance. However, many laws and regulations governing economic matters are still at the stage of development and their interpretation and enforcement is less certain than in other countries. There is no assurance that any change in the economic conditions as a result of the economic reforms, or macro-economic control measures adopted by the PRC government will have a positive effect on the economic development of the PRC.

As most of the Group's operations in the PRC are, by law, subject to administrative review and approval by various national and local governments, there is no assurance that changes in the PRC laws and regulations or the interpretation thereof will not have any adverse effect upon the business and prospects of the Group.

Currently, the Group's products for sale are derived from the Group's subcontracting and manufacturing operations in the PRC. Accordingly, the business, financial condition, results of operations and prospects of the Group are subject, to a significant extent, to economic, political and legal developments in the PRC. PRC economic, political and social conditions, as well as government policies, could adversely affect the Group's business.

INTERNAL CONTROLS

An internal control review report was included in the Resumption Proposal and submitted to the Stock Exchange in September 2009. Due to the recent development of the Group, the Company has engaged a reporting accountant to perform an updated review on the Group's existing internal control system, which will be completed before the resumption of trading in the Shares.

This internal control review is undertaken in accordance with Hong Kong Standard on Related Services 4400 "Engagement to perform agreed-upon procedures regarding financial information" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The reporting accountant has applied the "Internal Control and Risk Management – a Basic Framework" issued by the HKICPA as the criteria for their evaluation of the effectiveness of the internal control systems.

The outline of the reporting accountant's scope of work is as follows:

a. obtaining the internal control manual of the Group on the existing procedures, systems and controls established from the management or appropriate personnel;

b. reviewing the existing internal control system of the Group covering the period which shall reflect the most current mode of business operations of the Group during their review. Their review mainly consists of obtaining understanding of the Restructured Group's operations through high level interview and enquiry with the management or appropriate personnel and carrying out walk-through tests on a sample basis on those key areas of the Restructured Group's operating systems to confirm their understanding;

c. selecting some random samples for the period under review and carrying out tests of key internal controls identified in (b) above to test the operating effectiveness of the key internal controls identified;

d. identifying any material internal control weaknesses that might prevail; and

e. making recommendations on any measures which, in their opinion, the Group should take in order to rectify any material internal control weaknesses identified as a result of their work detailed in (d) above.

The internal control review report covers principally corporate governance, operational procedures, financial reporting and compliance with the Listing Rules. In addition, the review concentrated on the internal control systems of the Group in the following cycles and areas:

- corporate internal control;

- financial reporting and disclosure internal control;

- internal control over business processes; and
- operational manual.

After the completion of the internal control review by the reporting accountant, the Company and the senior management of the Group will rectify the weaknesses being identified in the internal control review and make improvements to the Group's internal control systems.

Based on the recommendation of the reporting accountant, the Company and the senior management of the Group will ensure that all of the recommendations will be addressed and the identified remedial measures will be put in place.

The Provisional Liquidators consider that, based on the current level of the Group's operations and the preliminary results of the internal control review, (1) the Group has adequate internal control systems to comply with the Listing Rules and other relevant rules and regulations and (2) there is no major internal control deficiency of the Group that will give rise to material changes to the Group's operation after completion of the internal control review.

Further announcement in relation to the internal control review will be made by the Company where appropriate.

MANAGEMENT DISCUSSION AND ANALYSIS

Set out below is an extract of the management discussion and analysis of the Group for the year ended 31 December 2010 as set out in the Company's annual report 2010. It should be noted that the auditors gave an disclaimed opinion in the accounts for the year ended 31 December 2010 so that the analyses of the financial performance may be of limited value.

"Results

For the year ended 31 December 2010, the Group's turnover was approximately HK$362.0 million (2009: HK$98.1 million), representing an increase of approximately 269% from the last financial year. As in last year, the Directors and the provisional liquidators of the Company have not been able to gain access to certain books and records of Smart Union Industrial Limited (Provisional Liquidators Appointed) ("SU Industrial") and Smart Union (Qingyuan) Industrial Limited ("SU Qingyuan"), the financial statements of SU Industrial and its wholly-owned subsidiary, Perfect Design and Product Development Limited, have not been included in the consolidated financial statement of the Group. The results of SU Qingyuan, from the beginning of the year 2008, have also not been included in the consolidated income statement of the Group.

Given the improved business after the acquisition of five production lines (the "Five Production Lines") from 藍宇玩具有限公司 completed in July 2010, profit attributable to shareholders of the Company amounted to approximately HK$21.9 million (2009: loss of HK$17.4 million) for the year. Earnings per share for the year ended 31 December 2010 was approximately HK$0.040 as compared with loss per share of approximately HK$0.031 for the preceding year.

Operating profit for the year ended 31 December 2010 was approximately HK$30.9 million compared to an operating loss of approximately HK$14.7 million for the preceding year. After excluding the effects of the reversals of provision for legal claims and amount due from a former subsidiary for approximately HK$5.4 million and HK$11.1 million respectively, as well as the provision for financial guarantees to an unconsolidated subsidiary of approximately HK$17.4 million during the year, the Group's operation generates a profit of approximately HK$31.8 million during 2010.

Segment Information

Details are set out in Note 6 to the consolidated financial statements.

Liquidity, Financial Resources and Funding

Bank balances and cash as at 31 December 2010 was approximately HK$16.6 million (2009: HK$2.4 million). As at 31 December 2010, the total outstanding amount of banking facilities was approximately HK$185.8 million (2009: HK$168 million), which are currently in default and the Group is currently undergoing restructuring. The Group's gearing ratio, representing total bank borrowing less bank balances and cash divided by shareholders' equity was not applicable as the Group has negative shareholders' funds in 2010 and 2009.

Assets and Liabilities

As at 31 December 2010, the Group had total assets of approximately HK$249.8 million (2009: HK$50.9 million), total liabilities of approximately HK$560.8 million (2009: HK$383.9 million). The net liabilities of the Group as at 31 December 2010 were HK$311.0 million (2009: net liabilities of HK$333.0 million).

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 dollar and Hong Kong dollar. As at 31 December 2010, 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.

Capital Structure

The share capital of the Company comprises only ordinary shares. As at 31 December 2010, the Company had in issue 552,586,000 ordinary shares (2009: 552,586,000 shares). During the year, no new shares were issued.

Capital Commitments and Contingent Liabilities

The details of capital commitments and contingent liabilities are set out in Note 33 and Note 35 to the consolidated financial statements respectively.

Dividends

The Board does not recommend any dividend for the year ended 31 December 2010 (2009: nil).

Business Review

Appointment of Provisional Liquidators

Following creditors' action in the People's Republic of China (the "PRC") which resulted in the major assets and production facilities of certain subsidiaries being subject to freezing orders. On 15 October 2008, trading in the shares of the Company (the "Share(s)") was suspended on the Main Board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") at the request of the Company, which remains suspended.

On 16 and 17 October 2008, the Company and six of its subsidiaries petitioned to the High Court to seek their own winding up and applied for the appointment of provisional liquidators.

The High Court appointed Messrs. John Robert Lees and Mat Ng as the joint and several provisional liquidators of the Company (the "Provisional Liquidators") and four of its subsidiaries on 16 October 2008 and two other subsidiaries on 17 October 2008.

On 9 November 2009, one of the employees of Dream Link Limited (In Liquidation) ("Dream Link") presented petitions to the High Court for the winding up of Dream Link as it could not meet demands for the repayment of outstanding debts.

Upon the order made by the High Court on 13 January 2010, Dream Link was wound up under the provisions of the Companies Ordinance. Subsequently, Messrs. John Robert Lees and Mat Ng were appointed as the joint and several provisional liquidators and the joint and several liquidators of Dream Link on 13 January 2010 and 19 August 2010 respectively. On 9 March 2011, the Court granted the release of Messrs. John Robert Lees and Mat Ng as joint and several liquidators of Dream Link.

Proposed Restructuring of the Group after the appointment of Provisional Liquidators

On 1 December 2008, the Stock Exchange, in view of the prolonged suspension of trading in the Shares, informed the Company that it had placed the Company in the first stage of the delisting procedures pursuant to Practice Note 17 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") on 15 October 2008.

An exclusivity agreement dated 12 May 2009 (the "Exclusivity Agreement") was entered into amongst Gold Bless International Invest Limited (the "Investor"), Mr. Yang Wang Jian ("Mr. Yang"), Mr. Ting Wai-min ("Mr. Ting"), the Company and the Provisional Liquidators to grant the Investor exclusivity to (i) prepare a resumption proposal, and (ii) negotiate in good faith and enter into a legally binding agreement for the implementation of the restructuring proposal in connection with the restructuring of the Company (the "Proposed Restructuring").

On 1 September 2009, the Company submitted a resumption proposal (the "Resumption Proposal") to the Stock Exchange with a view to seek the Stock Exchange's approval for the resumption of trading in the shares of the Company. On 3 May 2010, the Stock Exchange informed the Company that the Resumption Proposal did not satisfactorily demonstrate sufficiency of operations or assets under Rule 13.24 of the Listing Rules and decided to place the Company in the second stage of delisting procedures with effect from 3 May 2010. The Company is required to submit a viable resumption proposal at least 10 business days before 2 November 2010, the expiry of the six-month period from the date the Company was placed in the second stage of delisting procedures. At the end of the period, the Stock Exchange will determine whether it is appropriate to proceed to place the Company in the third stage of delisting procedures after considering any proposal made by the Company.

On 27 May 2010, the Investor, Mr. Yang, Mr. Ting, the Company and the Provisional Liquidators entered into a supplemental agreement to extend the exclusivity period under the Exclusivity Agreement to 31 December 2010 (the "Supplemental Exclusivity Agreement"). On the same day, the Investor and Sino Front Limited ("Sino Front"), a wholly-owned subsidiary of the Company, entered into a supplemental working capital facility agreement (the "Supplemental Working Capital Facility Agreement"), pursuant to which the Investor agreed to increase the working capital facility from HK$5,000,000 to HK$55,000,000 on the terms and subject to the conditions as set out in the working capital facility agreement dated 17 June 2009 entered into between the Investor and Sino Front as supplemented by the Supplemental Working Capital Facility Agreement. The Group has been using the working capital facility for expansion of its toys manufacturing business.

The Group has resurrected its toy trading business through Sino Front since June 2009, and has gradually expanded its customer base whilst subcontracted its manufacturing operations to OEM manufacturers in the PRC. With secured orders yet diversifying Sino Front's reliance on its outsourced sub-contractors, the Company has resumed the Group's toy manufacturing business by acquiring production lines from an OEM manufacturer in the PRC.

On 6 July 2010, the Group completed an acquisition of Five Production Lines from 藍宇玩具有限公司 pursuant to the acquisition agreement dated 8 June 2010 entered into between Sino Front and 藍宇玩具有限公司. The Five Production Lines are located in Dongguan, the PRC, with an aggregate annual production capacity of approximately 3 million units of toy products and are equipped with ancillary facilities and machineries including plastic injection moulding machineries and assembly lines. The revival of the Group's toy manufacturing business through the acquisition of the Five Production Lines has been conducive to supporting a cohesive and sustaining resumption proposal.

On 14 October 2010, the Company submitted a supplemental Resumption Proposal followed by several rounds of submissions to the Stock Exchange with a view to addressing the issues set out in the Stock Exchange's letter dated 3 May 2010. The Stock Exchange is still in the process of reviewing and considering the Resumption Proposal.

On 31 December 2010, the Company, the Provisional Liquidators, the Investor, Mr. Yang and Mr. Ting entered into a restructuring agreement, which provided for, inter alia, a capital restructuring, an open offer, a subscription of ordinary shares by the Investor, a scheme of arrangement in Hong Kong, a group reorganisation and a whitewash wavier.

The hearing of the winding up petitions against the Company and the relevant subsidiaries, after several adjournments to allow time for the implementation of the Proposed Restructuring of the Group, is scheduled on 23 May 2011.

Employee

As at 31 December 2010, the Group had 24 full-time employees (2009: 13 employees) based in Hong Kong and the PRC. Through a contracting arrangement, it engaged 100 workers, designated to work in the Group's production lines located in Dongguan, the PRC. Remuneration packages of the Group's employees are generally structured by reference to market terms and individual qualifications. The Group operates a defined contribution benefits scheme under the Mandatory Provident Fund Schemes Ordinance (Chapter 485 of the Laws of Hong Kong) for its employees in Hong Kong and makes contributions to social insurance for its employees in the PRC.

Prospects

It is the Investor's intention to continue the Group's trading and manufacturing of toys business through Sino Front and its subsidiaries.

As demonstrated by the annual results for the year of 2010, with the support provided by the Investor to the Group in both business and financial aspects, the Group has successfully revived its toy business and achieve significant profitability. It is anticipated that all liabilities arising from the creditors of the Company will be compromised and discharged by way of a scheme of arrangements as contemplated in the Resumption Proposal. Moreover, the proposed open offer and share subscription will also largely enhance the liquidity of the Group. As a result, the financial position of the Group will be substantially improved upon completion of the Proposed Restructuring.

Further to the acquisition of the Five Production Lines on 6 July 2010, 致福玩具(深圳)有限公司, a wholly-owned subsidiary of the Company, entered into an acquisition agreement in relation to the acquisition of entire equity interest of 東莞市金詡玩具有限公司 on 30 March 2011. The Group believes the acquisition will enhance existing operation, and will therefore possess a more comprehensive manufacturing and trading operation.

The Group will continue to explore opportunities and means to develop and strengthen alliance, with manufacturers and with customers with an aim to establishing a comprehensive production and value chain in line with its development strategies to sustain its toy business.

Once the Stock Exchange has approved the Proposed Restructuring, and, amongst other things, with creditors and shareholders approving the resolutions in relation to the Restructuring Agreement, the Shares of the Company will be able to resume trading on the Stock Exchange.

The Provisional Liquidators are confident that, with the Investor's strong support in the business and financial aspects as well as the recent acquisitions of additional manufacturing capacity, the business operations of the Group will sustain."

Please also refer to Appendix I in this circular for the management discussion and analysis of the Group for the years ended 31 December 2008 and 2009.

INFORMATION ON THE INVESTOR

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

Mr. Yang is the chairman of GEV Investments (Hong Kong) Limited, the Hong Kong operating arm of GEV Investments Limited, which is primarily engaged in the provision of advisory services for mergers and acquisitions, strategic planning, valuations, management or leverage buyouts and capital raising. Mr. Yang has over 25 years of experience in international finance and investment. He was the managing director of Corporate Finance International Ltd. and a director of Uni Core Holdings Corporation. Mr. Yang graduated from University of International Business and Economics, formerly known as College of Beijing Economics and Foreign Trade in the PRC, with a bachelor's degree in economics.

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

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

INTENTIONS OF THE INVESTOR REGARDING THE GROUP

The Group is principally engaged in the manufacturing and trading of toys. The Investor intends to continue with the existing business of the Group within 24 months after resumption of trading in the Shares but will continuously identify suitable business opportunities to expand the revenue and income base of the Group including but not limited to, within the toys industry or other investment when opportunities arise. Other than the Proposed Restructuring, the Investor has no intention to dispose of or re-deploy the assets of the Group other than in the ordinary course of the business of the Group.

The Investor believes that the Group Reorganisation, if completed, will strengthen and improve the asset base of the Restructured Group. The Investor is of the view that its investment in the Group will provide long-term return.

OTHER ARRANGEMENTS

As at the Latest Practicable Date, save as disclosed in this circular:

(i) there is no arrangement in relation to shares of the Investor or the Company and which might be material to the transactions under the Restructuring Agreement which is subject to the Whitewash Waiver;

(ii) there is no outstanding derivative in respect of the securities of the Company which has been entered into by the Concert Group;

(iii) there is no agreement or arrangement pursuant to which any of the Concert Group is a party which relates to circumstances which it may or may not invoke or seek to invoke a pre-condition or a condition to the Restructuring Agreement; and

(iv) the Investor and its beneficial owners have no intention to dispose of its/their respective controlling interest in the Company within 24 months after the resumption of trading in the Shares.

BOARD COMPOSITION OF THE COMPANY AND EMPLOYEES OF THE GROUP

The Provisional Liquidators are informed that the Investor has no intention to cause major changes in respect of the employees of the Group save for possible changes in the composition of the Board. The Board currently comprises three executive Directors with no independent non-executive Director. Upon Completion, the Investor may request the existing Directors to resign and appoint new Directors, subject to the provisions of the Takeovers Code, the Listing Rules and other applicable laws, rules and regulations. The Directors proposed to be appointed intend to remain in the Board after resumption. Further announcement(s) will be made to inform the Shareholders in relation to the appointments of new Directors and/or resignations of existing Directors.

Details of the Directors proposed to be appointed before the Completion are as follows:

Executive Directors

Mr. Yang Wang Jian, Peter

Mr. Yang, aged 54, graduated from University of International Business and Economics, formerly known as College of Beijing Economics and Foreign Trade in the PRC, with a bachelor's degree in economics. Mr. Yang is the chairman of GEV Investments (Hong Kong) Limited, the Hong Kong operating arm of GEV Investments Limited, which is primarily engaged in the provision of advisory services for mergers and acquisitions, strategic planning, valuations, management or leverage buyouts and capital raising. Mr. Yang has over 25 years of experience in international finance and investment. He was the managing director of Corporate Finance International Ltd. and a director of Uni Core Holdings Corporation.

Mr. Zhu Pei Heng

Mr. Zhu, aged 36, graduated from Guangdong Industry Technical College in the PRC, majoring in design of plastic moulds. Mr. Zhu has over 12 years of experience in the design of toys and toy moulds, and has been the product engineer and head of toy mould design in various toy manufacturing companies in Panyu and Dongguan, the PRC.

Independent Non-Executive Directors

Mr. Yeung King Wah, Kenneth

Mr. Yeung, aged 51, is the founder of Yeung and Co Chartered Accountants, a firm of registered auditors based in the United Kingdom, and of China Consulting Consortium. He has over 20 years of experience in auditing, taxation, corporate finance, treasury, financial consulting and management gained from working in Europe and the Asia Pacific region. Mr. Yeung is a fellow member of the Institute of Chartered Accountants in England and Wales and a member of the Hong Kong Institute of Certified Public Accountants. He is also a member of the Chartered Institute of Taxation in the United Kingdom and a full member of the Association of Corporate Treasurers in the United Kingdom. He is a director of JP & M Asia Limited, EC Venture Ltd., Azure Management Consulting Ltd., ILS (Far East) Ltd., ILS (China) Ltd., K&M Nominees Ltd. and Tendpress Ltd.. He is an independent non-executive director of eForce Holdings Limited (Stock code: 943), a company listed on the Main Board of the Stock Exchange, and China Electric Power Technology Holdings Limited (formerly known as A & K Educational Software Holdings Limited) (Stock code: 8053), a company listed on the Growth Enterprise Market of the Stock Exchange.

Mr. Zhang Song Yi

Mr. Zhang, aged 56, is experienced in corporate finance, mergers and acquisitions and direct investment. Mr. Zhang is the founder of Mandra Capital. He has eighteen years of investment banking and direct investment experience. In addition to his responsibilities at Mandra Capital, Mr. Zhang currently serves as a senior adviser of Morgan Stanley Asia Limited, a director of SINA Corporation, a company listed on the Nasdaq Stock Market, an independent non-executive director of China Longyuan Power Group Corporation Limited (Stock code: 916), a company listed on the Stock Exchange, and an independent non-executive director of China Renewable Energy Investment Limited (Stock code: 987), a company listed on the Stock Exchange. Prior to founding Mandra Capital, Mr. Zhang served as a managing director of Asia Merger, Acquisition and Divestiture Group, and the co-head of Asia Resources and Infrastructure Group of Morgan Stanley, and a senior associate of Milbank, Tweed, Hadley & McCloy LLP. Mr. Zhang holds a Juris Doctor degree from Yale University in the U.S.A..

Mr. Wu Hong

Mr. Wu, aged 51, graduated from School of Art, Suzhou University in the PRC. He is currently a professor and sub-dean of College of Design, Shenzhen University in the PRC. He has over 18 years of experience in the field of design, and has worked in both the academic field and in commercial areas in the PRC.

Proposed members of senior management

Mr. Ting Wai-min

Mr. Ting, aged 59, is the chief executive officer of Sino Front Limited, a wholly-owned subsidiary of the Company. Mr. Ting has had over 40 years of experience in toys manufacturing and trading. He is a director of Kong Lee Industries (Int'l) Co., Ltd. and prior to that, he was the general manager of a subsidiary of Hutchison Harbour Ring Limited (Stock code: 715), a company listed on the Main Board of the Stock Exchange. He is currently a General Committee Member of The Toys Manufacturers' Association of Hong Kong.

Mr. Lok Wing Fu, Tony

Mr. Lok, aged 53, is the proposed marketing director of the Group. Mr. Lok has had over 34 years of experience in the sales and distribution of consumer products. He has served as the wholesale manager of San Miguel Brewery Hong Kong Limited and as a general manager at an advertising agency in Vancouver, Canada.

INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER

The Board has no non-executive Director and independent non-executive Director. Accordingly, no independent board committee will be established to advise the Independent Shareholders on the Capital Restructuring, the Subscription, the issue of the Creditors Shares, the placing of the Placing Shares and the Convertible Bonds and the Whitewash Waiver. CIMB has been appointed as the independent financial adviser to directly advise the Independent Shareholders in this regard pursuant to the requirement of the Takeovers Code. Your attention is drawn to its letter of advice set out on pages 59 to 81 of this circular.

EGM

The EGM will be convened by the Company on 16 September 2011 for the purposes of considering, and if thought fit, approving, among other things, the Capital Restructuring, the Subscription, the issue of the Creditors Shares, the placing of the Placing Shares and the Convertible Bonds, the Whitewash Waiver and any other matters as required by law, the Listing Rules, the Takeovers Code, the Stock Exchange and/or the SFC, which are necessary to give effect to the Proposed Restructuring and any transactions contemplated under the Restructuring Agreement.

The Escrow Shares are currently registered under the name of Mr. Tang and held in safe custody by SU Mining for the satisfaction of the portion of the debt attributable to the Escrow Shares of approximately HK$197.1 million as stipulated in the Mining Agreement and owing by Mr. Tang as a result of his breach of the Undertakings under the Mining Agreement. Pursuant to the Company's articles of association, on a poll a duly registered Shareholder is entitled to exercise the voting rights attached to each fully paid Share of which he is the holder. Hence, SU Mining, the provisional liquidators of SU Mining and the Provisional Liquidators do not have the voting rights attached to the Escrow Shares. However, based on the Provisional Liquidators' investigations as at the Latest Practicable Date, as Mr. Tang had not fulfilled his obligations under the Undertakings in the Mining Agreement to procure Fujian Tiancheng to obtain the mining licence or any other necessary approvals and consents for the mining of the Mine on or before 30 April 2008 (further extended to 31 August 2008), the legal adviser to the Provisional Liquidators is of the view that Mr. Tang is in breach of the Mining Agreement. Under the terms of the Mining Agreement, SU Mining is entitled to dispose of the Escrow Shares and the proceeds shall be used to satisfy the amounts owing by Mr. Tang. Those proceeds will first be used to discharge any creditor claims against SU Mining and any surplus thereafter towards Creditors' Claims in accordance with the Scheme. Following such disposal, the legal adviser to the Provisional Liquidators is of the view that Mr. Tang could not seek to claim an interest in the Escrow Shares in priority to their purchaser under such disposal. In the event that Mr. Tang were to exercise his voting rights under the Escrow Shares at the EGM without being able to prove that the Undertakings have been duly fulfilled in accordance with the Mining Agreement, the Provisional Liquidators may seek to object to Mr. Tang's qualification to vote at the EGM. Pursuant to the Company's articles of association, where any such objection is raised in connection with Mr. Tang's qualification to vote in respect of the Escrow Shares, the chairman of the EGM shall decide as to whether or not the objection to Mr. Tang's qualification to vote vitiates the decision of the meeting or any resolution and the decision of the chairman of the EGM in such connection shall be final and conclusive.

To the best of the knowledge, information available to and belief of the Provisional Liquidators as at the Latest Practicable Date, none of the Shareholders has direct or indirect material interest (other than solely as a Shareholder) nor any involvement in the Capital Restructuring, the Subscription, the issue of the Creditors Shares, the placing of the Placing Shares and the Convertible Bonds and the Whitewash Waiver and accordingly no Shareholder is required to abstain from voting in respect of any of the resolutions at the EGM.

The Concert Group does not own or control any Existing Shares, as at the Latest Practicable Date. Under the Takeovers Code, the Concert Group shall not acquire or dispose of any Shares until Completion, and the members of the Concert Group will not vote on any resolutions at the EGM.

According to the information available to the Company and the Provisional Liquidators as at the Latest Practicable Date, none of the Provisional Liquidators and the Creditors held any Existing Shares. The Provisional Liquidators will continue to make enquiries as to whether any of the Creditors own any Shares directly or through nominees in order to ensure compliance with the requirements under the Takeovers Code.

A proxy form for use at the EGM is enclosed herewith. Whether or not you are able to attend the EGM, you are requested to complete the proxy form and return it to the Company's branch Share registrar in Hong Kong, Tricor Investor Services Limited at 26/F, Tesbury Centre, 28 Queen's Road East, Hong Kong not less than 48 hours before the time appointed for holding the EGM or any adjournment thereof. Completion and return of the proxy form will not preclude you from attending and voting at the EGM or any adjourned meeting should you so wish, in which event any such form of proxy provided to the Company should be deemed revoked.

Pursuant to Rule 13.39(4) of the Listing Rules, any vote of the Shareholders at a general meeting shall be taken by poll. The Company will announce the results of the poll in the manner prescribed under Rule 13.39(5) of the Listing Rules.

RECOMMENDATION

Based on the above and after considering the recommendation of CIMB set out in the section headed "LETTER FROM CIMB", the proposed Directors the Provisional Liquidators and the Investor consider that the terms of the Capital Restructuring, the Subscription, the placing of the Placing Shares and the Convertible Bonds, and the issue of Creditors Shares are on normal commercial terms and the Proposed Restructuring (including the Whitewash Waiver) is fair and reasonable and in the interests of the Company and the Shareholders as a whole, and recommend the Shareholders to vote in favour of the relevant resolutions to be proposed at the EGM.

ADDITIONAL INFORMATION

Your attention is also drawn to the information contained in the appendices to this circular and the notice of the EGM.

CONTINUED SUSPENSION OF TRADING IN THE SHARES

The transactions contemplated under the Restructuring Agreement and the Placing Agreement are subject to the fulfillment of a number of conditions precedent and therefore may or may not materialise.

Trading in the Shares has been suspended since 9:44 a.m. on 15 October 2008 at the request of the Company. At the High Court hearing on 23 May 2011, the High Court further adjourned the winding-up hearing of the Company and six of its subsidiaries to 14 November 2011. On 10 June 2011, the Company was informed by the Stock Exchange that resumption of trading in the Shares will be allowed if the Company fulfills the following conditions by 30 November 2011:

(i) completion of the transactions under the Resumption Proposal;

(ii) inclusion in the circular to shareholders of the following:

(a) a profit forecast for the year ending 31 December 2011 together with reports from the auditors and the financial adviser under paragraph 29(2) of Appendix 1B of the Listing Rules;

(b) a statement from Directors confirming working capital sufficiency for 12 months after resumption and a comfort letter from the auditors/financial adviser on the Directors' statement;

(c) a pro forma balance sheet upon completion of the Resumption Proposal and a comfort letter from the auditors under Rule 4.29 of the Listing Rules;

(iii) provision of a full scope internal control review report confirming an adequate and effective internal control system; and

(iv) dismissal of the winding-up petition and discharge of the Provisional Liquidators.

Resumption of trading in the Shares is subject to a number of conditions and may or may not take place. Trading in the Shares will remain suspended until further notice. The release of this circular is not an indication that the Restructuring Agreement will be successfully implemented and does not necessarily indicate that the trading in the Shares will be resumed and that the listing approval for the New Shares will be granted.

Shareholders and potential investors of the Company should exercise caution when dealing in the Shares.

For and on behalf of
Smart Union Group (Holdings) Limited
(Provisional Liquidators Appointed)
John Robert Lees
Mat Ng
Joint and Several Provisional Liquidators
acting as agents for and on behalf of the Company
without personal liability

CIMB Securities (HK) Limited

Units 7706 – 08, Level 77
International Commerce Centre
1 Austin Road West, Kowloon
Hong Kong

24 August 2011

To the Independent Shareholders of Smart Union Group (Holdings) Limited (Provisional Liquidators Appointed)

Dear Sirs,

RESTRUCTURING OF SMART UNION GROUP (HOLDINGS) LIMITED (PROVISIONAL LIQUIDATORS APPOINTED) INVOLVING, INTER ALIA, (A) PROPOSED CAPITAL RESTRUCTURING; (B) CREDITORS' SCHEME OF ARRANGEMENT AND GROUP REORGANISATION; (C) SUBSCRIPTION OF SUBSCRIPTION SHARES; (D) PLACING OF CONVERTIBLE BONDS; (E) PLACING OF PLACING SHARES; AND (F) APPLICATION FOR WHITEWASH WAIVER

INTRODUCTION

We refer to our appointment as the independent financial adviser to advise the Independent Shareholders in relation to the Proposed Restructuring and the Whitewash Waiver, details of which are set out in the circular of the Company dated 24 August 2011 (the "**Circular**"), of which this letter forms a part. Terms used in this letter shall have the same meanings as defined in the Circular unless otherwise defined herein or the context requires otherwise.

In formulating our recommendation, we have relied on the information and facts provided by the Provisional Liquidators, the Investor and the Directors and contained or referred to in the Circular. The Provisional Liquidators, the Investor and the Directors have each separately declared in a responsibility statement set out in Appendix VIII to the Circular that they collectively and individually accept full responsibility for the accuracy of the information contained in the Circular (save for information relating to each of the other groups declarants). We have assumed that the information and representations provided to us by the Provisional Liquidators, the Investor and the Directors or contained or referred to in the Circular were true and accurate at the time they were made and up to the date of the Circular. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Provisional Liquidators, the Investor and the Directors. We have also been advised by the Provisional Liquidators, the Investor and the Directors and believe that no material facts have been omitted from the Circular which would make any statement misleading.

We consider that we have reviewed sufficient information to reach an informed view and to provide a reasonable basis for our recommendation. We have not, however, conducted an independent verification of the information nor have we conducted any form of in-depth investigation into the businesses and affairs or the prospects of the Group, the Investor or any of their respective associates.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion regarding the Proposed Restructuring and the Whitewash Waiver, we have considered the following principal factors and reasons:

1. Background of the Group

The Group is principally engaged in the manufacturing and trading of toys. Trading in the Shares has been suspended since 15 October 2008 at the request of the Company.

As stated in the annual report of the Company for the year ended 31 December 2010 and various announcements of the Company since 15 October 2008:

In October 2008, the Group found difficulties in meeting its short-term debts. Following creditors' action in the PRC which resulted in the major assets and production facilities of certain subsidiaries being subject to freezing orders, on 16 and 17 October 2008, the Company and six of its subsidiaries petitioned to the High Court to seek their own winding up and applied for the appointment of provisional liquidators. The High Court appointed Messrs. John Robert Lees and Mat Ng as the joint and several provisional liquidators of the Company (the "**Provisional Liquidators**") and four of its subsidiaries on 16 October 2008 and two other subsidiaries on 17 October 2008. 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 9 November 2009, one of the employees of Dream Link Limited (in liquidation), another subsidiary of the Company presented a petition to the High Court for the winding up of such subsidiary as it could not meet demands for the repayment of outstanding debts. A winding up order of such subsidiary was granted by the High Court on 13 January 2010. Subsequently, the Provisional Liquidators were appointed as the joint and several provisional liquidators, and later the joint and several liquidators, of such subsidiary on 13 January 2010 and 19 August 2010, respectively. On 9 March 2011, the Court granted the release of the Provisional Liquidators as joint and several liquidators of such subsidiary.

On 1 December 2008, the Stock Exchange, in view of the prolonged suspension of trading in the Shares, informed the Company that it had placed the Company in the first stage of the delisting procedures pursuant to Practice Note 17 to the Listing Rules on 15 October 2008.

On 12 May 2009, the Exclusivity Agreement was entered into among the Company, the Investor, Mr. Yang, 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.

On 1 September 2009, the Company submitted a resumption proposal (the "**Resumption Proposal**") to the Stock Exchange with a view to seek the Stock Exchange's approval for the resumption of trading in the Shares of the Company.

On 3 May 2010, the Stock Exchange informed the Company that the Resumption Proposal did not satisfactorily demonstrate sufficiency of operations or assets under Rule 13.24 of the Listing Rules and decided to place the Company in the second stage of delisting procedures with effect from 3 May 2010. The Company was required to submit a viable resumption proposal at least 10 business days before 2 November 2010, the expiry of the six-month period from the date the Company was placed in the second stage of delisting procedures. At the end of such period, the Stock Exchange would determine whether it was appropriate to proceed to place the Company in the third stage of delisting procedures after considering any proposal made by the Company.

On 27 May 2010, the Investor, Mr. Yang, Mr. Ting, the Company and the Provisional Liquidators entered into a supplemental agreement to extend the exclusivity period under the Exclusivity Agreement to 31 December 2010 (the "**Supplemental Exclusivity Agreement**"). On the same day, the Investor and Sino Front Limited ("**Sino Front**"), a wholly-owned subsidiary of the Company, entered into a supplemental working capital facility agreement (the "**Supplemental Working Capital Facility Agreement**"), pursuant to which the Investor agreed to increase the working capital facility from HK$5,000,000 to HK$55,000,000 on the terms and subject to the conditions as set out in the working capital facility agreement dated 17 June 2009 entered into between the Investor and Sino Front as supplemented by the Supplemental Working Capital Facility Agreement. The Group has been using the working capital facility for reactivation and expansion of its toys manufacturing business as part of the Resumption Proposal. The Working Capital Facility was secured by a debenture executed by Sino Front on 17 June 2009.

Based on the Company's annual report for the year ended 31 December 2010, the Group has resurrected its toy trading business through Sino Front since June 2009, and has gradually expanded its customer base whilst subcontracted its manufacturing operations to OEM manufacturers in the PRC. With secured orders yet diversifying Sino Front's reliance on its outsourced sub-contractors, the Company has resumed the Group's toy manufacturing business by acquiring production lines from an OEM manufacturer in the PRC. Also on 6 July 2010, the Group completed an acquisition of five production lines pursuant to the acquisition agreement dated 8 June 2010 entered into between Sino Front and an independent third party. The five production lines are located in Dongguan, the PRC, with an aggregate annual production capacity of approximately 3 million units of toy products and are equipped with ancillary facilities and machineries including plastic injection moulding machineries and assembly lines.

On 14 October 2010, the Company submitted a supplemental Resumption Proposal followed by several rounds of submissions to the Stock Exchange with a view to addressing the issues set out in the Stock Exchange's letter dated 3 May 2010.

On 31 December 2010, the Company, the Provisional Liquidators, the Investor, Mr. Yang and Mr. Ting entered into a restructuring agreement, which provided for, inter alia, a capital restructuring, an open offer, a subscription of ordinary shares by the Investor, a scheme of arrangement in Hong Kong, a group reorganisation and a whitewash wavier.

On 15 June 2011, the Company announced that it was informed by the Stock Exchange in a letter dated 10 June 2011 that resumption of trading in the Shares will be allowed only if the Company fulfils the following conditions by 30 November 2011:

(1) completion of the transactions under the Resumption Proposal;

(2) inclusion in the Circular to shareholders of the following:

   (a) a profit forecast for the year ending 31 December 2011 together with reports from the auditors and the financial adviser under paragraph 29(2) of Appendix 1B of the Listing Rules;

   (b) a statement from Directors confirming working capital sufficiency for 12 months after resumption and a comfort letter from the auditors/financial adviser on the Directors' statement;

   (c) a pro forma balance sheet upon completion of the Resumption Proposal and a comfort letter from the auditors under Rule 4.29 of the Listing Rules;

(3) provision of a full scope internal control review report confirming an adequate and effective internal control system;

(4) dismissal of the winding-up petition and discharge of the Provisional Liquidators; and

(5) the Company to comply with the Listing Rules.

On 20 June 2011, the Company, the Provisional Liquidators, the Investor, Mr. Yang and Mr. Ting entered into the Second Supplemental Restructuring Agreement, pursuant to which the parties agreed to, inter alia, (1) revise the structure of the Capital Restructuring; (2) adjust the number of Creditors Shares; (3) adjust the terms of the Subscription; (4) replace the proposed open offer with the placing of Convertible Bonds; and (5) include the placing of the Placing Shares as part of the Proposed Restructuring.

The hearings of the winding up petitions against the Company and the relevant subsidiaries, after several adjournments to allow time for the implementation of the Proposed Restructuring of the Group, are scheduled on 14 November 2011.

The transactions contemplated under the Restructuring Agreement are subject to the fulfillment of a number of conditions precedent as set out in the Circular including, but not limited to, the passing of the relevant resolutions at the EGM. The release of the Circular is not an indication that the Restructuring Agreement will be successfully implemented and does not necessarily indicate that the trading in the Shares will be resumed.

2. Financial information of the Group

a. Financial results

The following is a summary of the financial information of the Group as extracted from its published annual reports for the three years ended 31 December 2010:

	As at 31 December 2010 (audited) *HK$'000*	As at 31 December 2009 (audited) *HK$'000*	As at 31 December 2008 (audited) *HK$'000*
Revenue	362,026	98,140	37,550
Operation profit/loss	30,903	(14,717)	(847,977)
Finance costs, net	(3,597)	(2,048)	(173)
Profit/(loss) before income tax	27,306	(16,765)	(848,150)
Income tax expenses	(5,373)	(600)	(6)
Profit/(loss) for the year attributable to equity holders of the Company	21,933	(17,365)	(848,156)

Financial years ended 31 December 2008 and 2009

As depicted from the table above, revenue for each of the two years ended 31 December 2008 and 2009 were approximately HK$37.6 million and HK$98.1 million, respectively. The Group's consolidated loss for the year ended 31 December 2009 was approximately HK$17.4 million, which improved from the consolidated loss for the year ended 31 December 2008 of approximately HK$848.2 million.

As stated in the Company's annual report for the year ended 31 December 2008, the poor results for the year ended 31 December 2008 were primarily due to the adverse business environment in the toy industry, the appreciation of Renminbi in the first half of 2008, and the Group's overexpansion of business and diversification of business scope during the past few years. These factors led to the Group experiencing shortage of cash flow and as the Group ran out of alternatives to revive its business or raise cash from new investors, the Company and six of its subsidiaries ultimately applied for the appointment of the provisional liquidators on 16 and 17 October 2008. As the Directors and the Provisional Liquidators were not able to gain access to complete books and records of certain subsidiaries of the Company for the year ended 31 December 2008, such subsidiaries have not been included into the consolidated financial statement of the Group since 1 January 2008 which explained the low revenue figure in the two years ended 31 December 2008 and 2009. Owing to the substantial impairment losses in relation to such subsidiaries, substantial consolidated loss of approximately HK$848.2 million was recorded in the year ended 31 December 2008. Affected by the provision for financial guarantees to such de-consolidated subsidiaries for approximately HK$13.9 million, the loss attributable to shareholders of the Company amounted to approximately HK$17.4 million for the year ended 31 December 2009. The improvement from the consolidated loss for the year ended 31 December 2008 of approximately HK$848.2 million to the consolidated loss for the year ended 31 December 2009 of approximately HK$17.4 million was primarily attributable to the absence of the one off impairment loss arising from the de-consolidated subsidiaries of the Company recorded in the year ended 31 December 2008 and the resurrection of its toy trading business through Sino Front since June 2009.

Financial years ended 31 December 2009 and 2010

As depicted from the table above, revenue for each of the two years ended 31 December 2009 and 2010 were approximately HK$98.1 million and HK$362.0 million, respectively. The Group's consolidated profit for the year ended 31 December 2010 was approximately HK$21.9 million, which improved from the consolidated loss for the year ended 31 December 2009 of approximately HK$17.4 million.

As advised by the Provisional Liquidator, the improvement in the Group's revenue in the year ended 31 December 2010 was mainly attributable to the trading of toy business of Sino Front and its subsidiaries. Sino Front was established in June 2009 with the assistance from the Investor (who has provided a loan of HK$55,000,000 ("**Loan**") to Sino Front to enable it to meet its working capital needs, secured by a debenture). The Company has since resumed its trading of toy business through Sino Front. Also as part of the Proposed Restructuring to continue the toy trading and manufacturing business of the Group during the restructuring period, the Group acquired five production lines in July 2010 which also contributed to the revenue of the Group in the year ended 31 December 2010. The Group still recorded consolidated loss for the year ended 31 December 2009 owing to the provision for financial guarantees to the de-consolidated subsidiaries for approximately HK$13.9 million, and such provision increased to approximately HK$17.4 million for the year ended 31 December 2010. The improvement from the consolidated loss for the year ended 31 December 2009 of approximately HK$17.4 million to the consolidated profit for the year ended 31 December 2010 of approximately HK$21.9 million was primarily attributable to the profit of approximately HK$26.5 million from the toy trading business from Sino Front and its subsidiaries, and one-off gains from the reversals of provision for legal claims and amount due from a former subsidiary for approximately HK$5.4 million and HK$11.1 million respectively.

b. Financial position

The following is a summary of the financial position of the Group as extracted from its published annual reports for the three years ended 31 December 2010:

	As at 31 December 2010 (audited) *HK$'000*	**As at 31 December 2009 (audited)** *HK$'000*	**As at 31 December 2008 (audited)** *HK$'000*
Total assets	249,801	50,983	10,750
Total liabilities	560,827	383,942	326,344
Net current assets/(liabilities)	(314,175)	(327,969)	(315,752)
Net assets/(liabilities)	(230,194)	(215,318)	(200,912)

Financial years ended 31 December 2008 and 2009

As depicted from the table above, total assets increased from approximately HK$10.8 million for the year ended 31 December 2008 to approximately HK$51.0 million for the year ended 31 December 2009. The increase in total assets was primarily due to an approximately HK$43.2 million increase in trade receivables as a result of an increase in revenue. Total liabilities increased from approximately HK$326.3 million for the year ended 31 December 2008 to approximately HK$383.9 million for the year ended 31 December 2009. The increase in total liabilities was primarily due to an approximately HK$35.3 million increase in trade payables as a result of increased business activities of the Group. The net liabilities for the two years ended 31 December 2009 remained relatively stable at approximately HK$200.9 million and HK$215.3 million, respectively.

Financial years ended 31 December 2009 and 2010

As depicted from the table above, total assets increased from approximately HK$51.0 million for the year ended 31 December 2009 to approximately HK$249.8 million for the year ended 31 December 2010. The increase in total assets was primarily due to an approximately HK$3.2 million addition in plants and machineries during the year of 2010 and an approximately HK$174.9 million increase in trade receivables as a result of an increase in revenue. Total liabilities increased from approximately HK$383.9 million for the year ended 31 December 2009 to approximately HK$560.8 million for the year ended 31 December 2010. The increase in total liabilities was primarily due to an approximately HK$80.0 million increase in trade payables as a result of increased business activities of the Group and an approximately HK$55.0 million increase in borrowings due to the drawdown of the Working Capital Facility. The net liabilities for the two years ended 31 December 2010 remained relatively stable at approximately HK$215.3 million and HK$230.2 million, respectively.

c. ***The Audit Qualifications***

As set out in Appendix I to the Circular, the auditors of the Company have given disclaimed opinions on the consolidated financial statements of the Company for the year ended 31 December 2010. These audit qualifications related to (i) the financial positions of the Excluded Companies and (ii) the going concern basis of accounting adopted by the Group.

As stated in the letter from the Provisional Liquidator in the Circular, the assets and liabilities leading to the audit qualifications will no longer be integral parts of the Group after completion of the Group Reorganisation. All the assets and liabilities of the Restructured Group have not given rise to any audit qualifications in prior years. Following the completion of the Scheme, all the Claims of the Creditors will be settled and discharged and the Company will be free of any material liabilities in each case as a matter of Hong Kong law. The asset position of the Company will be strengthened substantially following the Subscription and the placing of the Placing Shares and the Convertible Bonds. This will also turn the Group's net liability position into a net asset position after the completion of the Proposed Restructuring.

We have further discussed with the Provisional Liquidators and are given to understand that upon Completion and barring any unforeseen circumstances, the Provisional Liquidators considered that the audit qualifications do not have any implications on the profit forecast as set out in Appendix V to the Circular, save for in the event that the opening balances of the Group's financial position (certain items of which were qualified by the auditors due to the limitation of scope) has to be restated which will in turn affect the one-off gain from the Proposed Restructuring during the year ending 31 December 2011. ANDA concurred with the above view. On this matter, Asian Capital, who had also considered ANDA's concurrence, also concurred with the above view. As stated above, the assets and liabilities leading to the audit qualifications will no longer be integral parts of the Group after completion of the Group Reorganisation and as such, we consider that the Proposed Restructuring is in the interests of the Company and the Shareholders as a whole.

3. Reasons for Proposed Restructuring and the use of proceeds of the Subscription and the placing of Placing Shares and Convertible Bonds

As advised by the Provisional Liquidators, the Proposed Restructuring, if successfully implemented, will enable the Company to discharge its indebtedness, which we consider to be vital to the Group's survival. It will also provide the Restructured Group with new funds to enhance its existing business operations and flexibility to make investments in new acquisitions or business ventures when suitable opportunities arise in the future. As noted from the latest annual report of the Group for the year ended 31 December 2010, the Group still recorded consolidated loss for the year ended 31 December 2009 owing to the provision for financial guarantees to the de-consolidated subsidiaries for approximately HK$13.9 million, which increased to approximately HK$17.4 million for the year ended 31 December 2010. We understand from the Provisional Liquidators that if the Proposed Restructuring is not implemented, such expenses on provision for financial guarantees shall further increase in the coming years until the loans of the de-consolidated subsidiaries are fully repaid. We also understand from the Provisional Liquidators that the improvement in the Group's revenue in the year ended 31 December 2010 was mainly attributable to the trading of toy business of Sino Front, which was established in June 2009 with the assistance from the Investor (who has provided the Loan to Sino Front to enable it to meet its working capital needs, secured by a debenture). Also as part of the Proposed Restructuring to continue the toy trading and manufacturing business of the Group during the restructuring period, the Group acquired five production lines in July 2010. If the Proposed Restructuring is not implemented, it is likely that the Creditors will claim against the Company for any recovery of amounts due and the Company may be forced to be wound up as a result, and with the fact that the Investor has rights over Sino Front and all of its assets as contained in the debenture securing the Loan, the Shareholders would only be entitled to the residual assets, if any, after the realisation of existing assets of the Group and distributions be made to all creditors of the respective Excluded Companies. Given the Group's net current liabilities and net liabilities as at 31 December 2010 of approximately HK$314.2 million and HK$230.2 million respectively, it is likely that there would not be any residual value or assets left for the Shareholders in the event of forced sale of assets for realisation and distribution to creditors as a result of winding up of the Company.

Gross proceeds from the Subscription and the placing of Placing Shares and Convertible Bonds will be in the aggregate amount of HK$170,018,700. Such proceeds will be paid and applied in the following manner at Completion:

- the Earnest Money of HK$5 million paid by the Investor to the Escrow Agent prior to the signing of the Restructuring Agreement will be released to the Scheme Administrators and may be used in part settlement of the Claims of the Scheme Creditors;

- a sum of HK$45 million shall be used in part settlement of the Claims of the Scheme Creditors;

- a sum of HK$17 million (of which a sum of HK$13.25 million has already been paid by the Investor to the Provisional Liquidators as at the Latest Practicable Date) shall be used towards settling the Restructuring Costs;

- the Working Capital Facility of HK$55 million advanced by the Investor to Sino Front together with interest accrued thereon shall be applied in full in part payment; and

- the remaining balance of the gross proceeds, after deducting the placing fees in relation to the placing of the Placing Shares and the Convertible Bonds, shall be retained as working capital of the Restructured Group post Completion.

In light of the above, in particular the fact that the Proposed Restructuring enables the Company to discharge its indebtedness and that the proceeds of the Subscription and the placing of Placing Shares and Convertible Bonds will be applied towards discharge of the Company's liabilities and support the ongoing operation of the Group as general working capital, we concur with the view of the Provisional Liquidators and the Company that the Proposed Restructuring is in the interests of the Company and the Shareholders as a whole.

4. The Restructuring Agreement

(a) The Capital Restructuring

The Capital Restructuring comprises, amongst others, the Share Consolidation, the Capital Reduction, the Share Premium Cancellation, the Authorised Share Capital Cancellation, the Authorised Share Capital Increase and the cancellation of the Existing Convertible Securities:

(i) the Share Consolidation – every twenty (20) Existing Shares of HK$0.10 each will be consolidated into three (3) Consolidated Shares of approximately HK$0.67 each;

(ii) the Capital Reduction – upon the Share Consolidation becoming effective, the nominal value of the Consolidated Shares will be reduced from approximately HK$0.67 to HK$0.01 each. The credit generated from the Capital Reduction will be applied in a manner as permitted by the Companies Law and by the Memorandum and Articles of Association, including but not limited to setting off part of the accumulated losses of the Company;

(iii) the Share Premium Cancellation – upon the Capital Reduction becoming effective, the entire amount standing to the credit of the share premium account of the Company will be cancelled. The credit arising from the Share Premium Cancellation will be applied to set off part of the accumulated losses of the Company;

(iv) the Authorised Share Capital Cancellation – upon the Capital Reduction becoming effective, all the existing authorised but un-issued Shares will be cancelled in their entirety;

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

(vi) cancellation of the Existing Convertible Securities – any rights arising under the Existing Convertible Securities will be cancelled so far as possible by such means as shall give effect to such cancellation subject to any necessary approval.

Set out below is the effect of the Capital Restructuring on the share capital of the Company (assuming no exercise of the Share Options and all Share Options lapse upon the Scheme taking effect):

	Before the Capital Restructuring	Immediately after the Capital Restructuring
Nominal value	HK$0.10	HK$0.01
Authorised share capital	HK$200,000,000 divided into 2,000,000,000	HK$40,000,000 divided into 4,000,000,000
Issued and paid-up share capital	HK$55,258,600 divided into 552,586,000 Existing Shares	HK$828,879 divided into 82,887,900 New Shares

We understood from the Provisional Liquidators that the Capital Restructuring is to reorganise the capital base of the Company so as to facilitate the issue of the Subscription Shares. It is also noted that the completion of the Capital Restructuring, being one of the Conditions Precedent, is necessary to enable the Restructuring Agreement to proceed. Given the above, we concur with the Company's view that the Capital Restructuring is in the interests of the Company and the Shareholders as a whole.

(b) The Scheme

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

(i) a sum of HK$50 million out of the total consideration paid or payable to the Company upon Completion less any Scheme Costs shall be transferred to the Scheme Administrators for the benefit of the Scheme Creditors;

(ii) 34,100,000 Creditors Shares, representing approximately 5.92% of the issued share capital of the Company as enlarged by the issue of the Subscription Shares, the Creditors Shares and the Placing Shares; and approximately 3.29% of the Enlarged Issued Share Capital, shall be issued and allotted by the Company to the Scheme Administrators or designated nominee at Completion for the benefit of the Scheme Creditors; and

(iii) immediately prior to the Scheme taking effect, all the assets of the Company (other than the shareholding in and the assets of Sino Front and its subsidiaries) including but not limited to all cash and cash equivalents held by the Company, all intercompany receivables, all causes of actions and claims which the Company has against any person whether or not known to the Company as at the date when the Scheme takes effect and the Excluded Companies shall be transferred to a special purpose vehicle controlled by the Scheme Administrators for the benefit of the Scheme Creditors.

(c) The Group Reorganisation

The purpose of the Group Reorganisation is to facilitate the implementation of the Proposed Restructuring and to leave the operating entities to continue business under the Company upon a successful resumption in the Shares. Upon completion of the Group Reorganisation, it is expected that the Group will be split into (i) the Restructured Group (with the Company and Sino Front and its subsidiaries which are principally engaged in the manufacturing and trading of toy business) and (ii) the companies held by the special purpose vehicle controlled by the Scheme Administrators for the benefit of the Scheme Creditors. As stated in the Circular, the Scheme envisages that SU Investments (which directly or indirectly owns the other Excluded Companies) be transferred at a nominal value to the special purpose vehicle controlled by the Scheme Administrators who shall endeavour to realize all the assets of the Excluded Companies pursuant to the Scheme. Any surplus assets after settlement of the liabilities of the relevant Excluded Companies shall (after deduction of applicable costs and expenses) be distributed for the benefit of the Scheme Creditors.

(d) The Subscription and the placing of the Placing Shares and Convertible Bonds

Pursuant to the Restructuring Agreement, at Completion, the Investor shall subscribe for, and the Company shall issue, 432,000,000 Subscription Shares at HK$0.185 per Subscription Share subject to the fulfilment of all the Conditions Precedent. The Subscription Shares will rank pari passu in all respects with the New Shares in issue as at the date of allotment and issue of the Subscription Shares.

The Subscription Shares represent:

(i) approximately 521.19% of the issued share capital of the Company upon completion of the Capital Restructuring;

(ii) approximately 75.00% of the issued share capital of the Company upon completion of the Capital Restructuring as enlarged by the allotment and issue of the Subscription Shares, the Placing Shares and the Creditors Shares;

(iii) approximately 79.57% of the issued share capital of the Company upon completion of the Capital Restructuring as enlarged by the allotment and issue of the Conversion Shares upon full conversion of the Convertible Bonds; and

(iv) approximately 41.70% of the Enlarged Issued Share Capital.

In order to restore the Public Float after the issuance of Subscription Shares and Creditors Shares, 27,020,000 Placing Shares will be issued and placed to Placees at HK$0.185 per Placing Share through the Placing Agent upon Completion. The gross proceeds from this placing shall not be less than HK$4,998,700.

Further, pursuant to the Restructuring Agreement, upon Completion, the Convertible Bonds in the aggregate principal amount of HK$85,100,000 will be issued by the Company and placed through the Placing Agent to the subscribers of the Convertible Bonds. The Investor has committed to take up up to HK$63,825,000 in principal amount of the Convertible Bonds, whilst the remaining balance of Convertible Bonds will be taken up by the CB Placees (and/or the Placing Agent under the underwriting arrangement pursuant to the Placing Agreement).

Details of the principal terms of the Convertible Bonds are as follows:

Aggregate principal amount	HK$85,100,000
Interest	Five per cent per annum on the principal amount of the Convertible Bonds payable quarterly in arrears
Maturity	Two years from (and excluding) the date of Completion
Redemption	No early redemption at the option of the Company Early redemption at the face value of the Convertible Bonds together with any accrued interest at the option of the holders of the Convertible Bonds if: (1) there is a change of control (as defined under the Takeovers Code) of the Company after the date of Completion;

(2) the Company consolidates with or merges into or sells or transfers all or substantially all of its assets to any other person, unless the consolidation, merger, sale or transfer will not result in the other person or persons acquiring control over the Company or the successor entity; or

(3) the Shares cease to be listed or admitted to trading on the Stock Exchange or, if applicable, any alternative stock exchange

Listing	No listing of the Convertible Bonds will be sought on the Stock Exchange or any other stock exchange
Placing	(a) Asian Capital shall act as the placing agent for the placing of the Convertible Bonds (b) The Investor commits to take up Convertible Bonds of principal amount not more than HK$63,825,000 in aggregate
Conversion	(a) A holder of Convertible Bonds shall have the right to convert all or part of his holding of Convertible Bonds into ordinary shares in the capital of the Company at any time from the date of the successful resumption of trading in Shares and ending on the second anniversary of the date of Completion or such other date as may be required by the Stock Exchange

(b) A holder of Convertible Bonds shall not convert any Convertible Bonds if such conversion would result in less than 25% of the ordinary shares in the Company being held by persons who are deemed by the Stock Exchange to be public Shareholders for the purposes of the Public Float

Conversion price	The initial price at which the Conversion Shares will be issued is HK$0.185 per Conversion Share. Such initial conversion price will be subject to adjustment for consolidations or subdivisions or reclassification of shares, capitalisation of profits or reserves, capital distributions, rights issues and other events which may have a diluting effect on the holders of the Convertible Bonds
As to further participation	The Convertible Bonds shall not carry any right to participate in profits or assets of the Company beyond such rights as are set out above

Assuming full conversion of the Convertible Bonds in the aggregate principal amount of HK$85,100,000, the 460,000,000 Conversion Shares to be allotted and issued at HK$0.185 per Conversion Share represent:

(i) approximately 555.97% of the issued share capital of the Company upon completion of the Capital Restructuring;

(ii) approximately 79.86% of the issued share capital of the Company upon completion of the Capital Restructuring as enlarged by the allotment and issue of the Subscription Shares, the Placing Shares and Creditors Shares;

(iii) approximately 84.73% of the issued share capital of the Company upon completion of the Capital Restructuring as enlarged by the allotment and issue of the Conversion Shares; and

(iv) approximately 44.40% of the Enlarged Issued Share Capital.

It is also noted that the subscription prices of the Subscription Shares and the Placing Shares and the conversion price of the Conversion Shares are all HK$0.185 per New Share, which represents:

(i) a discount of approximately 72.0% to the adjusted closing price of HK$0.660 per New Share, based on the closing price of HK$0.099 per Share as quoted on the Stock Exchange on the Last Trading Day and adjusted for the effects of the Capital Restructuring;

(ii) a discount of approximately 77.6% to the adjusted average closing price of approximately HK$0.827 per New Share, based on the average closing price of approximately HK$0.124 per Share as quoted on the Stock Exchange for the five consecutive trading days up to and including the Last Trading Day and adjusted for the effects of the Capital Restructuring; and

(iii) a discount of approximately 80.3% to the adjusted average closing price of HK$0.940 per New Share, based on the average closing price of approximately HK$0.141 per Share as quoted on the Stock Exchange for the ten consecutive trading days up to and including the Last Trading Day and adjusted for the effects of the Capital Restructuring.

In relation to the substantial discount represented by the subscription prices of the Subscription Shares and the Placing Shares and the conversion price of the Conversion Shares to the adjusted closing prices of the New Shares, it should be noted that, as mentioned above and based on the latest available audited financial information of the Group set out in Appendix I to the Circular, the Group had net liabilities of approximately HK$230.2 million as at 31 December 2010. We consider that the adjusted closing price of the New Shares should not be the primary reference in the evaluation of the reasonableness of subscription prices of the Subscription Shares and the Placing Shares and the conversion price of the Conversion Shares, as trading in the Shares has been suspended since 15 October 2008 and there have been changes to the business operations and financial conditions of the Group since then.

Given the financial position of the Group and its existing significant net liabilities; and that the Subscription and the placing of the Placing Shares and Convertible Bonds, being a fair and reasonable way for the Company to raise capital so as to discharge its indebtedness and at the same time to enlarge the share capital and shareholder base of the Company, we consider that the Subscription and the placing of the Placing Shares and Convertible Bonds are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

5. Changes in the shareholding structure of the Company

The changes in the shareholding structure of the Company arising from the Capital Restructuring, the placing of the Placing Shares and the Convertible Bonds, the issue of the Creditors Shares and the Subscription (assuming no exercise of the Share Options and all Share Options lapse upon the Scheme taking effect) are set out in the following table for illustrative purposes only:

Shareholders	As at the Latest Practicable Date		Immediately following the completion of the Capital Restructuring		Immediately following the completion of the Capital Restructuring, the Scheme, the Subscription, and placing of Placing Shares and Convertible Bonds but before any of its conversion		Immediately following the Completion and full conversion of Convertible Bonds taken up by CB Placees and/or Placing Agent *(Note 4)*		Immediately following the Completion and full conversion of Convertible Bonds taken up by the Investor only *(Notes 5, 6)*		Immediately following the Completion and full conversion of the Convertible Bonds *(Note 5)*	
	No. of Existing Shares	*%*	*No. of New Shares*	*%*	*No. of New Shares*	*%*	*No. of New Shares*	*%*	*No. of New Shares*	*%*	*No. of New Shares*	*%*
Existing Shareholders												
Smart Place and its associates *(Note 1)*	181,604,000	32.86	27,240,600	32.86	27,240,600	4.73	27,240,600	2.63	27,240,600	2.96	27,240,600	2.63
Mr. Tang *(Note 2)*	118,000,000	21.35	17,700,000	21.35	17,700,000	3.07	17,700,000	1.71	17,700,000	1.92	17,700,000	1.71
Sky Metro Limited and its associate	92,096,000	16.67	13,814,400	16.67	13,814,400	2.40	13,814,000	1.33	13,814,000	1.50	13,814,000	1.33
Other existing public Shareholders	160,886,000	29.12	24,132,900	29.12	24,132,900	4.19	24,132,900	2.33	24,132,900	2.62	24,132,900	2.33
Sub-total	552,586,000	100.00	82,887,900	100.00	82,887,900	14.39	82,887,900	8.00	82,887,900	9.00	82,887,900	8.00
The Investor and its concert parties	–	–	–	–	432,000,000	75.00	432,000,000	41.70	777,000,000	84.36	777,000,000	75.00
Placees and/or Placing Agent	–	–	–	–	27,020,000	4.69	27,020,000	2.61	27,020,000	2.93	27,020,000	2.61
CB Placees and/or Placing Agent *(Note 3)*	–	–	–	–	–	–	460,000,000	44.40	–	–	115,000,000	11.10
Scheme Creditors	–	–	–	–	34,100,000	5.92	34,100,000	3.29	34,100,000	3.70	34,100,000	3.29
Total	552,586,000	100.00	82,887,900	100.00	576,007,900	100.00	1,036,007,900	100.00	921,007,900	100.00	1,036,007,900	100.00

Notes:

1. Based on the information available to the Provisional Liquidators as at the Latest Practicable Date, the Shares held by Smart Place are pledged to two Creditors, who have not yet exercised any of their purported security interest over the Existing Shares held by Smart Place. As such, Smart Place, being the registered Shareholder, has the voting rights attached to these Existing Shares.

2. This line represents the Escrow Shares currently registered under the name of Mr. Tang and held in safe custody by SU Mining for realization for the satisfaction of the debt owed by Mr. Tang as a result of his breach of the Undertakings under the Mining Agreement. Details are set out in the section headed "Conditions of the Capital Restructuring" in the Circular.

3. Pursuant to the Placing Agreement, neither of the Placing Agent nor the CB Placees will be alloted an amount of Convertible Bonds which, upon full conversion, would give rise to an obligation on the part of the Placing Agent, CB Placees or parties acting in concert with any of them to make a mandatory general offer for all the New Shares under the Takeovers Code.

4. In this scenario, the Convertible Bonds in principal amount of HK$85,100,000 will be taken up by the CB Placees (and/or the Placing Agent under the underwriting arrangement).

5. In this scenario, the Investor will subscribe for the Convertible Bonds in the principal amount of HK$63,825,000, the maximum amount the Investor can subscribe under the Restructuring Agreement, with the remaining Convertible Bonds in principal amount of HK$21,275,000 being taken up by the CB Placees (and/or the Placing Agent under the underwriting arrangement).

6. Given that it does not meet the Public Float requirement as stipulated in the Listing Rules, this scenario is for illustrative purposes only.

As noted from the above table, under the current structure of the Proposed Restructuring and the Whitewash Waiver, the shareholding of existing Shareholders would be reduced from 100% to no less than 8% of the Enlarged Issued Share Capital in all scenarios. As an additional reference, based on the 'Monthly Prolonged Suspension Status Report (Main Board)' as at 31 July 2011 from the website of the Stock Exchange which details the status of all the companies where trading were suspended for 3 months or more as at 31 July 2011, we have extracted below an exhaustive list of all the companies listed on the Main Board with status "resumption approved in principle" by the Stock Exchange as at 13 July 2011 (except for those companies where details of the respective resumption proposal are not yet available from the published announcements) involving subscription of shares and/or convertible securities by the respective investors (except for the one involving an open offer). Below is the summary of their equity funding method and respective dilution on existing shareholding:

Company (stock code)	Date of announcement	Equity funding method	Change of shareholding of existing shareholders
The Company (2700)	15 June 2011	Subscription of shares and placing of shares and convertible bonds	100% to no less than 8%
Asia TeleMedia Limited (376)	4 April 2011	Subscription of shares and convertible notes	100% to 10.01%
China Packaging Group Company Limited (572)	27 May 2011	Subscription of shares and convertible notes	100% to 8.01%
Ocean Grand Holdings Limited (1220)	11 October 2011	Subscription of shares and convertible preference shares	100% to 14.27%

As noted from the above, the shareholdings of existing shareholders for all comparable cases are diluted to a range from approximately 8% to 14% with an average of 11% and therefore, the shareholding of existing Shareholders diluted to approximately 8% in the Proposed Restructuring is within range of the above comparables. Given the above and after taking into consideration of various factors including but not limited to the net liabilities financial position of the Group, the current financial difficulties faced by the Group, the feasibility of other fund raising alternatives, and the Subscription and the placing of the Placing Shares and Convertible Bonds being part and parcel of the Proposed Restructuring, we concur with the Provisional Liquidators that the extent of dilution to the Shareholders, as a result of the Subscription and the placing of the Placing Shares and Convertible Bonds, is acceptable so far as the Independent Shareholders are concerned.

We also noted that the Company has considered other fund raising alternatives such as the inclusion of pre-emptive issuance in the Proposed Restructuring, details of which have been disclosed in the Company's announcement dated 18 March 2011. However, it is understood that after the review of the Resumption Proposal by the Stock Exchange, the Provisional Liquidators and Investor both considered that the proposed open offer is not beneficial to the Company and the Shareholders as a whole for various reasons including those set out below:

(i) Based on the Proposed Restructuring and the Whitewash Waiver, the existing Shareholders would hold in aggregate not less than 8% of the Enlarged Issued Share Capital. The absence of an open offer will mean that the existing Shareholders are not required to pay any subscription money to retain an aggregate of 8% shareholding in the Company. In addition, the lack of an open offer is considered not uncommon in similar restructuring cases on the Stock Exchange and can be seen in recent cases.

(ii) As set out in the Company's announcement dated 18 March 2011, in the event that an open offer is included, the dilution effect on the shareholding of the existing Shareholders would have resulted in their aggregate shareholding ranging from 3.89% to 17.35%, depending on the level of participation by the existing Shareholders. However, based on the information available to the Company as at the Latest Practicable Date, certain substantial Shareholders had either pledged Shares or their ownership of certain Shares may be challenged by the Provisional Liquidators on behalf of the Company. As such, it was considered likely that only a small percentage of the existing Shareholders would participate in any open offer. Therefore, it was considered likely that a significant quantity of shares under the open offer would eventually have had to be taken up by the underwriter of the open offer.

(iii) The Company and the Investor are of the view that with the volatile equities market, it may be difficult to find an underwriter who is willing to underwrite a sizeable open offer on terms acceptable to the Company. Even if a willing underwriter is available, the professional costs and expenses associated with the preparation of the relevant prospectus, which would be paid out of the Company's assets, would not be beneficial to the Shareholders as a whole especially if the open offer ends up with a substantial amount of Shares in the hands of the underwriters.

Having considered the above, in particular the feasibility of pre-emptive issuance (such as open offer) as fund raising alternative on terms acceptable to the Company, and after taking into account various factors including but not limited to the net liabilities financial position of the Group, the current financial difficulties faced by the Group, the receptiveness of the Creditors and the Subscription and the placing of the Placing Shares and Convertible Bonds being part and parcel of the Proposed Restructuring, we concur with the Provisional Liquidators that the Proposed Restructuring is in the interests of the Company and the Shareholders as a whole.

6. Financial effect of the Subscription and the placing of Placing Shares and Convertible Bonds

Net Assets

Based on the statement of pro forma unaudited adjusted consolidated net assets of the Group as set out in Appendix III to the Circular, upon Completion, the pro forma unaudited adjusted net assets of the Group will be approximately HK$83.6 million. According to the Company's unaudited consolidated statement of financial position as at 30 June 2011, the consolidated unaudited net liability value of the Company as at 30 June 2011 was approximately HK$302.3 million. The Proposed Restructuring enhances the Company's capital base and its net asset value.

Working Capital

Gross proceeds from the Subscription and the placing of Placing Shares and Convertible Bonds will be in the aggregate amount of HK$170,018,700. We noted from the "Letter from the Provisional Liquidators" contained in the Circular that approximately HK$48.0 million of the gross proceeds from the Subscription and the placing of Placing Shares and Convertible Bonds will be retained as general working capital use, which would fortify the working capital position of the Group.

Indebtedness

As set out in the Company's unaudited consolidated statement of financial position as at 30 June 2011, the unaudited total indebtedness of the Group was approximately HK$627.6 million as at 30 June 2011. Upon Completion, all of the indebtedness of the Company owe to the Creditors will be compromised and discharged. Accordingly, following Completion, total indebtedness of the Group will be reduced to HK$267.4 million based on the unaudited pro forma statement of assets and liabilities of the Restructured Group as set out in Appendix III of the Circular. Interest burden of the Group will be reduced, which will have a positive impact on the Group's operating results. Further, the decrease in the indebtedness will allow the Restructured Group to raise funds by way of bank or other borrowings in the future, if necessary.

Considering the above and in particular the improvement in financial position and working capital from a net liabilities position to a net assets position upon Completion, we consider that the Proposed Restructuring is in the interests of the Company and the Shareholders as a whole.

We would also like to draw Shareholders' attention to the profit forecast made by the Company as set out in Appendix V to the Circular which stated that upon Completion, the Company forecasts that the consolidated profit attributable to equity holders of the Company (including all resumption related income or expenses) for the year ending 31 December 2011 will be not less than HK$304 million. However, such profit forecast represents an estimate made by the Company on the bases and assumptions as set out in Appendix V to the Circular which might or might not materialize and as such, we have not taken into consideration the profit forecast in arriving at our opinion. Given that the profit forecast does not form part of the basis of our opinion, any changes made to the profit forecast will not have any impact on our opinion.

7. Investor's intention regarding the Group

As stated in the letter from the Provisional Liquidators contained in the Circular, it is understood by the Provisional Liquidators that it is the intention of the Investor to continue with the existing business of the Group upon completion of the Group Reorganisation but that it will continuously identify suitable business opportunities to expand the revenue and income base of the Group. Other than the Proposed Restructuring, the Investor has no intention to dispose of or re-deploy the assets of the Group other than in the ordinary course of the business of the Group. The Investor believes that the Group Reorganisation, if accepted, will strengthen and improve the asset base of the Restructured Group. The Investor is of the view that its investment in the Group will provide long-term return.

8. Effect of the Whitewash

Waiver Upon Completion but before conversion of any Convertible Bonds, the Concert Group will, in aggregate, hold approximately 75% of the share capital of the Company as enlarged by the issue of the Subscription Shares, the Creditors Shares and the Placing Shares and this will give rise to (in the absence of the Whitewash Waiver) an obligation on the part of the Concert Group to make a mandatory general offer for all the New Shares (not already owned or agreed to be acquired by the Concert Group) under Rule 26.1 of the Takeovers Code.

Given that the Company shall issue the Convertible Bonds in the aggregate principal amount of HK$85,100,000 of which the Investor has committed to take up an amount up to HK$63,825,000, in the event that the Investor has subscribed for the Convertible Bonds in such maximum amount and subsequently (i) all the holders of the Convertible Bonds (including the Investor) fully convert their Convertible Bonds into Conversion Shares, the Concert Group will in aggregate continue to hold approximately 75% of the Enlarged Issued Share Capital; and (ii) only the Investor converts its Convertible Bonds into Conversion Shares, the Concert Group will in aggregate hold 84.36% of the share capital of the Company as enlarged by the issue of the Subscription Shares, the Creditors Shares, the Placing shares and the Conversion Shares converted from the Investor's Convertible Bonds (for illustrative purpose only as this does not meet the Public Float requirement as stipulated in the Listing Rules). Pursuant to the principal terms of the Convertible Bonds set out in the Restructuring Agreement, the Investor shall not convert any Convertible Bonds held by it, if such conversion would result in less than 25% of the issued share capital of the Company being held by persons who are public Shareholders for the purpose of the Public Float.

Upon Completion but before the conversion of any Convertible Bonds, the Investor will hold more than 50% of the then issued share capital of the Company in which case, the Investor may acquire further voting rights in the Company without incurring any further obligation under Rule 26 of the Takeovers Code to make a general offer. An application will be made by the Investor to the Executive for the Whitewash Waiver (which does not cover the conversion of any Convertible Bonds) which, if granted, will be subject to, among other things, the approval by the Independent Shareholders by way of a poll at the EGM.

As the Investor will be injecting substantial amount of cash resources into the Company to facilitate the Company's business development, we consider it is a reasonable consequence for the Investor to have obtained a controlling stake in the Company upon Completion. Given that the Whitewash Waiver is a condition precedent to the Proposed Restructuring which will not proceed if the Whitewash Waiver is rejected and taking into account the benefits of the Proposed Restructuring to the Company as explained above, we consider that the grant of the Whitewash Waiver is fair and reasonable so far as the Company and the Independent Shareholders are concerned.

RECOMMENDATION

Having considered the abovementioned principal factors and reasons, in particular:

- the Scheme and the Group Reorganisation will enable the Company to discharge its indebtedness, which we consider to be vital to the Restructured Group's survival;

- the proceeds of the Subscription and the placing of Placing Shares and Convertible Bonds will be applied towards discharge of the Company's liabilities and support the ongoing operation of the Restructured Group as general working capital;

- the Proposed Restructuring represents the most practicable means to resume the trading in the Shares currently available;

- the likelihood of winding up the Company if it fails to implement the Proposed Restructuring;

- Shareholders will be unlikely to receive any return in the event of a winding up of the Company; and

- the improvement in financial position and working capital from a net liabilities position to a net assets position upon Completion;

we consider that the Proposed Restructuring is in the interests of the Company and the Shareholders as a whole and the terms thereof are fair and reasonable so far as the Company and the Independent Shareholders are concerned. In terms of the Whitewash Waiver, it is a condition precedent to the Proposed Restructuring which will not proceed if the Whitewash Waiver is rejected, we consider that the grant of the Whitewash Waiver is fair and reasonable so far as the Company and the Independent Shareholders are concerned. We therefore recommend to the Independent Shareholders that the Independent Shareholders should vote in favour of the resolutions to be proposed at the EGM to approve the Proposed Restructuring and the Whitewash Waiver.

Yours faithfully,
For and on behalf of
CIMB Securities (HK) Limited

Alex Lau	**Helen Lo**
Head	*Vice President*
Corporate Finance	*Corporate Finance*

1. SUMMARY OF FINANCIAL INFORMATION

The following is a summary of the consolidated financial information of the Group for the three years ended 31 December 2010 and for the six months ended 30 June 2011, details of which were extracted from the annual reports of the Company for each of the years ended 31 December 2010, 2009 and 2008 and from the interim results announcement of the Company for the six months ended 30 June 2011.

The consolidated financial statements for the years ended 31 December 2010, 2009 and 2008 were audited by PricewaterhouseCoopers. Disclaimers of opinion were issued by the auditors of the Company in relation to each of the financial years.

For each of the three years ended 31 December 2010, there was no exceptional or extraordinary item and no dividend was declared or paid.

Results of the Group

	For the year ended 31 December			**For the six months ended 30 June**
	2010	**2009**	**2008 (Restated)**	**2011**
	HK$'000 (Audited)	*HK$'000* (Audited)	*HK$'000* (Audited)	*HK$'000* (Unaudited)
Revenue	362,026	98,140	37,550	285,694
Operation profit/(loss)	30,903	(14,717)	(847,977)	26,596
Finance costs, net	(3,597)	(2,048)	(173)	(10,975)
Profit/(loss) before income tax	27,306	(16,765)	(848,150)	15,621
Income tax expenses	(5,373)	(600)	(6)	(6,900)
Profit/(loss) for the year	21,933	(17,365)	(848,156)	8,721
Attributable to:				
Equity holders of the Company	21,933	(17,365)	(846,786)	8,721
Minority interest	–	–	(1,370)	–
	21,933	(17,365)	(848,156)	8,721
Other comprehensive income	–	–	1,335	–
Total comprehensive income/(loss) for the year	21,933	(17,365)	(846,821)	8,721
Attributable to:				
Equity holders of the Company	21,933	(17,365)	(845,451)	8,721
Minority interest	–	–	(1,370)	–
	21,933	(17,365)	(846,821)	8,721
Basic and diluted earnings/(loss) per share for profit/(loss) attributable to the equity holders of the Company during the year (HK$)	0.04	(0.03)	(1.74)	0.02

Financial position of the Group

	As at 31 December			As at 30 June
	2010	**2009**	**2008**	**2011**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(Audited)	(Audited)	(Audited)	(Unaudited)
Assets and liabilities				
Non-current assets	3,165	10	158	2,861
Current assets	246,636	50,973	10,592	322,441
Total assets	249,801	50,983	10,750	325,302
Current liabilities	560,811	378,942	326,344	627,591
Non-current liabilities	16	5,000	–	16
Total liabilities	560,827	383,942	326,344	627,607
Equity attributable to equity holders of the Company	(311,026)	(332,959)	(315,594)	(302,305)

2. AUDITOR'S REPORT FOR THE YEAR ENDED 31 DECEMBER 2008

Set out below is the auditor's report extracted from the annual report of the Company for the year ended 31 December 2008 in which the auditor expressed a disclaimer of opinion. In this section, reference to the page numbers are those as appeared in the annual report of the Company for the year ended 31 December 2008.

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

PricewaterhouseCoopers
22nd Floor, Prince's Building
Central
Hong Kong

TO THE SHAREHOLDERS OF SMART UNION GROUP (HOLDINGS) LIMITED
(Provisional Liquidators Appointed)
(incorporated in the Cayman Islands with limited liability)

We were engaged to audit the consolidated financial statements of Smart Union Group (Holdings) Limited (Provisional Liquidators Appointed) (the "**Company**") and its subsidiaries (together, the "**Group**") set out on pages 21 to 86, which comprise the consolidated and company balance sheets as at 31st December 2008, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Except for the limitation in the scope of our work as explained below, we conducted our audit in accordance with Hong Kong Standards on Auditing issued by the HKICPA. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement. However, because of the matters described in the basis for disclaimer of opinion paragraphs, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

BASIS FOR DISCLAIMER OF OPINION

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 (Provisional Liquidators Appointed) ("**SU Industrial**"), a subsidiary of the Company, for the year ended 31st December 2008. 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 for the year ended 31st December 2008.

The resulting deconsolidation loss and impairment on the investment in SU Industrial and Perfect Design of approximately HK$63,393,000 and HK$3,600,000 respectively have been recognised in the consolidated income statement.

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" ("**HKAS 27**").

Due to the lack of complete books and records of SU Industrial, 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 and the loss on the deconsolidation. Any adjustment that would be required may have a consequential significant effect on net liabilities of the Group as at 31st December 2008 and the loss attributable to the equity holders for the year then ended.

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 deemed disposed of by the Group due to the loss of control on 14th October 2008 and a corresponding disposal gain, based on the net asset value of SU Qingyuan as at 1st January 2008, of approximately HK$506,000 has been recognised in the consolidated income statement. The directors are of the view that the investment in this former subsidiary of approximately HK$30,000,000 cannot be recovered and, accordingly, an impairment loss of the same amount has been recognised in the consolidated income statement.

However, the results of SU Qingyuan from 1st January 2008 to 14th October 2008, the date of deemed disposal, have not been consolidated into the Group's consolidated income statement which is not in compliance with the requirements of HKAS 27.

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 (i) the net asset value of SU Qingyuan at the deemed disposal date and, hence, the gain on deemed disposal arising therefrom; and (ii) the carrying value of the investment in SU Qingyuan at 31st December 2008. Any adjustment that would be required may have a consequential significant effect on the net liabilities of the Group as at 31st December 2008 and loss attributable to the equity holders for the year then ended.

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$43,307,000 as at 31st December 2008. The directors are of the view that the carrying values of these amounts are not recoverable and, accordingly, impairment losses of the same amount have been recognised in the consolidated and the Company's income statement. In addition, there was a total amount due to SU Industrial and Perfect Design of approximately HK$112,362,000 as at 31st December 2008.

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 and the impairment losses as mentioned in the aforesaid paragraph are free from material misstatements. Any adjustment to the figure may have a consequential significant effect on the net liabilities of the Group as at 31st December 2008 and loss attributable to the equity holders for the year then ended.

Lack of complete books and records of a subsidiary

As further explained in Note 10 to the consolidated financial statements, 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 for the year ended 31st December 2008 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. Any adjustment to the above mentioned financial information may have a significant effect on the net liabilities of the Group as at 31st December 2008 and loss attributable to the equity holders for the year then ended.

Investment in an associated company

As further explained in Note 11 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 as at 31st December 2008 has been fully impaired and, accordingly, an impairment loss has been made and charged to the consolidated income statement. However, due to the lack of sufficient financial information on the associated company, we have not been able to obtain sufficient appropriate audit evidence or to carry out alternative audit procedures that we considered necessary to assess the valuation of the investment in the associated company and the impairment loss charged for the year. Any adjustment to the investment in associated company would have a consequential effect on the net liabilities of the Group as at 31st December 2008 and the loss attributable to equity holders for the year then ended.

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".

Convertible bonds from an associated company

As explained in Note 16 to the consolidated financial statements, the Group held convertible bonds issued by China Mining Corporation Limited of HK$40,000,000 as at 31st December 2008. The directors consider the carrying value of these convertible bonds has been totally impaired and, accordingly, an impairment loss of HK$40,000,000 has been recognised in the consolidated income statement. Due to the lack of financial information on 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 31st December 2008 and for loss attributable to equity holders for the year then ended.

Going concern basis of accounting

As further explained in Note 2 to the consolidated financial statements, the operations of certain subsidiaries of the Group, which represent a substantial portion of the Group's business, have ceased. The provisional liquidators of the Company are currently undertaking a number of measures to reactivate the businesses of the Group via the establishment of a new subsidiary as part of the restructuring and reorganisation for the benefit of the creditors and shareholders of the Company.

A proposal for the resumption of trading in the Company's shares and the restructuring of the Group (the "**Resumption Proposal**") was submitted to The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") on 1st September 2009. The Resumption Proposal involves, *inter alia*, capital restructuring, debt restructuring, share subscription and group reorganisation. The Resumption Proposal, if successfully implemented, will, among other things, result in a full discharge of the Company's indebtedness.

The Resumption Proposal is, however, conditional upon, amongst other things, the scheme of arrangement for the restructuring of the Company's indebtedness being accepted by the requisite majority of each class of the Company's creditors and approved by the High Court of Hong Kong, the relevant approvals being obtained from the shareholders of the Company and other Hong Kong regulatory authorities including the Stock Exchange and the Securities and Futures Commission and the resumption of trading of the Company's shares on the Stock Exchange.

The directors prepared the consolidated financial statements on a going concern basis, the validity of which depends on the satisfactory resolution of the matters referred to above and that, following the restructuring, the Group will continue to meet in full its obligations as they fall due in the foreseeable future. The consolidated financial statements do not include any adjustments that would result from a failure to attain the favourable results in respect of the above matters. If the outcome in respect of any of the above matters turns out to be unfavourable, the going concern basis might not be appropriate and, in such event, adjustments would have to be made to the financial statements to reduce the carrying value of the Group's assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets as current assets.

Other secured borrowings and provision for financial guarantees to a subsidiary

As further explained in Notes 21 and 25 to the consolidated financial statements, as at 31st December 2008, the Group had other secured borrowings and provision for financial guarantees to an unconsolidated subsidiary, including related accrued interest, of approximately HK$36,513,000 and HK$154,537,000 respectively. 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 and the related disclosures have been properly recorded and reflected in the consolidated financial statements as at 31st December 2008.

Contingent liabilities

As disclosed in Note 40 to the consolidated financial statements, no provision was made for the contingent liabilities in respect of a disposal of a property by a former subsidiary and the assumption of certain debts of another subsidiary by the Group, in the amounts of approximately HK$17,000,000 and HK$30,753,000 respectively. The directors, based on legal advice obtained, are of the view that such transactions are not enforceable or invalid and, accordingly, no provision in respect of these transactions was made for the year ended 31st December 2008.

Should the resolution of the above transactions turn out to be unfavourable to the Group, the Group may need to record additional losses in respect of these transactions.

Events after the balance sheet date

We have not been able to obtain the latest management financial information of the Group as the underlying books and records of certain companies in the Group have not been updated subsequent to the balance sheet date up to the date of this report. Hence, we are not able to complete our review of subsequent events from the balance sheet date up to the date of this report. Such procedures might have resulted in the identification of adjustments to and/or disclosures in the consolidated financial statements.

DISCLAIMER OF OPINION

Because of the significance of the matters described in the basis for disclaimer of opinion paragraphs, we do not express an opinion on the consolidated financial statements as to whether they give a true and fair view of the state of affairs of the Company and of the Group as at 31st December 2008 and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and as to whether they have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 22nd October 2009

3. AUDITOR'S REPORT FOR THE YEAR ENDED 31 DECEMBER 2009

Set out below is the auditor's report extracted from the annual report of the Company for the year ended 31 December 2009 in which the auditor expressed a disclaimer of opinion. In this section, reference to the page numbers are those as appeared in the annual report of the Company for the year ended 31 December 2009.

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

PricewaterhouseCoopers
22nd Floor, Prince's Building
Central
Hong Kong

TO THE SHAREHOLDERS OF SMART UNION GROUP (HOLDINGS) LIMITED
(Provisional Liquidators Appointed)
(incorporated in the Cayman Islands with limited liability)

We were engaged to audit the consolidated financial statements of Smart Union Group (Holdings) Limited (Provisional Liquidators Appointed) (the "**Company**") and its subsidiaries (together, the "**Group**") set out on pages 19 to 79, which comprise the consolidated and company balance sheets as at 31st December 2009, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Except for the limitation in the scope of our work as explained below, we conducted our audit in accordance with Hong Kong Standards on Auditing issued by the HKICPA. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement. However, because of the matters described in the basis for disclaimer of opinion paragraphs, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

BASIS FOR DISCLAIMER OF OPINION

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 (Provisional Liquidators Appointed) ("**SU Industrial**"), a subsidiary of the Company, for the year ended 31st December 2009. 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 for the year ended 31st December 2009.

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" ("**HKAS 27**").

Due to the lack of complete books and records of SU Industrial, 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. Any adjustment that would be required may have a consequential significant effect on net liabilities of the Group as at 31st December 2009 and the loss attributable to the equity holders for the year then ended.

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 deemed disposed of by the Group due to the loss of control on 14th 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 have made a full provision of impairment loss for this former subsidiary.

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 at 31st December 2009. Any adjustment that would be required may have a consequential significant effect on the net liabilities of the Group as at 31st December 2009 and the loss attributable to the equity holders for the year then ended.

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$43,307,000 as at 31st December 2009. The directors are of the view that the carrying values of these amounts are not recoverable and full provisions have been made for all the above receivable balances. In addition, there was a total amount due to SU Industrial and Perfect Design, of approximately HK$112,362,000 as at 31st December 2009.

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 the figure may have a consequential significant effect on the net liabilities of the Group as at 31st December 2009 and the loss attributable to the equity holders for the year then ended.

Lack of complete books and records of a subsidiary

As further explained in Note 10 to the consolidated financial statements, 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 (In Liquidation), or to represent that all transactions entered into by this subsidiary for the year ended 31st December 2009 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. Any adjustment to the above mentioned financial information may have a significant effect on the net liabilities of the Group as at 31st December 2009 and the loss attributable to the equity holders for the year then ended.

Investment in an associated company

As further explained in Note 11 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 has been fully impaired and, accordingly, an impairment loss has been made as at 31st December 2009. However, due to the lack of sufficient financial information on the associated company, we have not been able to obtain sufficient appropriate audit evidence or to carry out 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 31st December 2009 and the loss attributable to the equity holders for the year then ended.

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".

Convertible bonds from an associated company

As explained in Note 16 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 has been totally impaired and, accordingly, an impairment loss has been made as at 31st December 2009. Due to the lack of financial information on 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 31st December 2009 and the loss attributable to the equity holders for the year then ended.

Going concern basis of accounting

As further explained in Note 2 to the consolidated financial statements, the operations of certain subsidiaries of the Group, which represent a substantial portion of the Group's business, have ceased. The provisional liquidators of the Company are currently undertaking a number of measures to reactivate the businesses of the Group via the establishment of a new subsidiary as part of the restructuring and reorganisation for the benefit of the creditors and shareholders of the Company.

A proposal for the resumption of trading in the Company's shares and the restructuring of the Group (the "**Resumption Proposal**") was submitted to The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") on 1st September 2009. The Resumption Proposal involves, inter alia, capital restructuring, debt restructuring, share subscription and group reorganisation. The Resumption Proposal, if successfully implemented, will, among other things, result in a full discharge of the Company's indebtedness.

The Resumption Proposal is, however, conditional upon, amongst other things, the scheme of arrangement for the restructuring of the Company's indebtedness being accepted by the requisite majority of each class of the Company's creditors and approved by the High Court of Hong Kong, the relevant approvals being obtained from the shareholders of the Company and other Hong Kong regulatory authorities including the Stock Exchange and the Securities and Futures Commission and the resumption of trading of the Company's shares on the Stock Exchange.

The directors prepared the consolidated financial statements on a going concern basis, the validity of which depends on the satisfactory resolution of the matters referred to above and that, following the restructuring, the Group will continue to meet in full its obligations as they fall due in the foreseeable future. The consolidated financial statements do not include any adjustments that would result from a failure to attain the favourable results in respect of the above matters. If the outcome in respect of any of the above matters turns out to be unfavourable, the going concern basis might not be appropriate and, in such event, adjustments would have to be made to the financial statements to reduce the carrying value of the Group's assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets as current assets.

Other secured borrowings and provision for financial guarantees to a subsidiary

As further explained in Notes 20 and 24 to the consolidated financial statements, as at 31st December 2009, the Group had other secured borrowings and provision for financial guarantees to an unconsolidated subsidiary, including related accrued interest, of approximately HK$38,537,000 and HK$168,454,000 respectively. 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 and the related disclosures have been properly recorded and reflected in the consolidated financial statements as at 31st December 2009.

Contingent liabilities

As disclosed in Note 38 to the consolidated financial statements, no provision was made for the contingent liabilities in respect of the disposal of a property by a former subsidiary and the assumption of certain debts of another subsidiary by the Group, in the amounts of approximately HK$17,000,000 and HK$30,753,000 respectively. The directors, based on legal advice obtained, are of the view that such transactions are not enforceable or invalid and, accordingly, no provision in respect of these transactions has been made in respect of such contingent liabilities.

Should the resolution of the above transactions turn out to be unfavourable to the Group, the Group may need to record additional losses in respect of these transactions.

DISCLAIMER OF OPINION

Because of the significance of the matters described in the basis for disclaimer of opinion paragraphs, we do not express an opinion on the consolidated financial statements as to whether they give a true and fair view of the state of affairs of the Company and of the Group as at 31st December 2009 and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and as to whether they have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 23rd April 2010

4. AUDITOR'S REPORT FOR THE YEAR ENDED 31 DECEMBER 2010

Set out below is the auditor's report extracted from the annual report of the Company for the year ended 31 December 2010 in which the auditor expressed a disclaimer of opinion. In this section, reference to the page numbers are those as appeared in the annual report of the Company for the year ended 31 December 2010.

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

PricewaterhouseCoopers
22nd Floor, Prince's Building
Central
Hong Kong

TO THE SHAREHOLDERS OF SMART UNION GROUP (HOLDINGS) LIMITED
(Provisional Liquidators Appointed)
(incorporated in the Cayman Islands with limited liability)

We were engaged to audit the consolidated financial statements of Smart Union Group (Holdings) Limited (Provisional Liquidators Appointed) (the "**Company**") and its subsidiaries (together, the "**Group**") set out on pages 19 to 75, which comprise the consolidated and company balance sheets as at 31 December 2010, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Except for the inability to obtain sufficient appropriate audit evidence as explained below, we conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement. Because of the matters described in the basis for disclaimer of opinion paragraphs, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

BASIS FOR DISCLAIMER OF OPINION

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 (Provisional Liquidators Appointed) ("**SU Industrial**"), a subsidiary of the Company, for the year ended 31 December 2010. 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 for the year ended 31 December 2010.

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" ("**HKAS 27**").

Due to the lack of complete books and records of SU Industrial, 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. Any adjustment that would be required may have a consequential significant effect on net liabilities of the Group as at 31 December 2010 and the profit attributable to the equity holders for the year then ended.

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 deemed disposed of 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 have made a full provision of impairment loss for this former subsidiary.

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 at 31 December 2010. 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 for the year then ended.

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 are not recoverable and full provisions have been made for all the above receivable balances. 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.

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 the figure 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 for the year then ended.

Lack of complete books and records of a subsidiary

As further explained in Note 9 to the consolidated financial statements, 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 (In Liquidation), or to represent that all transactions entered into by this subsidiary for the year ended 31 December 2010 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. 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 for the year then ended.

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. However, due to the lack of sufficient financial information on the associated company, we have not been able to obtain sufficient appropriate audit evidence or to carry out 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 for the year then ended.

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”.

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 has been fully impaired and, accordingly, an impairment loss has been made as at 31 December 2010. Due to the lack of financial information on 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 for the year then ended.

Going concern basis of accounting

As further explained in Note 2 to the consolidated financial statements, the operations of certain subsidiaries of the Group, which represent a substantial portion of the Group's business, have ceased. The provisional liquidators of the Company are currently undertaking a number of measures to reactivate the businesses of the Group via the establishment of new subsidiaries as part of the restructuring and reorganisation for the benefit of the creditors and equity holders of the Company.

A proposal and a supplemental proposal for the resumption of trading in the Company's shares and the restructuring of the Group (collectively, the "**Resumption Proposals**") were submitted to The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") on 1 September 2009 and 14 October 2010 respectively. The Resumption Proposals involve, inter alia, capital restructuring, debt restructuring, share subscription and group reorganisation. The Resumption Proposals, if successfully implemented, will, among other things, result in a full discharge of the Company's indebtedness.

The Resumption Proposals are, however, conditional upon, amongst other things, the scheme of arrangement for the restructuring of the Company's indebtedness being accepted by the requisite majority of each class of the Company's creditors and approved by the High Court of Hong Kong, the relevant approvals being obtained from the equity holders of the Company and other Hong Kong regulatory authorities including the Stock Exchange and the Securities and Futures Commission and the resumption of trading of the Company's shares on the Stock Exchange.

The provisional liquidators and the directors prepared the consolidated financial statements on a going concern basis, the validity of which depends on the satisfactory resolution of the matters referred to above and that, following the restructuring, the Group will continue to meet in full its obligations as they fall due in the foreseeable future. The consolidated financial statements do not include any adjustments that would result from a failure to attain the favourable results in respect of the above matters. If the outcome in respect of any of the above matters turns out to be unfavourable, the going concern basis might not be appropriate and, in such event, adjustments would have to be made to the financial statements to reduce the carrying value of the Group's assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets as current assets.

Other secured borrowings and provision for financial guarantees to a subsidiary

As further explained in Notes 19 and 22 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. 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 and the related disclosures have been properly recorded and reflected in the consolidated financial statements as at 31 December 2010.

Contingent liabilities

As disclosed in Note 35 to the consolidated financial statements, no provision was made for contingent liabilities in respect of the disposal of a property by a former subsidiary and the assumption of certain debts of another subsidiary by the Group, in the amounts of approximately HK$17,000,000 and HK$30,753,000 respectively. The directors, based on legal advice obtained, are of the view that such transactions are not enforceable or invalid and, accordingly, no provision in respect of these transactions has been made in respect of such contingent liabilities.

Should the resolution of the above transactions turn out to be unfavourable to the Group, the Group may need to record additional losses in respect of these transactions.

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 appropriate audit evidence to provide a basis for an audit 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.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 31 March 2011

5. AUDITED FINANCIAL INFORMATION FOR THE YEAR ENDED 31 DECEMBER 2010

CONSOLIDATED BALANCE SHEET

As at 31 December 2010

	Note	2010 HK$'000	2009 HK$'000
ASSETS			
Non-current assets			
Property, plant and equipment	7	3,165	10
Intangible assets	8	–	–
Investments in unconsolidated subsidiaries	9	–	–
Investment in a former subsidiary	9	–	–
Investment in an associated company	10	–	–
		3,165	10
Current assets			
Inventories	11	2,675	–
Trade receivables	13	221,945	47,015
Amounts due from unconsolidated subsidiaries	34	–	–
Amount due from a former subsidiary	34	–	–
Prepayments, deposits and other receivables	14	5,327	1,443
Convertible bonds	15	–	–
Tax recoverable		127	127
Cash and cash equivalents	16	16,562	2,388
		246,636	50,973
Total assets		249,801	50,983

	Note	2010 HK$'000	2009 HK$'000
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	*17*	55,259	55,259
Share premium	*18*	368,381	368,381
Other reserves	*18*	30,474	30,553
Accumulated losses	*18*	(765,140)	(787,152)
Total equity		(311,026)	(332,959)
LIABILITIES			
Non-current liabilities			
Borrowings	*19*	–	5,000
Deferred income tax liabilities	*20*	16	–
		16	5,000
Current liabilities			
Trade payables	*21*	120,782	40,778
Other payables and accruals	*22*	228,758	187,250
Amounts due to unconsolidated subsidiaries	*34*	112,362	112,362
Borrowings	*19*	92,936	37,936
Tax payable		5,973	600
Deferred income tax liabilities	*20*	–	16
		560,811	378,942
Total liabilities		560,827	383,942
Total equity and liabilities		249,801	50,983
Net current liabilities		(314,175)	(327,969)
Total assets less current liabilities		(311,010)	(327,959)

BALANCE SHEET
As at 31 December 2010

	Note	2010 HK$'000	2009 HK$'000
ASSETS			
Non-current assets			
Investments in subsidiaries	9	–	–
Current assets			
Prepayments and other receivables	14	4,643	1,178
Amounts due from subsidiaries	34(c)	–	–
Cash and cash equivalents	16	970	101
		5,613	1,279
Total assets		5,613	1,279
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	17	55,259	55,259
Share premium	18	368,381	368,381
Other reserves	18	80,289	80,368
Accumulated losses	18	(734,123)	(719,326)
Total equity		(230,194)	(215,318)
LIABILITIES			
Current liabilities			
Other payables and accruals	22	199,294	180,084
Borrowings	19	36,513	36,513
Total liabilities		235,807	216,597
Total equity and liabilities		5,613	1,279
Net current liabilities		(230,194)	(215,318)
Total assets less current liabilities		(230,194)	(215,318)

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2010

	Note	2010 HK$'000	2009 HK$'000
Revenue	23	362,026	98,140
Cost of sales	25	(324,333)	(93,384)
Gross profit		37,693	4,756
Other income	24	5,913	11,251
Other gains/(losses)	24	324	(1,575)
Selling expenses	25	(1,430)	–
Administrative expenses	25	(10,658)	(15,436)
Provision for financial guarantees to an unconsolidated subsidiary	22	(17,373)	(13,917)
Write back of provision for legal claims	22	5,368	204
Write back of provision for amount due from a former subsidiary	34(b)	11,066	–
Operating profit/(loss)		30,903	(14,717)
Finance costs, net	26	(3,597)	(2,048)
Profit/(loss) before income tax		27,306	(16,765)
Income tax expense	27	(5,373)	(600)
Profit/(loss) for the year attributable to equity holders of the Company		21,933	(17,365)
Earnings/(loss) per share for profit/(loss) attributable to the equity holders of the Company during the year			
– Basic and diluted (HK$)	30	0.040	(0.031)

Dividends payable to equity holders of the Company are set out in Note 31.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2010

	2010	**2009**
	HK$'000	*HK$'000*
Profit/(loss) for the year	21,933	(17,365)
Other comprehensive income	–	–
Total comprehensive income/(loss) for the year attributable to equity holders of the Company	21,933	(17,365)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2010

	Attributable to the equity holders of the Company				
	Share capital	**Share premium**	**Other reserves**	**Accumulated losses**	**Total equity**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Balance at 1 January 2009	55,259	368,381	30,553	(769,787)	(315,594)
Total comprehensive loss for the year					
Loss for the year	–	–	–	(17,365)	(17,365)
Balance at 31 December 2009	55,259	368,381	30,553	(787,152)	(332,959)
Balance at 1 January 2010	55,259	368,381	30,553	(787,152)	(332,959)
Total comprehensive income for the year					
Profit for the year	–	–	–	21,933	21,933
Transactions with owners					
Transfer to accumulated losses upon lapse of share options *(Note 17(b)(ii))*	–	–	(79)	79	–
Balance at 31 December 2010	55,259	368,381	30,474	(765,140)	(311,026)

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2010

	Note	2010 HK$'000	2009 HK$'000
Cash flows from operating activities			
Cash used in operations	32	(32,365)	(7,916)
Interest paid		–	(24)
Profits tax refunded		–	579
Net cash used in operating activities		(32,365)	(7,361)
Cash flows from investing activities			
Purchase of property, plant and equipment		(3,462)	(10)
Interest received		1	2
Net cash used in investing activities		(3,461)	(8)
Cash flows from financing activities			
Proceeds from new borrowings		50,000	5,000
Net cash generated from financing activities		50,000	5,000
Net increase/(decrease) in cash and cash equivalents		14,174	(2,369)
Cash and cash equivalents at 1 January		1,987	4,356
Cash and cash equivalents at 31 December	16	16,161	1,987

NOTES TO THE FINANCIAL STATEMENTS

1 GENERAL INFORMATION

Smart Union Group (Holdings) Limited (Provisional Liquidators Appointed) (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 have been suspended for trading on the Stock Exchange since 15 October 2008. On 1 December 2008, the Stock Exchange informed the Company that in view of the prolonged suspension of trading in the shares of the Company, the delisting procedures set out in Practice Note 17 to the Rules Governing the Listing of Securities on the Stock Exchange have been applied to the Company and the first stage of delisting procedures commenced on 15 October 2008.

The Company and its subsidiaries (together the "**Group**") were principally engaged in manufacturing and trading of recreational and educational toys and equipment. The then operations of the Group have substantially ceased after the major assets and production facilities of certain subsidiaries have been 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 (In Liquidation) ("**Dream Link**"), a subsidiary, continued its trading business until 28 February 2009. The Group has reactivated its trading and manufacturing of toys business through Sino Front Limited ("**Sino Front**"), a newly incorporated wholly-owned subsidiary of the Company, and its subsidiaries. Details of the subsidiaries of the Group are set out in Note 9 to the consolidated financial statements.

On 6 July 2010, the Group completed an acquisition of five production lines ("**Five Production Lines**") at a consideration of HK$3,450,000. The Five Production Lines are located in Dongguan, the PRC and are equipped with ancillary facilities and machineries including plastic injection moulding machineries and assembly lines.

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 joint and several provisional liquidators (the "**Provisional Liquidators**") and the directors (the "**Directors**") of the Company on 31 March 2011.

2 WINDING-UP PETITIONS, APPOINTMENT OF PROVISIONAL LIQUIDATORS AND GROUP RESTRUCTURING

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 apply to 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 Provisional Liquidators and the joint and several provisional liquidators of six subsidiaries of the Company 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 put under liquidation under the provisions of the Companies Ordinance. Subsequently, Messrs. John Robert Lees and Mat Ng were appointed as the joint and several provisional liquidators and joint and several liquidators of Dream Link on 13 January 2010 and 19 August 2010 respectively. On 9 March 2011, the Court granted the release of Messrs John Robert Lees and Mat Ng as joint and several liquidators of Dream Link.

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 (the "**Proposed Restructuring**"). On 1 September 2009, the Company submitted a resumption proposal (the "**Resumption Proposal**") to the Stock Exchange which embraces the Proposed Restructuring and contemplates for the resumption of trading in the shares of the Company.

On 3 May 2010, the Stock Exchange informed the Company that the Resumption Proposal did not satisfactorily demonstrate sufficiency of operations or assets under Rule 13.24 of the Listing Rules and the Stock Exchange decided to place the Company in the second stage of delisting procedures with effect from 3 May 2010. The Company is required to submit a viable resumption proposal before 2 November 2010, the expiry of the six-month period from the date the Company was placed in the second stage of delisting procedures. At the end of the period, the Stock Exchange will determine whether it is appropriate to proceed to place the Company in the third stage of delisting procedures after considering any proposal made by the Company.

On 27 May 2010, the Investor, Mr. Yang, Mr. Ting, the Company and the Provisional Liquidators entered into a supplemental agreement to extend the exclusivity period under the Exclusivity Agreement dated 12 May 2009 to 31 December 2010. On the same day, the Investor and Sino Front entered into a supplemental working capital facility agreement (the "**Supplemental Working Capital Facility Agreement**"), pursuant to which the Investor agreed to increase the working capital facility from HK$5,000,000 to HK$55,000,000 on the terms and subject to the conditions as set out in the working capital facility agreement dated 17 June 2009 entered into between the Investor and Sino Front as supplemented by the Supplemental Working Capital Facility Agreement. The Group will use the working capital facility to meet the costs required for business expansion and reactivation of its toys manufacturing business as part of the Resumption Proposal.

On 14 October 2010, the Company submitted a supplemental Resumption Proposal to the Stock Exchange with a view to addressing the issues set out in the Stock Exchange's letter dated 3 May 2010. The Stock Exchange is in the process of reviewing and considering the Resumption Proposal.

On 31 December 2010, the Company, the Provisional Liquidators, the Investor, Mr. Yang and Mr. Ting entered into a restructuring agreement, which provided for, inter alia, a capital restructuring, an open offer, a subscription of ordinary shares by the Investor, a scheme of arrangement in Hong Kong, a group reorganisation and a whitewash wavier.

The hearing of the winding up petitions against the Company and the relevant subsidiaries, after several adjournments to allow time for the implementation of the Proposed Restructuring of the Group, is scheduled on 23 May 2011.

The Directors and the Provisional Liquidators have prepared the consolidated financial statements on the assumption that the restructuring of the Company will be implemented in accordance with its terms and the Group will be able to improve its financial position and business upon completion of the Proposed Restructuring. As at the date of approval of the consolidated financial statements, the Directors and the Provisional Liquidators are not aware of any circumstances or reasons that would likely affect the implementation of the Proposed Restructuring. In light of the foregoing, the Directors and the Provisional Liquidators considered that it is appropriate to prepare the consolidated financial statements on a going concern basis. The consolidated financial statements do not incorporate any adjustments for possible failure of the Proposed Restructuring and the continuance of the Group as a going concern. Should the Group be unable to continue as a going concern, adjustments would have to be made to restate the value of assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets as current assets. The effects of these adjustments have not been 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 below. 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 ("**HKICPA**") except for the non-consolidation of certain subsidiaries of the Group as explained in Note 3.2 and an associated company, which has not been properly equity accounted for as explained in Note 10. 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 judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 5.

As at 31 December 2010, the Group had net current liabilities of approximately HK$314,175,000 and net liabilities of approximately HK$311,026,000. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern. The consolidated financial statements have been prepared on a going concern basis, the reasons of which are discussed in Note 2 above.

3.2 Subsidiaries not consolidated

The consolidated financial statements have been 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 (Provisional Liquidators Appointed) ("**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, have not been included into the consolidated financial statements of the Group since 1 January 2008. The resulting deconsolidation 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 have been recognised in the consolidated income statement during the year ended 31 December 2008. Moreover, as at 31 December 2010 and 2009, 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 have been recognised in the consolidated financial statements. In addition, there was a total amount due to SU Industrial and Perfect Design and Product Development Limited of approximately HK$112,362,000 as at 31 December 2010 and 2009. Details of these unconsolidated subsidiaries are set out in Note 9 to the consolidated financial statements.

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 has 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 (2009: HK$30,000,000) and HK$32,241,000 (2009: HK$43,307,000) respectively are considered not recoverable and, accordingly, full impairment losses have been recognised in the consolidated financial statements. Details of this former subsidiary are set out in Note 9 to the consolidated financial statements.

Due to the significance of the operation of SU Industrial and SU Qingyuan, any changes to the status or possible outcome of the freezing orders against SU Industrial and SU Qingyuan may have a significant consequential effect on the net liabilities of the Group as at 31 December 2010.

In the opinion of the Directors the consolidated financial statements as at and for the years ended 31 December 2010 and 2009 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 and Product Development Limited is not in compliance with the requirements of Hong Kong Accounting Standard 27 "Consolidated and Separate Financial Statements".

3.3 Application of new standards, amendments and interpretations

(a) Effect of adopting revised, 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 2010:

- HKAS 27 (Revised), "Consolidated and Separate Financial Statements";
- HKAS 39 (Amendment), "Eligible Hedged Items";
- HKFRSs (Amendments), "Improvements to HKFRSs 2009";
- HKFRS 1 (Revised), "First-time Adoption of Hong Kong Financial Reporting Standards";
- HKFRS 1 (Amendment), "First-time Adoption of Hong Kong Financial Reporting Standards – Additional Exemptions for First-time Adopters";
- HKFRS 2 (Amendment), "Group Cash-settled Share-based Payment Transactions";
- HKFRS 3 (Revised), "Business Combinations";
- HKFRS 5 (Amendment), "Non-current Asset Held for Sales and Discontinued Operations";
- HK (IFRIC) – Int 17, "Distributions of Non-cash Assets to Owners"; and
- HK Int 5, "Presentation of Financial statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause".

The adoption of these revised, amendments and interpretations to standards did not result in a significant impact on the results and financial position of the Group.

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

The following published standard, 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:

- HKAS 12 (Amendment), "Deferred Tax: Recovery of Underlying Assets"[5];
- HKAS 24 (Revised), "Related Party Transactions"[3];
- HKAS 32 (Amendment), "Classification of Rights Issues"[1];
- HKFRS 1 (Amendment), "Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adaptors"[2];
- HKFRS 1 (Amendment), "First-time Adoption of Hong Kong Financial Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters"[4];
- HKFRS 7 (Amendment), "Disclosures – Transfers of Financial Assets"[4];
- HKFRS 9, "Financial Instruments"[6];
- HK (IFRIC) – Int 14 (Amendment), "Prepayments of a Minimum Funding Requirement"[3]; and
- HK (IFRIC) – Int 19, "Extinguishing Financial Liabilities with Equity Instruments"[2].

[1] Effective for annual periods beginning on or after 1 February 2010
[2] Effective for annual periods beginning on or after 1 July 2010
[3] Effective for annual periods beginning on or after 1 January 2011
[4] Effective for annual periods beginning on or after 1 July 2011
[5] Effective for annual periods beginning on or after 1 January 2012
[6] Effective for annual periods beginning on or after 1 January 2013

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

In addition, HKICPA also published a number of amendments for the existing standards under its annual improvement project issued in May 2010, which are not yet effective in 2010. These amendments have not been early adopted by the Group and are not expected to have a significant financial impact on the results and financial position of the Group.

3.4 Consolidation

The consolidated financial statements include the financial statements of the Company and all of its subsidiaries made up to 31 December.

(a) Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group except for the non-consolidation of certain subsidiaries of the Group as explained in Note 3.2. They are de-consolidated from the date that control ceases.

The Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet, the investments in subsidiaries are stated at cost less provision for impairment losses (Note 3.9). Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments. Cost also includes direct attributable cost of investment. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

As at 31 December 2009 and 2010 and at any time during 2009 and 2010, the Group did not have any non-controlling interests.

(b) Associated company

An associated company is an entity over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investment in an associated company is accounted for using the equity method of accounting and is initially recognised at cost except for the interest in the associated company in which the Group has not been equity accounted for as explained in Note 3.2. The Group's investment in an associated company includes goodwill identified on acquisition, net of accumulated impairment loss.

The Group's share of its associated company's post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associated company equals or exceeds its interest in the associated company, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associated company.

Unrealised gains on transactions between the Group and its associated company are eliminated to the extent of the Group's interest in the associated company. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the associated company have been changed where necessary to ensure consistency with the policies adopted by the Group.

Dilution gains or losses in investment in associated company are recognised in the income statement.

(c) Impairment of investments in subsidiaries and an associated company

Impairment testing of the investments in subsidiaries or an associate company is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiary or associate in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

3.5 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker is responsible for allocating resources and assessing performance of the operating segments. The Company is under provisional liquidation and the Provisional Liquidators are empowered by the Court Orders to control the assets and activities of the Company.

3.6 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "**functional currency**"). The consolidated financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where the items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

(c) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

– income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and

– all resulting exchange differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to other comprehensive income. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognised in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

3.7 Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses, if any. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate their costs to their residual values over their estimated useful lives, as follows:

Leasehold improvements	5 years or the lease period, whichever is shorter
Plant and machinery	5 years
Office equipment, furniture and fixtures	5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 3.9).

Gains and losses on disposals are determined by comparing proceeds with the carrying amount and are recognised in the income statement.

3.8 Intangible assets

Research expenditure is expensed as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are recognised as intangible assets when it is probable that the project will be a success considering its commercial and technological feasibility, and costs can be measured reliably. Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

3.9 Impairment of investments in subsidiaries, an associated company and non-financial assets

Assets that have an indefinite useful life, for example goodwill, are not subject to amortisation and are tested annually for impairment. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

3.10 Financial assets

(a) Classification

The Group classifies its financial assets as loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. The Group's loans and receivables comprise trade and other receivables and cash and cash equivalents in the balance sheet. (Notes 3.12 and 3.13).

(b) Recognition and measurement

Regular way of purchases and sales of financial assets are recognised on the trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

(c) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

(d) Impairment of financial assets

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The Group first assesses whether objective evidence of impairment exists.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the income statement. If a loan or receivable has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the income statement.

Impairment testing of trade and other receivables is described in note 3.12.

3.11 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of finished goods and work in progress comprises design costs, raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

3.12 Trade and other receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the assets is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement within "administrative expenses". When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against "administrative expenses" in the income statement.

3.13 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities.

3.14 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

3.15 Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

3.16 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

3.17 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company's subsidiaries and an associated company operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and an associated company, except for deferred income tax liabilities where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

3.18 Employee benefits

(a) Pension obligations

(i) Hong Kong

The Group participates in a mandatory provident fund ("**MPF scheme**") for its employees in Hong Kong. The assets of MPF scheme are held separately from those of the Group in an independent administered fund.

Both the Group and the employees are required to contribute 5% of the employee's relevant income, subject to a maximum of HK$1,000 per employee per month. The Group has no further payment obligation once the contributions have been paid. The contributions are recognised as employee benefit expenses when they are due and prepaid contributions are recognised as an asset to the extent that a cash refund is available.

(ii) The People's Republic of China

The Group participates in a defined contribution scheme administrated by the relevant authority of the PRC. Contributions to the scheme are calculated as a percentage of employees' salaries and the Group has no further payment obligation once the contributions have been paid. The Group's contributions to the defined contribution retirement scheme are expensed as incurred.

(b) Employee leave entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date. Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(c) Share-based compensation plan

The Group operates an equity-settled, share-based compensation plan under which the Group receive services from employees as consideration for equity instruments (option) of the Group. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted:

- including any market performance conditions (for example, an entity's share price);
- excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period); and
- including the impact of any non-vesting conditions (for example, the requirement for employees to save).

Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At each balance sheet date, the entity revises its estimates of the number of options that are expected to vest based on the non-market vesting conditions. It recognises the impact of the revision of original estimates, if any, in the income statement with a corresponding adjustment to equity.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

(d) Bonus plan

The expected cost of bonus payments is recognised as a liability when the Group has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made. Liabilities of bonus plan are expected to be settled within twelve months and are measured at the amounts expected to be paid when they are settled.

3.19 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

3.20 Financial guarantees

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (i.e. the holder) for a loss the holder incurs because a specified debtor fails to make payment when due, in accordance with the terms of a debt instrument. A financial guarantee contract issued by the Group is recognised initially and subsequently carried at its fair value.

3.21 Contingent liability

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably. A contingent liability is not recognised but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognised as a provision.

3.22 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of returns, rebates and discounts.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the Group's activities as described below. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(a) Sales of goods

Sales of goods are recognised when a group entity has delivered the products to the customer; the customer has accepted the products and collectibility of the related receivable is reasonably assured.

(b) Interest income

Interest income is recognised using the effective interest method. When a loan and receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loan and receivables are recognised using the original effective interest rate.

3.23 Borrowing costs

The Group does not incur borrowing costs for the construction assets during the year. All borrowing costs are charged to income statement as incurred.

3.24 Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

3.25 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's and the Company's financial statements in the period in which the dividends are approved by the Company's shareholders.

4 FINANCIAL RISK MANAGEMENT

4.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: foreign exchange risk, credit risk, liquidity risk, and cash flow and fair value interest rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(i) Foreign exchange risk

The Group mainly operates in Hong Kong with its transactions mainly denominated in Hong Kong dollars, United States Dollars ("**US$**") and Renminbi ("**RMB**"). The Group is therefore exposed to foreign exchange risk arising from US$, primarily with respect to HK$ which is the Company's functional and presentation currency. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.

As Hong Kong dollars are reasonably stable with US$ under the Linked Exchange Rate System, management considers the Group's foreign exchange risk arisen from US$ is low.

As at 31 December 2010, certain cash and cash equivalents of the Group as detailed in Note 16 are denominated in RMB. If HK$ has weakened/strengthened by 5% against RMB, with all other variables constant, post-tax profit for the year would have been approximately HK$581,000 higher/lower (post-tax loss for 2009 would have been approximately HK$3,000 lower/higher) on translation of RMB-denominated cash and cash equivalents.

The Group does not use any certain foreign exchange derivative contracts to manage their foreign exchange risk.

(ii) Credit risk

The Group has significant concentrations of credit risk. There are 3 customers account for 10% or more of the Group's revenue. The carrying amounts of bank balances, trade receivables, amount due from related parties and deposits included in the balance sheet represent the Group's maximum exposure to credit risk in relation to its financial assets.

As at 31 December 2010, the majority of bank balances as detailed in Note 16 are held in major financial institutions located in Hong Kong, which management believes are of high credit quality.

The Group also has policies in place to ensure that sale of products are made to customers with an appropriate credit history.

Management makes periodic collective assessment as well as individual assessment on the recoverability of trade and other receivables based on historical payment records, the length of the overdue period, the financial strength of the trade and other debtors and whether there are any disputes with the relevant debtors. The Group's historical experience in collection of trade and other receivables falls within the recorded allowances and the Directors are of the opinion that no additional provision for uncollectible receivables is required in these financial statements.

(iii) Liquidity risk

As set out in Note 2 and 3.1, the Group had net current liabilities and net liabilities as at 31 December 2010 and 2009. The Provisional Liquidators have been appointed for the Company and certain of its subsidiaries since October 2008 in order to protect the assets of the Group and to safeguard the interests of both the creditors and the shareholders.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

	2010	**2009**
	HK$'000	*HK$'000*
Less than 1 year:		
– Trade payables *(Note 21)*	120,782	40,778
– Other payables and accruals *(Note 22)*	228,758	187,250
– Amounts due to unconsolidated subsidiaries *(Note 34)*	112,362	112,362
– Borrowings *(Note 19)*	92,936	37,936
	554,838	378,326
Between 1 and 5 years:		
– Borrowings *(Note 19)*	–	5,000

(iv) Cash flow and fair value interest rate risk

The Group's interest rate risk arises from borrowings including a loan from the Investor of HK$55,000,000 (2009: HK$5,000,000) and loans from two independent third parties of HK$36,513,000 (2009: HK$36,513,000). Borrowings issued at fixed rates and floating rates expose the Group to fair value and cash flow interest rate risk respectively. During 2010 and 2009, the Group's borrowings from the Investor and from two independent third parties were at fixed rates and floating rates respectively. Fair value and cash flow interest rate risk are not significant due to their short maturities. The Group did not have significant interest-bearing assets, and had not entered into any interest rate swaps to hedge its exposure to interest rate risks.

4.2 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

As set out in Note 2, pursuant to the Court Orders, the Provisional Liquidators may carry on and stabilise the operations of the Group, including facilitating a capital restructuring of the Company.

In addition, in order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

4.3 Fair value estimation

The carrying amounts of the Group's current financial assets, including cash and cash equivalents, trade receivables, deposits and other receivables, and the Group's current financial liabilities including trade payables, other payables and accruals, and borrowings, approximate their fair values due to their short maturities.

5 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Going concern

The Group's management's assessment of the going concern assumption involves a judgement, at a particular point of time, about the future outcome of event and conditions which are inherently uncertain. Major events or conditions, which may give rise to business risks, that individually or collectively may cast significant doubt about the going concern assumption are set out in Note 2 to the consolidated financial statements.

(b) Impairment of non-financial assets

Non-financial assets including investments in subsidiaries, unconsolidated subsidiaries, a former subsidiary and an associated company, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. The recoverable amounts have been determined based on value-in-use calculations or fair value less costs to sell. These calculations require the use of judgements and estimates.

Management judgment is required in the area of asset impairment particularly in assessing: (i) whether an event has occurred that may indicate that the related asset values may not be recoverable; (ii) whether the carrying value of an asset can be supported by the recoverable amount, being the higher of fair value less costs to sell and net present value of future cash flows which are estimated based upon the continued use of the asset in the business; and (iii) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. Changing the assumptions selected by management in assessing impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could materially affect the net present value used in the impairment test and as a result affect the Group's financial condition and results of operations. If there is a significant change in the projected performance and resulting future cash flow projections, it may be necessary to reverse the previously recognised impairment losses, or to take further impairment charge to the income statement.

(c) Impairment of trade and other receivables

The Group's management determines the provision for impairment of trade and other receivables, including amounts due from subsidiaries, unconsolidated subsidiaries, a former subsidiary and an associated company based on the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. Management reassesses the provision at each balance sheet date.

(d) Contingent liabilities

Management judgment is required in the area of contingent liabilities particularly in assessing the outcome of possible obligations arising from the transactions as detailed in Note 35. Where a change in the probability that an outflow of economic resources will be required to settle the obligation, a provision will be recognised in the period in which such determination is made. Management reassesses the likelihood of the outcome of these possible obligations at each balance sheet date.

(e) Provision for financial guarantees

The Group makes provision for financial guarantees in respect of banking facilities and other borrowing granted to an unconsolidated subsidiary, SU Industrial if required. The determination of the provision for guarantees requires the use of judgment and estimates. Where the expectation is different from the original estimates, such difference will impact the carrying value of the provision and the results for the year in the period in which such estimates change.

(f) Estimated fair values of convertible bonds

The fair values of convertible bonds are determined based on the Directors' estimation in light of the latest information obtained relating to the convertible bonds. Any new development in the convertible bonds or the market conditions and changes in assumptions and estimates can affect the fair values of these convertible bonds.

(g) Income taxes

The Group is subject to income taxes in the PRC and Hong Kong. There are certain transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

6 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:

	2010	**2009**
	HK$'000	*HK$'000*
Hong Kong	362,026	97,527
Others	–	613
	362,026	98,140

Sales are allocated based on the places/countries to which goods are delivered. During the year ended 31 December 2010, sales of approximately HK$317,641,000 (2009: HK$97,527,000) are derived from 3 major customers (2009: 1 customer) who individually account for more than 10% of the total sales.

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

	2010	**2009**
	HK$'000	*HK$'000*
Hong Kong	234,919	50,921
The PRC	14,882	62
	249,801	50,983

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

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

	2010 *HK$'000*	2009 *HK$'000*
Hong Kong	12	10
The PRC	3,450	–
	3,462	10

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

7 PROPERTY, PLANT AND EQUIPMENT – GROUP

	Leasehold improvements *HK$'000*	Plant and machinery *HK$'000*	Office equipment, furniture and fixtures *HK$'000*	Total *HK$'000*
At 1 January 2009				
Cost	158	–	1,077	1,235
Accumulated depreciation	(103)	–	(974)	(1,077)
Net book amount	55	–	103	158
Year ended 31 December 2009				
Opening net book amount	55	–	103	158
Additions	–	–	10	10
Impairment	(41)	–	(103)	(144)
Depreciation	(14)	–	–	(14)
Closing net book amount	–	–	10	10
At 31 December 2009				
Cost	–	–	10	10
Accumulated depreciation	–	–	–	–
Net book amount	–	–	10	10
Year ended 31 December 2010				
Opening net book amount	–	–	10	10
Additions	–	3,450	12	3,462
Depreciation	–	(300)	(7)	(307)
Closing net book amount	–	3,150	15	3,165
At 31 December 2010				
Cost	–	3,450	22	3,472
Accumulated depreciation	–	(300)	(7)	(307)
Net book amount	–	3,150	15	3,165

Depreciation expenses for the year ended 31 December 2010 of approximately HK$300,000 (2009: Nil) and HK$7,000 (2009: HK$14,000) have been recognised as cost of sales and administrative expenses respectively.

8 INTANGIBLE ASSETS

	Group 2010 HK$'000	2009 HK$'000
At 1 January and 31 December		
Cost	6,509	6,509
Accumulated amortisation and impairment	(6,509)	(6,509)
Net book amount	–	–

Intangible assets represent capitalised toys development costs.

9 INVESTMENTS IN SUBSIDIARIES

(a) Investments in subsidiaries – Company

	2010 HK$'000	2009 HK$'000
Investments, at cost:		
Unlisted shares	80,422	80,422
Less: Accumulated impairment losses	(80,422)	(80,422)
	–	–

The following is a list of the subsidiaries at 31 December 2010 which have been included in these consolidated financial statements:

Company names	Places of incorporation/ establishment	Issued/registered and fully paid up share capital/paid-in capital	Attributable equity interests Direct	Attributable equity interests Indirect	Principal activities and places of operations
Smart Union Investments Limited (Provisional Liquidators Appointed)	British Virgin Islands	US$4,000,000	100%	–	Investment holding in Hong Kong
Amart International Company Limited	Hong Kong	HK$10,000	–	100%	Inactive
Current Creation Limited	Hong Kong	HK$2	–	100%	Inactive
Dream Link Limited (In Liquidation)	Hong Kong	HK$1,000,000	–	69%	Inactive
Smart Union China Investments Limited (Provisional Liquidators Appointed)	Hong Kong	HK$10,000	–	100%	Investment holding in Hong Kong

Company names	Places of incorporation/ establishment	Issued/registered and fully paid up share capital/paid-in capital	Attributable equity interests Direct	Attributable equity interests Indirect	Principal activities and places of operations
Smart Union Group Limited (Provisional Liquidators Appointed)	Hong Kong	HK$10,000	–	100%	Investment holding in Hong Kong
Smart Union (Hong Kong) Limited (Provisional Liquidators Appointed)	Hong Kong	HK$10,000	–	100%	Inactive
Sino Front Limited	Hong Kong	HK$1	100%	–	Trading of toys in Hong Kong
Smart Union Mining Investments Limited (Provisional Liquidators Appointed)	British Virgin Islands	US$1	–	100%	Investment holding in Hong Kong
Topmark Industrial Limited	Hong Kong	HK$10,000	–	100%	Inactive
Worldtrade Promotions Limited	Hong Kong	HK$10,000	–	100%	Inactive
Victory Ford (HK) Limited	Hong Kong	HK$1	–	100%	Investment holding in Hong Kong
致福(深圳)玩具有限公司	The PRC	HK$1,000,000	–	100%	Design and manufacturing of toys in the PRC

Dream Link is a subsidiary of the Company. All accounting personnel of Dream Link left the Group subsequent to 31 December 2008 and, accordingly, the Directors had not been able to obtain sufficient documentary information to satisfy themselves regarding the completeness and accuracy of the books and records of this subsidiary. In view of the lack of sufficient evidence and relevant personnel support, the Directors have also not been able to determine that all transactions entered into by this subsidiary for the years ended 31 December 2010 and 2009 have been properly reflected in the consolidated financial statements.

Dream Link accounted for a significant portion of the Group's financial positions. Any adjustments arising from the matter described above would have a significant consequential effect on the Group's assets and liabilities as at 31 December 2010 and 2009 and its results and cash flows for the years then ended.

An analysis of the financial position of Dream Link which has been included in the Group's consolidated financial statements as at 31 December 2010 and 2009 are as follows:

	2010	**2009**
	HK$'000	*HK$'000*
Cash and cash equivalents	–	14
Trade payables	(2,079)	(2,079)
Other payables and accruals	(4,364)	(4,222)
Borrowings	(1,423)	(1,423)
Deferred income tax liabilities	(16)	(16)
Amounts due to unconsolidated subsidiaries	(2,563)	(2,563)
Net current liabilities and net liabilities	(10,445)	(10,289)

An analysis of the financial results of Dream Link for the years ended 31 December 2010 and 2009 is as follows:

	2010	**2009**
	HK$'000	*HK$'000*
Sales	–	612
Costs of sales	–	(885)
Gross loss	–	(273)
Other income	–	398
Other losses	–	(1,575)
Administrative expenses	(156)	(3,168)
Operating loss	(156)	(4,618)
Finance costs	–	(24)
Loss for the year	(156)	(4,642)

(b) Investments in unconsolidated subsidiaries – Group

	Group	
	2010	**2009**
	HK$'000	*HK$'000*
Investment, at cost:		
Unlisted shares	3,600	3,600
Less: Accumulated impairment losses	(3,600)	(3,600)
	–	–

As explained in Note 3.2, the Directors have not been able to get access to certain books and records of a subsidiary, SU Industrial, and the financial statements of SU Industrial and its wholly-owned subsidiary, Perfect Design and Product Development Limited, have not been included in the consolidated financial statements of the Group which is not in accordance with the requirements of Hong Kong Accounting Standard 27 "Consolidated and Separate Financial Statements" issued by the HKICPA.

Details of the unconsolidated subsidiaries as at 31 December 2010 are as follows:

Company names	**Places of incorporation/ establishment**	**Issued and fully paid up share capital**	**Attributable equity interests**		**Principal activities and places of operation**
			Direct	**Indirect**	
Smart Union Industrial Limited (Provisional Liquidators Appointed)	Hong Kong	HK$10,000	–	100%	Inactive
Perfect Design and Product Development Limited	Hong Kong	HK$10,000	–	100%	Inactive

(c) Investment in a former subsidiary – Group

	Group 2010	2009
	HK$'000	*HK$'000*
Investment, at cost:		
Unlisted shares	30,000	30,000
Less: Accumulated impairment losses	(30,000)	(30,000)
	–	–

As explained in Note 3.2, the Directors are still unable to get full access to the books and records of a former subsidiary, SU Qingyuan.

Details of the former subsidiary as at 31 December 2010 are as follows:

Company name	Place of incorporation/ establishment	Registered and fully paid up share capital	Attributable equity interests Direct	Indirect	Principal activity and place of operation
Smart Union (Qingyuan) Industrial Limited	The PRC	Registered capital of HK$30,000,000 with total paid up capital of HK$30,000,000	–	100%	Inactive

10 INVESTMENT IN AN ASSOCIATED COMPANY

	Group 2010	2009
	HK$'000	*HK$'000*
Unlisted investments, at cost	257,555	257,555
Less: Accumulated impairment losses	(257,555)	(257,555)
	–	–

The following are the details of the associated company as at 31 December 2010:

Company name	Place of incorporation	Issued and fully paid up share capital	Attributable equity interests Direct	Indirect	Principal activity and place of operation
China Mining Corporation Limited	British Virgin Islands	US$50,000	–	45.51%	Investment holding in Hong Kong

On 17 October 2007, Smart Union Mining Investments Limited ("**SU Mining**"), a wholly owned subsidiary of the Group, entered into an agreement ("**Acquisition Agreement**") with China Mining Corporation Limited ("**China Mining**"), a company incorporated in the British Virgin Islands, and its shareholder, Mr. Tang Xue Jin (the "**Vendor**") for the acquisition of approximately 45.51% of the issued share capital of China Mining and the subscription of zero coupon convertible bonds for a total consideration of HK$309,355,000. Out of the total, HK$269,355,000 shall be applied for acquiring 22,755 shares of US$1.00 each in the issued share capital of China Mining (the "**Sale Shares**") and the remaining HK$40,000,000 shall be applied for the subscription of zero coupon convertible bonds issued by China Mining (Note 15). Out of the total consideration for the Sale Shares, HK$72,295,000 shall be settled in cash (the "**Cash Consideration**"); and HK$197,060,000 shall be settled by the allotment of 118,000,000 new shares of the Company (the "**Consideration Shares**"). The principal activity of China Mining is investment holding and the principal asset of China Mining is its 95% beneficial interest in Fujian Tiancheng Mining Corporation ("**Tiancheng**"), a company established in the PRC, which is principally engaged in the exploration of precious metals and mineral resources in the PRC.

The acquisition was completed on 14 January 2008 and since then China Mining has become an associated company of the Group.

The Vendor undertakes to and covenants with SU Mining that (i) China Mining will become the legal and beneficial owner of the 95% interests in the registered capital of Tiancheng on or before 30 April 2008 (further extended to 31 August 2008); and (ii) Tiancheng will obtain the mining license and any other necessary approvals and consents for the mining of certain mines on or before 30 April 2008 (further extended to 31 August 2008) (the "**Vendor's Undertakings**"). China Mining also undertakes the same covenants with SU Mining (the "**China Mining Undertakings**").

The Vendor further undertakes that immediately after completion of the acquisition, it will deposit the Consideration Shares to an escrow agent pursuant to the terms and conditions of an escrow letter of which the form and substance are to be agreed by the relevant parties. The certificates of the Consideration Shares will not be released to the Vendor until the fulfillment of the Vendor's Undertakings on or before 30 April 2008 (further extended to 31 August 2008). In case of default, SU Mining has the right to request the Vendor for the refund of the Cash Consideration in full and to issue a direction to the escrow agent to arrange or procure for the sale of the Consideration Shares at a reasonable price to discharge the consideration paid by SU Mining of HK$197,060,000. If the sale proceeds are insufficient to discharge the consideration paid by SU Mining of HK$197,060,000 in full, the Vendor has undertaken to pay the shortfall in cash. Moreover, in the event that any of the China Mining Undertakings cannot be fulfilled, SU Mining also has the right to demand the redemption of the convertible bonds at its principal amount in full. Up to the date of the approval of these financial statements, the Vendor's Undertakings have not been fulfilled and no Consideration Shares have been arranged or procured for sale yet. The Directors believe that the investment in China Mining is impaired and the investment in the convertible bonds may not be recoverable. As such, full impairment provisions of approximately HK$257,555,000 and HK$40,000,000 have been made in respect of China Mining and the convertible bonds, respectively as at 31 December 2010 and 2009. Further details of the convertible bonds are disclosed in Note 15.

The Group has not equity accounted for its interest in this associated company and has not presented adequate disclosures in relation to the financial information of the associated company as the Directors have not been able to obtain sufficient financial information of this associated company. Failure to equity accounted for the interest in the associated company and present certain disclosures on the financial information of the associated company are departures from the requirements of Hong Kong Accounting Standard 28 "Investments in Associates" issued by the HKICPA.

11 INVENTORIES

	Group 2010	Group 2009
	HK$'000	*HK$'000*
Raw materials	1,556	–
Finished goods	1,119	–
	2,675	–

The cost of inventories recognised as expenses and included in cost of sales during the year ended 31 December 2010 amounted to approximately HK$302,038,000 (2009: HK$93,140,000).

12 FINANCIAL INSTRUMENTS BY CATEGORY – GROUP AND COMPANY

	Group Loans and receivables	Company Loans and receivables
	HK$'000	*HK$'000*
Assets as per balance sheet		
At 31 December 2010		
Trade and other receivables, excluding prepayments	227,030	4,588
Cash and cash equivalents	16,562	970
	243,592	5,558
At 31 December 2009		
Trade and other receivables, excluding prepayments	48,350	1,120
Cash and cash equivalents	2,388	101
	50,738	1,221

	Group Financial liabilities at amortised cost	Company Financial liabilities at amortised cost
	HK$'000	*HK$'000*
Liabilities as per balance sheet		
At 31 December 2010		
Borrowings	92,936	36,513
Trade payables	120,782	–
Other payables and accruals	228,758	199,294
Amounts due to unconsolidated subsidiaries	112,362	–
	554,838	235,807
At 31 December 2009		
Borrowings	42,936	36,513
Trade payables	40,778	–
Other payable and accruals	187,250	180,084
Amounts due to unconsolidated subsidiaries	112,362	–
	383,326	216,597

13 TRADE RECEIVABLES

	Group	
	2010	**2009**
	HK$'000	*HK$'000*
Trade receivables	221,945	47,015

The Group's trade receivables from its customers are generally with credit periods of less than 30 days. The customers with good repayment history comprise a significant proportion of the Group's sales. The Group has policies in place to ensure that sales of products are made to customers with an appropriate credit history to minimise the credit risk.

The maximum exposure to credit risk at the reporting date is the fair value of the trade receivables. The Group does not hold any collateral as security.

The carrying amounts of trade receivables approximate their fair values.

Management assessed the credit quality of the trade receivables HK$56,438,000 (2009: HK$25,619,000) that are neither past due nor impaired by reference to the repayment history and current financial position of these customers. These receivables are related to individual customers for whom there was no recent history of default and no significant change in credit quality. Management believes that no provision for impairment is necessary and these balances are expected to be fully recoverable.

The ageing analysis of trade receivables as at 31 December 2010 and 2009 is as follows:

	Group	
	2010	**2009**
	HK$'000	*HK$'000*
0 – 30 days	56,438	25,619
31 – 60 days	26,779	15,190
61 – 90 days	38,120	6,206
91 days – 180 days	100,536	–
Over 180 days	72	–
	221,945	47,015

As at 31 December 2010, trade receivables of approximately HK$165,507,000 (2009: HK$21,396,000) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

	Group	
	2010	**2009**
	HK$'000	*HK$'000*
31 – 60 days	26,779	15,190
61 – 90 days	38,120	6,206
91 days – 180 days	100,536	–
Over 180 days	72	–
	165,507	21,396

As at 31 December 2009 and 2010, no trade receivables were impaired. Subsequent settlement of trade receivable balance as at 31 December 2010 up to the date of approval of the consolidated financial statements amounted to HK$148,411,000.

Trade receivables are denominated in the following currencies:

	Group	
	2010	**2009**
	HK$'000	*HK$'000*
Hong Kong dollars	38,260	–
US dollars	183,685	47,015
	221,945	47,015

14 PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2010	**2009**	**2010**	**2009**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Prepayments	242	108	55	58
Deposits	431	147	–	–
Other receivables	4,654	1,188	4,588	1,120
	5,327	1,443	4,643	1,178

Prepayments, deposits and other receivables are denominated in Hong Kong dollars.

15 CONVERTIBLE BONDS

	Group	
	2010	**2009**
	HK$'000	*HK$'000*
Zero coupon convertible bonds	40,000	40,000
Less: Accumulated impairment losses	(40,000)	(40,000)
	–	–

The bonds were issued by China Mining at the principal amount of HK$40,000,000. Upon maturity in 2008, the bonds could be converted into 3,379 conversion shares of US$1.00 each in the share capital of China Mining.

As disclosed in Note 10, as the China Mining Undertakings could not be fulfilled, the Group has requested China Mining for the redemption of the convertible bonds at its principal amount in full. The Directors believe that the convertible bonds may not be recoverable. As such, a full impairment provision of HK$40,000,000 has been made in respect of the convertible bonds.

16 CASH AND CASH EQUIVALENTS

	Group		Company	
	2010	**2009**	**2010**	**2009**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Cash at banks and on hand	16,562	2,388	970	101
Maximum exposure to credit risk	16,542	2,388	970	101

Cash and cash equivalents are denominated in the following currencies:

	Group		Company	
	2010	**2009**	**2010**	**2009**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Hong Kong dollars	4,938	2,320	970	101
Renminbi	11,624	68	–	–
	16,562	2,388	970	101

Cash at banks earns interest at floating rates based on daily bank deposit rates.

Cash and cash equivalents for the purposes of the consolidated cash flow statement are as follows:

	2010	**2009**
	HK$'000	*HK$'000*
Bank balances and cash	16,562	2,388
Less: bank overdrafts *(Note 19)*	(401)	(401)
Cash and cash equivalents	16,161	1,987

17 SHARE CAPITAL

(a) Authorised and issue capital

	Number of shares	**Nominal value**
		HK$'000
Authorised – ordinary shares of HK$0.1 each		
As at 1 January 2009, 31 December 2009 and 2010	2,000,000,000	200,000
Issued and fully paid – ordinary shares of HK$0.1 each		
As at 1 January 2009, 31 December 2009 and 2010	552,586,000	55,259

(b) Share option scheme

On 2 September 2006, a share option scheme (the "**Share Option Scheme**") was approved by the shareholders of the Company, under which the Company may grant the options to any eligible participants to subscribe for shares in the Company subject to the terms and conditions stipulated in the Share Option Scheme.

(i) On 27 April 2007, share options with rights to subscribe for a total of 10,100,000 shares of the Company at a subscription price of HK$0.78 per share were granted to selected persons with a maximum vesting period of three years, and the expiry date of such options will be on 26 April 2017.

(ii) During the year ended 31 December 2010, 300,000 share options lapsed. In accordance with paragraph 6.4(i) of the Share Option Scheme, in the event that any eligible participants who leave the service of the Group by reasons of death, his personal representatives may exercise all or part of his options with a period being the earlier of six months after he leaves the service of the Group or the expiration of the relevant option period. Any options not so exercised shall lapse.

As a result of the decease of Mr. Lai Chiu Tai on 1 November 2009 and there had been no exercise of his entitled options six months thereafter, his options lapsed under the Share Option Scheme.

(iii) Movements in the above share options are as follows:

	2010		2009	
	Average exercise price in HK$ per share	**Number of share options**	**Average exercise price in HK$ per share**	**Number of share options**
At 1 January	0.78	6,060,000	0.78	6,060,000
Lapsed	0.78	(300,000)	0.78	–
At 31 December	0.78	5,760,000	0.78	6,060,000

All outstanding options as at 31 December 2010 were exercisable. No options were exercised during 2010 (2009: Nil).

The weighted average fair value of options granted in 2007 determined using the Black-Scholes-Merton Option Pricing Model was HK$0.33 per option. The significant inputs into the model were weighted average share price of HK$0.78 at the grant date, exercise price shown above, volatility of 67%, dividend yield of 4.87%, an expected option life of three years, and annual risk-free interest rate of 4.31%. The volatility measured at the standard deviation of continuously compounded share returns is based on statistical analysis of daily share prices over 233 days.

18 RESERVES

(a) Group

	Share premium *HK$'000*	Share-based equity reserves *HK$'000*	Merger reserve *HK$'000* *Note (i)*	Accumulated losses *HK$'000*	Total *HK$'000*
At 1 January 2009	368,381	1,446	29,107	(769,787)	(370,853)
Total comprehensive loss					
Loss for the year	–	–	–	(17,365)	(17,365)
At 31 December 2009	368,381	1,446	29,107	(787,152)	(388,218)
At 1 January 2010	368,381	1,446	29,107	(787,152)	(388,218)
Total comprehensive income for the year					
Profit for the year	–	–	–	21,933	21,933
Transactions with owners					
Transfer to accumulated losses upon lapse of share options *(Note 17(b)(ii))*	–	(79)	–	79	–
At 31 December 2010	368,381	1,367	29,107	(765,140)	(366,285)

(b) Company

	Share premium HK$'000	Share-based equity reserves HK$'000	Merger reserve HK$'000 Note (ii)	Accumulated losses HK$'000	Total HK$'000
At 1 January 2009	368,381	1,446	78,922	(704,920)	(256,171)
Total comprehensive loss					
Loss for the year	–	–	–	(14,406)	(14,406)
At 31 December 2009	368,381	1,446	78,922	(719,326)	(270,577)
At 1 January 2010	368,381	1,446	78,922	(719,326)	(270,577)
Total comprehensive loss					
Loss for the year	–	–	–	(14,876)	(14,876)
Transactions with owners					
Transfer to accumulated losses upon lapse of share option *(Note 17(b)(ii))*	–	(79)	–	79	–
At 31 December 2010	368,381	1,367	78,922	(734,123)	(285,453)

Notes:

(i) On 30 December 2002, Smart Union Investments Limited ("**SU Investments**") issued certain shares to the then shareholders of certain subsidiaries now comprising the Group in exchange for their equity interests in such companies and became the intermediate holding company.

On 1 September 2006, the Company issued 14,999,999 shares of HK$0.1 each as consideration for the acquisition of 4,000,000 shares of US$1 each in SU Investments.

The merger reserve of the Group represents the total of (i) the difference between the nominal value of the shares of the subsidiaries acquired and the nominal value of the shares of SU Investments issued on 30 December 2002; and (ii) the difference between the nominal value of the shares of SU Investments acquired and the nominal value of shares the Company issued on 1 September 2006 for the acquisition of SU Investments.

(ii) The Company's merger reserve represents the difference between the aggregate net asset value of SU Investments and the nominal value of the Company's shares issued for the acquisition of SU Investments through a share swap under a group reorganisation.

19 BORROWINGS

	Group		Company	
	2010	**2009**	**2010**	**2009**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Non-current				
Other borrowings, secured *(Note (i))*	–	5,000	–	–
Current				
Bank overdrafts, secured *(Note (ii) and 16)*	401	401	–	–
Factoring facilities utilised	1,022	1,022	–	–
Other borrowings, secured *(Note (i) & (iii))*	91,513	36,513	36,513	36,513
	92,936	37,936	36,513	36,513
Total borrowings	92,936	42,936	36,513	36,513

Notes:

(i) Pursuant to the Exclusivity Agreement as discussed in Note 2, the Investor has provided a loan of HK$55,000,000 (2009: HK$5,000,000) to Sino Front, which is secured by a debenture, to enable it to meet its working capital needs. The debenture is charged by all assets under takings and property of Sino Front. The loan bears interest at 2% per annum and is repayable on or before 16 June 2011.

(ii) Secured bank borrowings are secured by corporate guarantees executed by the Company.

(iii) Also included in other secured borrowings are the loans from two independent third parties amounting to approximately HK$36,513,000 (2009: HK$36,513,000). An amount of HK$18,913,000 (2009: HK$18,913,000) bears interest at 7% per annum and is repayable on demand, whilst the remaining balance of HK$17,600,000 (2009: HK$17,600,000) bears interest at 3% per annum above the Hong Kong Interbank Offer Rate and is repayable on demand. As at 31 December 2010, the total outstanding interest thereon amounted to approximately HK$4,905,000 (2009: HK$2,024,000) which was recorded under "other payables and accruals".

These other secured borrowings are secured by: (i) a debenture over all the assets of Smart Union China Investments Limited ("**SU China**"), a subsidiary of the Group; (ii) a debenture over all the assets of SU Investments; (iii) a charge over the shares in SU China; and (iv) a guarantee from Smart Place Investments Limited, ultimate holding company of the Group, for the outstanding balance due from the Company to one of these independent third parties of approximately HK$17,600,000.

The maturities of the Group's borrowings as at 31 December 2010 are as follows:

	2010	**2009**
	HK$'000	*HK$'000*
Within 1 year	92,936	37,936
Between 1 and 2 years	–	5,000
	92,936	42,936

The effective interest rates of the Group's borrowings as at 31 December 2010 are as follows:

	2010	2009
Bank overdrafts	5.8%	13.0%
Other bank borrowings	7.3%	8.7%
Other borrowings, secured	5.7%	5.1%

The carrying amounts of borrowings approximate their fair values as the impact of discounting is not significant.

The Group's borrowings are all denominated in Hong Kong dollars.

20 DEFERRED INCOME TAX

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The offset amounts are as follows:

	Group	
	2010	**2009**
	HK$'000	*HK$'000*
Deferred income tax liabilities to be recovered after more than 12 months	16	16

Details of the deferred income tax liabilities of the Group in respect of accelerated tax deprecation is as follows:

	Group	
	2010	**2009**
	HK$'000	*HK$'000*
At 1 January and 31 December	16	16

21 TRADE PAYABLES

The ageing analysis of trade payables as at 31 December 2010 and 2009 is as follows:

	Group	
	2010	**2009**
	HK$'000	*HK$'000*
0 – 30 days	29,423	24,280
31 – 60 days	18,448	14,419
61 – 90 days	23,839	–
91 days – 1 year	46,993	1,157
Over 1 years	2,079	922
	120,782	40,778

Trade payables are denominated in the following currencies:

	Group	
	2010	**2009**
	HK$'000	*HK$'000*
Hong Kong dollars	120,782	40,344
US dollars	–	44
Renminbi	–	390
	120,782	40,778

The carrying amounts of trade payables approximate their fair values.

22 OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2010	**2009**	**2010**	**2009**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Accruals	41,077	12,024	11,997	4,792
Receipts in advance	238	238	–	–
Other payables	1,616	1,166	–	–
Provision for financial guarantees to a subsidiary *(Note (i))*	–	–	1,470	1,470
Provision for financial guarantees to an unconsolidated subsidiary *(Note (ii))*	185,827	168,454	185,827	168,454
Provision for legal claims *(Note (iii))*	–	5,368	–	5,368
	228,758	187,250	199,294	180,084

Notes:

(i) Dream Link, a subsidiary, defaulted on the repayment for a bank loan with an outstanding principal and interest thereon of approximately HK$1,470,000. As the Company has provided corporate guarantee for this loan, a full provision for such financial guarantee has been made by the Company as at 31 December 2010 and 2009.

(ii) SU Industrial, an unconsolidated subsidiary, defaulted on the repayment of loans from certain banks and a finance-lease provider. As at 31 December 2010, the total outstanding principal, interest and other charges thereon amounted to approximately HK$152,748,000 and HK$33,079,000 respectively (2009 outstanding principal and interest: HK$152,748,000 and HK$15,706,000 respectively). As the Company has provided corporate guarantees for these loans, full provisions for such financial guarantees have been made by the Company and the Group as at 31 December 2010. During the year, an additional provision of approximately HK$17,373,000 (2009: HK$13,917,000) was made.

(iii) On 22 October 2008, the Municipal Court of Dongguan (廣東省東莞市人民法院) accepted the legal claims from certain creditors in the PRC against SU Industrial, an unconsolidated subsidiary, and the Company, primarily in respect of the outstanding wages and severance pay for employees in the factories of SU Industrial in the PRC. On 13 December 2008, the Municipal Court of Dongguan made judgements such that SU Industrial and the Company were determined to be liable for the legal claims from these creditors in the PRC for a total amount of approximately RMB24,925,000. As at 31 December 2009, this amount had been partially settled and reduced by an insurance claim of RMB10,000,000 (received by the Municipal Court of Dongguan in December 2008) and the proceeds from auctions held in 2009 of the assets in the factories of SU Industrial of RMB10,200,000.

During the year ended 31 December 2010, the Municipal Court of Dongguan disposed of the remaining assets in the factories of SU Industrial by further auctions and the legal claims from the creditors were settled. The Group and the Company, therefore, wrote back the provision for the legal claims of approximately HK$5,368,000 during the year ended 31 December 2010.

Other payables and accruals are denominated in the following currencies:

	Group		Company	
	2010	**2009**	**2010**	**2009**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Hong Kong dollars	228,308	181,882	199,294	174,716
Renminbi	450	5,368	–	5,368
	228,758	187,250	199,294	180,084

The carrying amounts of other payables and accruals approximate their fair values.

23 REVENUE

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

	2010	**2009**
	HK$'000	*HK$'000*
Sales of goods	362,026	98,140

24 OTHER INCOME AND OTHER GAINS/(LOSSES)

	2010	**2009**
	HK$'000	*HK$'000*
Other income:		
– Interest income on bank deposits	–	2
– Non-refundable income *(Note (i))*	5,902	8,620
– Sundry income	11	2,629
	5,913	11,251
Other gains/(losses):		
– Impairment on assets	–	(1,575)
– Exchange gains	324	–
	324	(1,575)

Note:

(i) During the year ended 31 December 2010, the Company incurred a sum of approximately HK$5,902,000 (2009: HK$8,620,000) for the fees, charges, costs and expenses in connection with the implementation of the Proposed Restructuring. The Investor paid a sum of HK$2,434,000 (2009: HK$7,500,000) to the Company. The remaining amount of approximately HK$4,588,000 (2009: HK$1,120,000) is to be recovered from the Investor in accordance with the terms of the Restructuring Agreement which is included in other receivables.

The restructuring costs are non-refundable under all circumstances.

25 EXPENSES BY NATURE

	2010	2009
	HK$'000	*HK$'000*
Auditor's remuneration	680	500
Depreciation of property, plant and equipment *(Note 7)*	307	14
Impairment of property, plant and equipment *(Note 7)*	–	144
Merchandise and raw materials used	302,038	93,140
Change in inventories of finished goods	(1,119)	–
Subcontracting charges	22,247	–
Employee benefit expenses *(Note 28)*	2,153	2,756
Operating lease rentals for land and buildings	1,072	664
Exchange losses	–	19
Inventory write-down	–	322
Costs incurred for the Proposed Restructuring	5,222	8,620
Others	3,821	2,641
Total cost of sales, selling expenses and administrative expenses	336,421	108,820

26 FINANCE COSTS, NET

	2010	2009
	HK$'000	*HK$'000*
Interest income on bank deposits	1	–
Interest expense:		
– Other borrowings due within one year	(3,598)	(2,048)
	(3,597)	(2,048)

27 INCOME TAX EXPENSE

Hong Kong profits tax has been provided at the rate of 16.5% (2009: 16.5%) on the estimated assessable profits during the year.

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

	2010	2009
	HK$'000	*HK$'000*
Current taxation:		
– Hong Kong profits tax	5,373	600

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

	2010	2009
	HK$'000	*HK$'000*
Profit/(loss) before tax	27,306	(16,765)
Calculated at a tax rate of 16.5% (2009: 16.5%)	4,505	(2,766)
Income not subject to tax	(2,712)	–
Expenses not deductible	3,580	3,366
Income tax expense	5,373	600

28 EMPLOYEE BENEFIT EXPENSES

	2010	2009
	HK$'000	*HK$'000*
Wages, salaries and other short-term employee benefits	2,015	2,704
Pension costs – defined contribution plans	138	52
	2,153	2,756

(a) Directors' and senior management's emoluments

The remuneration of each Director of the Company for the year ended 31 December 2010 is set out below:

Name of Director	Basic salaries, housing allowances, share-based compensation, other allowances and benefits in kind	Employer's contribution to pension scheme	Total
	HK$'000	*HK$'000*	*HK$'000*
WU, Kam Bun	–	–	–
HO, Wai Wah	–	–	–
WONG, Wai Chuen	–	–	–
	–	–	–

The remuneration of each Director of the Company for the year ended 31 December 2009 is set out below:

Name of Director	Basic salaries, housing allowances, share-based compensation, other allowances and benefits in kind	Employer's contribution to pension scheme	Total
	HK$'000	*HK$'000*	*HK$'000*
WU, Kam Bun	–	–	–
HO, Wai Wah	–	–	–
WONG, Wai Chuen	–	–	–
LAI, Chiu Tai *(Note)*	–	–	–
	–	–	–

Note: Mr. Lai Chiu Tai passed away on 1 November 2009.

During the year, no Directors of the Company waived or agreed to waive any emoluments and no emoluments were paid by the Group to any of the Directors of the Company as an inducement to join or upon joining the Group or as compensation for loss of office (2009: Nil).

(b) 5 highest paid individuals

Since none of the Directors received any emoluments during the year ended 31 December 2010 and 2009, the five individuals whose emoluments were the highest in the Group did not include any Directors. The emoluments payable to these remaining five (2009: Five) individuals during the year are as follows:

	2010	2009
	HK$'000	*HK$'000*
Wages, salaries and other short-term employee benefits	1,286	939
Pension costs – defined contribution plans	28	23
	1,314	962

The emoluments fee within the following bands:

	Number of individuals	
	2010	2009
Emolument banks		
Nil – HK$500,000	4	5
HK$500,001 to HK$1,000,000	1	–
	5	5

29 LOSS ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The loss attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of HK$14,876,000 (2009: HK$14,406,000).

30 EARNINGS/(LOSS) PER SHARE

Basic

The calculation of basic earnings/(loss) per share is based on the consolidated profit/(loss) attributable to equity holders of the Company of approximately HK$21,933,000 (2009: loss of HK$17,365,000) and on the weighted average number of 552,586,000 (2009: 552,586,000) ordinary shares in issue during the year.

	2010	**2009**
Profit/(loss) attributable to equity holders of the Company (HK$'000)	21,933	(17,365)
Weighted average number of ordinary shares in issue (thousands)	552,586	552,586
Basic earnings/(loss) per share (HK$)	0.040	(0.031)

There is no dilutive effect on the earnings/(loss) per share.

31 DIVIDENDS

No dividend in respect of the year ended 31 December 2010 (2009: Nil) is to be proposed.

32 CASH USED IN OPERATIONS

	2010	**2009**
	HK$'000	*HK$'000*
Profit/(loss) before tax	27,306	(16,765)
Adjustment for:		
– Depreciation on property, plant and equipment	307	14
– Impairment of property, plant and equipment	–	144
– Provision for financial guarantees to an unconsolidated subsidiary	17,373	13,917
– (Reversal of)/provision for legal claims	(5,368)	(204)
– Interest income	(1)	(2)
– Interest expense	3,598	2,048
	43,215	(848)
Changes in working capital:		
– Inventories	(2,675)	–
– Trade receivables	(174,930)	(43,229)
– Prepayments, deposits and other receivables	(3,884)	(467)
– Trade payables	80,004	35,291
– Other payables and accruals	25,905	1,337
Cash used in operations	(32,365)	(7,916)

33 COMMITMENTS

(a) Capital commitments

The Group and the Company did not have capital commitments as at 31 December 2010 and 2009.

(b) Commitments under operating leases

The Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

	2010	**2009**
	HK$'000	*HK$'000*
Not later than one year	1,743	354
Later than one year and not later than five years	4,715	–
	6,458	354

34 SIGNIFICANT RELATED PARTY TRANSACTIONS

In addition to the provision for financial guarantees to an unconsolidated subsidiary (Note 22) as disclosed above, the Group had the following significant transactions carried out with related parties during the year.

(a) Key management compensation

	Group	
	2010	**2009**
	HK$'000	*HK$'000*
Salaries and other short-term employee benefits	–	–
Pension costs – defined contribution plans	–	–
Share-based compensation	–	–
	–	–

(b) Balances with unconsolidated subsidiaries and a former subsidiary

	Group	
	2010	**2009**
	HK$'000	*HK$'000*
Amounts due from unconsolidated subsidiaries		
– SU Industrial	231,937	231,937
– Perfect Design and Product Development Limited	2	2
	231,939	231,939
Less: Accumulated impairment losses	(231,939)	(231,939)
	–	–
Amount due from a former subsidiary		
– SU Qingyuan	32,241	43,307
– Less: Accumulated impairment losses	(32,241)	(43,307)
	–	–
Amounts due to unconsolidated subsidiaries:		
– SU Industrial	(111,051)	(111,051)
– Perfect Design and Product Development Limited	(1,311)	(1,311)
	(112,362)	(112,362)

The amounts due from/(to) unconsolidated subsidiaries and a former subsidiary are denominated in Hong Kong dollars, unsecured, interest-free and repayable on demand.

Due to the freezing orders on certain major assets and production facilities of SU Industrial as discussed in Note 3.2, the Group has not been able to recover the amounts due from SU Industrial and its subsidiary, Perfect Design and Product Development Limited. Accordingly, full provisions have been made in respect of the above balances.

As discussed in Note 3.2, SU Qingyuan was also subject to similar freezing orders. During the year ended 31 December 2010, the assets of SU Qingyuan was realised by the local authorities at approximately HK$35,075,000 for the settlement of liabilities and an excess amounting to approximately HK$11,066,000 was refunded to SU Qingyuan, resulting in a write-back of previously recognised impairment losses. The remaining amount of approximately HK$32,231,000 due from SU Qingyuan is considered irrecoverable and full provision has been made.

(c) Balances with subsidiaries

	Company 2010 HK$'000	2009 HK$'000
Amounts due from subsidiaries:		
– Smart Union (Hong Kong) Limited	545	545
– SU Industrial	188,373	188,373
– SU Investments	16,400	16,400
– SU China	27,630	27,630
– Smart Union Mining Investments Limited	227,208	227,208
– Smart Union Group Limited	160	160
	460,316	460,316
Less: Accumulated impairment losses	(460,316)	(460,316)
	–	–

The amounts due from subsidiaries are denominated in Hong Kong dollars, unsecured, interest-free and repayable on demand.

35 CONTINGENT LIABILITIES

(a) Transaction with Top Bright Investments Limited

Pursuant to an agreement (the "**Disposal Agreement**") entered into between SU Qingyuan, a former subsidiary (as vendor), Top Bright Investments Limited ("**Top Bright**"), an independent third party (as purchaser), and SU China and the Company (as guarantors) on 29 July 2008, a property of SU Qingyuan in the PRC (the "**Property**") was sold to Top Bright for HK$27,000,000. The consideration was to be settled partially by cash of HK$17,000,000 and the remaining balance of HK$10,000,000 was to be satisfied by the transfer to SU Investments all the equity interests in a company, Goldbush Design Limited, which was engaged in holding of patents of two interactive electronic toys (the "**Goldbush Shares**") and wholly owned by Top Pride Limited, another independent third party, and all debts owing or incurred by Goldbush Design Limited to Top Pride Limited upon the completion of the transaction.

The cash consideration of HK$17,000,000 was received by SU Industrial, an unconsolidated subsidiary, in August 2008. However, the transfer of the Property and the transfer of Goldbush Shares have not been completed and, as a result, Top Bright has requested SU Qingyuan, SU China and the Company to recover the cash consideration of HK$17,000,000 and the interest thereon. No repayment has been made by these companies so far. The Directors, based on legal advice obtained, are of the opinion that the Disposal Agreement is not enforceable on the Company or SU China and the obligation for the repayment of cash consideration of HK$17,000,000 to Top Bright should only be attributable to SU Industrial which had received the cash consideration.

As explained in Note 3.2, the financial statements of SU Industrial have not been consolidated in the consolidated financial statements of the Group because the Directors have not been able to get access to certain books and records of SU Industrial. Accordingly, no provision has been made in respect of any liability that may result from the above transaction in the consolidated financial statement as at 31 December 2010 and 2009.

(b) Deeds of novation

Pursuant to the deeds of novation dated 10 July 2008 and 1 October 2008 (the "**Deeds of Novation**") entered into between the Company and certain debtors of SU Industrial, an unconsolidated subsidiary, the Company has agreed to assume certain debts of SU Industrial of HK$15,400,000 and HK$15,353,000 respectively. Moreover, SU China and SU Investments have also agreed to provide certain charges and guarantees to such debtors in respect of the debts of SU Industrial.

The Directors, based on legal advice obtained, are of the opinion that the Deeds of Novation are invalid because there was no commercial benefit passing to the Company to assume such debt obligations of SU Industrial, nor to SU China and SU Investments to provide securities in relation to the debts of SU Industrial. Accordingly, no provision has been made in respect of any liability that may result from the Deeds of Novation.

Should the above Disposal Agreement or Deeds of Novation be enforceable and the resolution of the above transactions turns out to be unfavourable to the Group, the Group may need to record additional losses in respect of the above contingent liabilities.

36 EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE

On 30 March 2011, 致福（深圳）玩具有限公司, a wholly-owned subsidiary of the Company, entered into a conditional sale and purchase agreement to acquire the entire equity interests in 東莞市金詡玩具有限公司 ("**金詡**") at a consideration of RMB2 million. 金詡 is principally engaged in the manufacturing of toy products in the PRC. This completion is subject to the finalisation of certain conditions precedent as stipulated in the conditional sale and purchase agreement. The Group expects to complete this acquisition in 2011, and is in the process of assessing the fair values of assets, liabilities, contingent liabilities and identified intangible assets, if any, of 金詡. It is impracticable to disclose their respective amounts together with the goodwill so arising at the current stage.

6. MANAGEMENT DISCUSSION AND ANALYSIS OF THE GROUP FOR THE YEAR ENDED 31 DECEMBER 2008

Set out below is an extract of the management discussion and analysis of the Group for the year ended 31 December 2008 as set out in the Company's annual report 2008. It should be noted that the auditors gave a disclaimed opinion in the accounts for the year ended 31 December 2008 so that the analyses of the financial performance may be of limited value.

"Results

For the year ended 31 December 2008, the Group's turnover was approximately HK$37.6 million (2007: HK$953.6 million), representing a decrease of approximately 96.1% from the last financial year. As the Directors and the Provisional Liquidators have not been able to gain access to certain books and records of two subsidiaries of the Company, Smart Union Industrial Limited (Provisional Liquidators Appointed) ("**SU Industrial**") and Smart Union (Qingyuan) Industrial Limited ("**SU Qingyuan**"), the financial statements of SU Industrial and its wholly owned subsidiary, Perfect Design and Product Development Limited, have not been included in the consolidated financial statement of the Group, while the results of SU Qingyuan, from the beginning of the year till the date of deemed disposal, have not been included in the consolidated income statement of the Group.

The consolidated loss attributable to shareholders of the Company amounted to approximately HK$846.8 million (2007: profit of HK$4.7 million) for the year. Loss per share for the year ended 31 December 2008 was approximately HK$1.74 as compared with earnings per share of approximately HK$0.02 for the preceding year.

Segment information

Details are set out in Note 6 to the consolidated financial statements.

Liquidity, financial resources and funding

Bank balances and cash as at 31 December 2008 was approximately HK$5.1 million (2007: HK$101.6 million). As at 31 December 2008, the total amount of banking facilities outstanding was approximately HK$156 million (2007: HK$377 million), which are currently in default and the Group is currently undergoing restructuring. The Group's gearing ratio, representing total bank borrowing less bank balances and cash (including pledged bank deposits) and divided by shareholders' equity was not applicable as the Group has a negative shareholders' funds (2007: 41.9%).

Assets and liabilities

As at 31 December 2008, the Group had total assets of approximately HK$10.8 million (2007: HK$800.6 million), total liabilities of approximately HK$326.3 million (2007: HK$482.4 million). The net liabilities of the Group as at 31 December 2008 were HK$315.6 million (2007: net assets of HK$318.2 million).

Foreign exchange exposure

The Group is exposed to foreign exchange risk, most of the Group's assets and liabilities, revenue and expenditure are denominated in Renminbi, US dollar and Hong Kong dollar. As at 31 December 2008, the Group had insignificant exposure to foreign exchange risk as substantially all sales and purchases transactions, recognised assets and liabilities were primarily denominated in Renminbi, US dollar, and Hong Kong dollar.

Capital structure

The share capital of the Company comprises only ordinary shares. As at 31 December 2008, the Company had in issue 552,586,000 ordinary shares (2007: 342,480,000 shares). During the year, 118,000,000 and 92,096,000 new shares were issued respectively in January and September 2008. The Company had also issued 10,000 new shares as the result from the exercise of share options by a grantee during the year.

Capital commitments and contingent liabilities

The details of capital commitments and contingent liabilities are set out in Note 38 and 40 to the consolidated financial statements respectively.

Dividends

The Directors do not recommend any dividend for the year ended 31 December 2008 (2007: nil).

Business review

Appointment of Provisional Liquidators

2008 was a devastating year for the Group. The shortage of cash flow, caused by tightened credit lines in respond to the credit crunch coupled with eroded confidence from suppliers hindered the Company's effort to implement any meaningful turn-around plans. Moreover, two of the main plants in the PRC were damaged by floods during the year, which caused over RMB85.9 million of damages and suspended production for a month. The situation further worsened the Company's financial and operation during the peak season of 2008, which significantly deterred the Company from meeting its production targets.

The Company's dire results and downfall were further worsen by the adverse business environment in the toy industry, the appreciation of Renminbi in the first half of 2008, against the Group's overexpansion of business and diversification of business scope during the past few years.

Despite efforts of the management team in exploring ways to revive the business by such means as raising cash from new investors, sale of some of the Company's assets, borrowing from the Company's customer by mean of advance shipment payment, collaborating with strong financial backed company for strategic partnership for cash flow arrangement for orders on-hand, we failed to turn the Company around. The labour turmoil at two key plants in the PRC during mid-October placed the last straw and sank all our rescue attempts.

On 15 October 2008, the Board found no other alternative and resolved, unanimously, to apply to the High Court for the appointment of provisional liquidators after the major assets and production facilities of certain subsidiaries have been subject to freezing orders obtained by certain creditors in the PRC. At the request of the Company, trading in the shares of the Company (the "**Share(s)**") was suspended on the Main Board of the Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") on 15 October 2008 and remains suspended.

On 16 and 17 October 2008, the Company and six of its subsidiaries petitioned and applied to the High Court to seek their own winding up and for the appointment of Provisional Liquidators.

The High Court appointed Messrs. John Robert Lees and Mat Ng as the Joint and Several Provisional Liquidators of the Company and four of its subsidiaries on 16 October 2008 and two other subsidiaries on 17 October 2008.

On 1 December 2008, the Stock Exchange informed the Company that in view of the prolonged suspension of trading in the Shares, it has placed the Company in the first stage of the delisting procedures pursuant to Practice Note 17 to the Listing Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**") on 15 October 2008. The Company is required to submit a viable resumption proposal to address the issues pertaining to the suspension of trading in the Shares and demonstrate that the Company has a sufficient level of operations or has assets of sufficient value as required under Rule 13.24 of the Listing Rules.

Asian Capital (Corporate Finance) Limited has been appointed as the financial adviser to the Company with a view to restructuring the Company and submitting a viable resumption proposal to the Stock Exchange.

The Provisional Liquidators have secured an investor and are now implementing restructuring plan for the Company to revitalise the Company.

Proposed Restructuring of the Group after the appointment of Provisional Liquidators

On 12 May 2009, an exclusivity agreement (the "**Exclusivity Agreement**") was entered into amongst the Investor, Mr. Yang Wang Jian, Mr. Ting Wai-min, the Company and the Provisional Liquidators to grant the Investor exclusivity to (i) prepare a resumption proposal, and (ii) negotiate in good faith and enter into a legally binding agreement for the implementation of the restructuring proposal in connection with the restructuring of the Company (the "**Proposed Restructuring**").

As part of the Proposed Restructuring, Sino Front Limited ("**Sino Front**") was set up by the Company as a wholly-owned subsidiary in June 2009 to continue the Group's trading, and possibly, manufacturing of toys business.

Sino Front has signed a master purchase agreement with a buyer in Hong Kong pursuant to which certain minimum annual orders is guaranteed for a term of one year. As the Group's manufacturing facilities are still under the custody of the PRC local authorities, who are disposing of the assets there, Sino Front has subcontracted the manufacturing through a processing agreement with an OEM factory in the PRC. Accordingly manufacturing capabilities for annual orders of the Group for a certain minimum amount are also secured. The Group will continue to explore and develop alliances with both manufacturers and customers in the next two years with an aim to establishing a comprehensive production chain in line with its business development strategies.

Pursuant to the Exclusivity Agreement, the Investor has provided a loan of HK$5,000,000 to Sino Front, which is secured by a debenture, to enable it to meet its working capital needs. The Company has since resumed its trading of toy business through Sino Front.

On 1 September 2009, the Company submitted a resumption proposal to the Stock Exchange which embraces the Proposed Restructuring and contemplates, among other things, the followings:

(a) a restructuring of the share capital of the Company (the "**Capital Restructuring**") that involves, inter alia, reduction of the nominal value of the existing shares of the Company from HK$0.10 to HK$0.01 (the "**Capital Reduction**"), cancellation of existing un-issued share capital of the Company after the Capital Reduction, and increase in the authorised share capital of the Company;

(b) proposed subscription of new ordinary shares of the Company (the "**Subscription Shares**") with a par value of HK$0.01 each ("**New Shares**") to be issued by the Company following the Capital Restructuring by the Investor for a sum of HK$170 million; and

(c) all the creditors of the Company (the "**Creditors**") will be compromised and discharged by the arrangements contemplated under the scheme of arrangement to be made between the Company and its creditors pursuant to section 166 of the Hong Kong Companies Ordinance for a cash payment of up to HK$50 million, together with New Shares for the Creditors (the "**Creditors Shares**") representing approximately 5% of the issued share capital of the Company as enlarged by the issue of the Subscription Shares and the Creditors Shares to be issued and allotted as fully paid to the Creditors.

The Directors unanimously support the Proposed Restructuring.

Employees

The Group had a total of approximately 9,100 full-time employees based in Hong Kong and the PRC, up to the labour turmoil in the PRC during mid-October 2008, where the PRC based employees have filed claims of their outstanding salaries against the Company and its subsidiaries. Following the appointments of the Provisional Liquidators of the Company and its subsidiaries, the Hong Kong based employees were terminated by the Provisional Liquidators on 17 and 18 October 2008.

Prospects

It is anticipated that the financial position of the Group will be substantially improved upon completion of the Proposed Restructuring.

It is the Investor's intention to continue the Group's trading and, possibly, manufacturing of toys business through Sino Front, a wholly owned subsidiary of the Company and which is currently the only operating subsidiary of the Company.

With the strong support provided by the Investor to the Group in terms of both business and financial aspects, the Group will be able to sustain its toy business.

Subject to, among other things, the approvals of the shareholders of the Company and the Listing Division of the Stock Exchange upon the completion of the Proposed Restructuring, the Shares will resume trading on the Stock Exchange."

7. MANAGEMENT DISCUSSION AND ANALYSIS OF THE GROUP FOR THE YEAR ENDED 31 DECEMBER 2009

Set out below is an extract of the management discussion and analysis of the Group for the year ended 31 December 2009 as set out in the Company's annual report 2009. It should be noted that the auditors gave a disclaimed opinion in the accounts for the year ended 31 December 2009 so that the analyses of the financial performance may be of limited value.

"Results

For the year ended 31 December 2009, the Group's turnover was approximately HK$98.1 million (2008: HK$37.6 million), representing an increase of approximately 161% from the last financial year. As in last year, the Directors and the provisional liquidators of the Company have not been able to gain access to certain books and records of Smart Union Industrial Limited (Provisional Liquidators Appointed) ("**SU Industrial**") and Smart Union (Qingyuan) Industrial Limited ("**SU Qingyuan**"), the financial statements of SU Industrial and its wholly-owned subsidiary, Perfect Design and Product Development Limited, have not been included in the consolidated financial statements of the Group. The results of SU Qingyuan, from the beginning of the year 2008, have also not been included in the consolidated income statement of the Group.

Affected by the provision for financial guarantees to an de-consolidated subsidiary for approximately HK$13.9 million, the loss attributable to shareholders of the Company amounted to approximately HK$17.4 million (2008: HK$846.8 million) for the year. Loss per share for the year ended 31 December 2009 was approximately HK$0.03 as compared with loss per share of approximately HK$1.74 for the preceding year.

Segment Information

Details are set out in Note 6 to the consolidated financial statements.

Liquidity, financial resources and funding

Bank balances and cash as at 31 December 2009 was approximately HK$2.4 million (2008: HK$5.1 million). As at 31 December 2009, the total amount of banking facilities outstanding was approximately HK$168 million (2008: HK$156 million), which are currently in default and the Group is currently undergoing restructuring. The Group's gearing ratio, representing total bank borrowing less bank balances and cash (including pledged bank deposits) and divided by shareholders' equity was not applicable as the Group has negative shareholders' funds in 2009 and 2008.

Assets and liabilities

As at 31 December 2009, the Group had total assets of approximately HK$50.9 million (2008: HK$10.8 million), total liabilities of approximately HK$383.9 million (2008: HK$326.3 million). The net liabilities of the Group as at 31 December 2009 were HK$333.0 million (2008: HK$315.6 million).

Foreign exchange exposure

The Group is exposed to foreign exchange risk, most of the Group's assets and liabilities, revenue and expenditure are denominated in United States dollar and Hong Kong dollar. As at 31 December 2009, 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.

Capital structure

The share capital of the Company comprises only ordinary shares. As at 31 December 2009, the Company had in issue 552,586,000 ordinary shares (2008: 552,586,000 shares). During the year, no new shares were issued.

Capital commitments and contingent liabilities

The details of capital commitments and contingent liabilities are set out in Note 36 and Note 38 to the consolidated financial statements respectively.

Dividends

The Directors do not recommend any dividend for the year ended 31 December 2009 (2008: nil).

Business review

Appointment of Provisional Liquidators

Following creditors' action in the PRC which resulted in the major assets and production facilities of certain subsidiaries being subject to freezing orders, on 15 October 2008, the Board presented petitions to the High Court of Hong Kong Special Administration Region (the "**High Court**") for the appointment of provisional liquidators. At the request of the Company, trading in the shares of the Company (the "**Share(s)**") was suspended on the Main Board of the Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") on 15 October 2008 which remains suspended.

On 16 and 17 October 2008, the Company and six of its subsidiaries petitioned to the High Court to seek their own winding up and applied for the appointment of provisional liquidators.

The High Court appointed Messrs. John Robert Lees and Mat Ng as the joint and several provisional liquidators of the Company (the "**Provisional Liquidators**") and four of its subsidiaries on 16 October 2008 and two other subsidiaries on 17 October 2008.

On 9 November 2009, one of the employees of Dream Link Limited (In Liquidation) ("**Dream Link**") presented a petition to the High Court for the winding up of Dream Link as it could not meet demands for the repayment of outstanding debts. Upon the order made by the High Court on 13 January 2010, Dream Link was wound up under the provisions of the Companies Ordinance. Subsequently, 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.

Proposed Restructuring of the Group after the appointment of Provisional Liquidators

On 1 December 2008, the Stock Exchange informed the Company that in view of the prolonged suspension of trading in the Shares, it had placed the Company in the first stage of the delisting procedures pursuant to Practice Note 17 to the Listing Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**") on 15 October 2008. The Company is required to submit a viable resumption proposal to address the issues pertaining to the suspension of trading in the Shares and demonstrate that the Company has a sufficient level of operations or has assets of sufficient value as required under Rule 13.24 of the Listing Rules.

Asian Capital (Corporate Finance) Limited was appointed as the financial adviser to the Company with a view to restructuring the Company and submitting a viable resumption proposal to the Stock Exchange.

The Provisional Liquidators have secured an investor and are now implementing restructuring plans for the Company to be revitalised.

On 12 May 2009, an exclusivity agreement (the "**Exclusivity Agreement**") was entered into amongst Gold Bless International Invest Limited (the "**Investor**"), Mr. Yang Wang Jian, Mr. Ting Wai-min, the Company and the Provisional Liquidators to grant the Investor exclusivity to (i) prepare a resumption proposal, and (ii) negotiate in good faith and enter into a legally binding agreement for the implementation of the restructuring proposal in connection with the restructuring of the Company (the "**Proposed Restructuring**").

As part of the Proposed Restructuring, with the approval of the High Court, Sino Front Limited ("**Sino Front**") was set up by the Company as a wholly-owned subsidiary in June 2009 to continue the Group's trading and manufacturing of toys business.

Pursuant to the Exclusivity Agreement, the Investor has provided a loan of HK$5,000,000 to Sino Front, secured by a debenture, to enable it to meet its working capital needs. The Company has since resumed its trading of toy business through Sino Front.

On 1 September 2009, the Company submitted a resumption proposal to the Stock Exchange which embraces the Proposed Restructuring and contemplates, among other things, the following:

(a) a restructuring of the share capital of the Company (the "**Capital Restructuring**") that involves, inter alia, reduction of the nominal value of the existing shares of the Company from HK$0.10 to HK$0.01 (the "**Capital Reduction**"), cancellation of existing un-issued share capital of the Company after the Capital Reduction, and increase in the authorised share capital of the Company;

(b) proposed subscription of new ordinary shares of the Company (the "**Subscription Shares**") with a par value of HK$0.01 each ("**New Shares**") to be issued by the Company following the Capital Restructuring by the Investor for a sum of HK$170 million; and

(c) all the creditors of the Company (the "**Creditors**") will be compromised and discharged by the arrangements contemplated under the scheme of arrangement to be made between the Company and its creditors pursuant to section 166 of the Hong Kong Companies Ordinance for a cash payment of up to HK$50 million, together with New Shares for the Creditors (the "**Creditors Shares**") representing approximately 5% of the issued share capital of the Company as enlarged by the issue of the Subscription Shares and the Creditors Shares to be issued and allotted as fully paid to the Creditors.

The Directors unanimously support the Proposed Restructuring.

Sino Front has been able to gradually establish and rebuild the Group's clientele despite its holding company being in provisional liquidation. Since the commencement of its operations, Sino Front has signed a master purchase agreement with a customer in Hong Kong in June 2009 pursuant to which certain minimum annual orders are guaranteed for a term of one year. The master purchase agreement has recently been extended for a further year to May 2011, with its annual order amount being increased by 50%. Furthermore, Sino Front has since January 2010 secured monthly orders from other customers. As the Group's manufacturing facilities are still under the custody of the PRC local authorities and some of which were auctioned and sold in 2009 and 2010. Sino Front has, so far, been subcontracting the manufacturing of its products with OEM manufacturers in the PRC.

The Group will continue to explore opportunities and means to develop alliances with manufacturers and with customers with an aim to establishing a comprehensive production and value chain in line with its development strategies to sustain its toy business.

Pursuant to the order of High Court dated 5 January 2009, the hearing of the winding-up petitions against the Company and the relevant subsidiaries were adjourned to 6 April 2009. The High Court then further adjourned the hearing of the winding-up petitions to 1 June 2009 pursuant to the hearing on 6 April 2009. At the hearing on 1 June 2009, the High Court further adjourned the hearing of the winding-up petitions of the Company and the relevant subsidiaries to 30 November 2009. At the hearing on 30 November 2009, the High Court further adjourned the hearing of the winding-up petitions of the Company and the relevant subsidiaries to 31 May 2010 to allow time for the implementation of the proposed restructuring of the Group.

Employees and remuneration policies

As at 31 December 2009, the Group had 13 full-time employee (2008: Nil) based in Hong Kong and the PRC. Remuneration packages of the Group's employees are generally structured by reference to market terms and individual qualifications. The Group operates a defined contribution benefits scheme under the Mandatory Provident Fund Schemes Ordinance (Chapter 485 of the Laws of Hong Kong) for all its employees in Hong Kong.

Prospects

It is the Investor's intention to continue the Group's trading and manufacturing of toys business through Sino Front, currently the only operating subsidiary of the Company.

It is anticipated that the financial position of the Group will be substantially improved upon completion of the Proposed Restructuring. With the strong support provided by the Investor to the Group in terms of both business and financial aspects, the Group will be able to sustain its toy business.

Subject to, among other things, the approvals of the shareholders of the Company and the Listing Division of the Stock Exchange upon the completion of the Proposed Restructuring, the Shares will resume trading on the Stock Exchange."

8. MANAGEMENT DISCUSSION AND ANALYSIS OF THE GROUP FOR THE YEAR ENDED 31 DECEMBER 2010

"Results

For the year ended 31 December 2010, the Group's turnover was approximately HK$362.0 million (2009: HK$98.1 million), representing an increase of approximately 269% from the last financial year. As in last year, the Directors and the provisional liquidators of the Company have not been able to gain access to certain books and records of Smart Union Industrial Limited (Provisional Liquidators Appointed) ("**SU Industrial**") and Smart Union (Qingyuan) Industrial Limited ("**SU Qingyuan**"), the financial statements of SU Industrial and its wholly-owned subsidiary, Perfect Design and Product Development Limited, have not been included in the consolidated financial statement of the Group. The results of SU Qingyuan, from the beginning of the year 2008, have also not been included in the consolidated income statement of the Group.

Given the improved business after the acquisition of five production lines (the "**Five Production Lines**") from 藍宇玩具有限公司 completed in July 2010, profit attributable to shareholders of the Company amounted to approximately HK$21.9 million (2009: loss of HK$17.4 million) for the year. Earnings per share for the year ended 31 December 2010 was approximately HK$0.040 as compared with loss per share of approximately HK$0.031 for the preceding year.

Operating profit for the year ended 31 December 2010 was approximately HK$30.9 million compared to an operating loss of approximately HK$14.7 million for the preceding year. After excluding the effects of the reversals of provision for legal claims and amount due from a former subsidiary for approximately HK$5.4 million and HK$11.1 million respectively, as well as the provision for financial guarantees to an unconsolidated subsidiary of approximately HK$17.4 million during the year, the Group's operation generates a profit of approximately HK$31.8 million during 2010.

Liquidity, financial resources and funding

Bank balances and cash as at 31 December 2010 was approximately HK$16.6 million (2009: HK$2.4 million). As at 31 December 2010, the total outstanding amount of banking facilities was approximately HK$185.8 million (2009: HK$168 million), which are currently in default and the Group is currently undergoing restructuring. The Group's gearing ratio, representing total bank borrowing less bank balances and cash divided by shareholders' equity was not applicable as the Group has negative shareholders' funds in 2010 and 2009.

Assets and liabilities

As at 31 December 2010, the Group had total assets of approximately HK$249.8 million (2009: HK$50.9 million), total liabilities of approximately HK$560.8 million (2009: HK$383.9 million). The net liabilities of the Group as at 31 December 2010 were HK$311.0 million (2009: net liabilities of HK$333.0 million).

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 dollar and Hong Kong dollar. As at 31 December 2010, 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.

Capital structure

The share capital of the Company comprises only ordinary shares. As at 31 December 2010, the Company had in issue 552,586,000 ordinary shares (2009: 552,586,000 shares). During the year, no new shares were issued.

Capital commitments and contingent liabilities

The details of capital commitments and contingent liabilities are set out in Note 33 and Note 35 to the consolidated financial statements respectively.

Dividends

The Board does not recommend any dividend for the year ended 31 December 2010 (2009: nil).

Business review

Appointment of Provisional Liquidators

Following creditors' action in the People's Republic of China (the "**PRC**") which resulted in the major assets and production facilities of certain subsidiaries being subject to freezing orders. On 15 October 2008, trading in the shares of the Company (the "**Share(s)**") was suspended on the Main Board of the Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") at the request of the Company, which remains suspended.

On 16 and 17 October 2008, the Company and six of its subsidiaries petitioned to the High Court to seek their own winding up and applied for the appointment of provisional liquidators.

The High Court appointed Messrs. John Robert Lees and Mat Ng as the joint and several provisional liquidators of the Company (the "**Provisional Liquidators**") and four of its subsidiaries on 16 October 2008 and two other subsidiaries on 17 October 2008.

On 9 November 2009, one of the employees of Dream Link Limited (In Liquidation) ("**Dream Link**") presented petitions to the High Court for the winding up of Dream Link as it could not meet demands for the repayment of outstanding debts.

Upon the order made by the High Court on 13 January 2010, Dream Link was wound up under the provisions of the Companies Ordinance. Subsequently, Messrs. John Robert Lees and Mat Ng were appointed as the joint and several provisional liquidators and the joint and several liquidators of Dream Link on 13 January 2010 and 19 August 2010 respectively. On 9 March 2011, the Court granted the release of Messrs. John Robert Lees and Mat Ng as joint and several liquidators of Dream Link.

Proposed Restructuring of the Group after the appointment of Provisional Liquidators

On 1 December 2008, the Stock Exchange, in view of the prolonged suspension of trading in the Shares, informed the Company that it had placed the Company in the first stage of the delisting procedures pursuant to Practice Note 17 to the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**") on 15 October 2008.

An exclusivity agreement dated 12 May 2009 (the "**Exclusivity Agreement**") was entered into amongst Gold Bless International Invest Limited (the "**Investor**"), Mr. Yang Wang Jian ("**Mr. Yang**"), Mr. Ting Wai-min ("**Mr. Ting**"), the Company and the Provisional Liquidators to grant the Investor exclusivity to (i) prepare a resumption proposal, and (ii) negotiate in good faith and enter into a legally binding agreement for the implementation of the restructuring proposal in connection with the restructuring of the Company (the "**Proposed Restructuring**").

On 1 September 2009, the Company submitted a resumption proposal (the "**Resumption Proposal**") to the Stock Exchange with a view to seek the Stock Exchange's approval for the resumption of trading in the shares of the Company. On 3 May 2010, the Stock Exchange informed the Company that the Resumption Proposal did not satisfactorily demonstrate sufficiency of operations or assets under Rule 13.24 of the Listing Rules and decided to place the Company in the second stage of delisting procedures with effect from 3 May 2010. The Company is required to submit a viable resumption proposal at least 10 business days before 2 November 2010, the expiry of the six-month period from the date the Company was placed in the second stage of delisting procedures. At the end of the period, the Stock Exchange will determine whether it is appropriate to proceed to place the Company in the third stage of delisting procedures after considering any proposal made by the Company.

On 27 May 2010, the Investor, Mr. Yang, Mr. Ting, the Company and the Provisional Liquidators entered into a supplemental agreement to extend the exclusivity period under the Exclusivity Agreement to 31 December 2010 (the "**Supplemental Exclusivity Agreement**"). On the same day, the Investor and Sino Front Limited ("**Sino Front**"), a wholly-owned subsidiary of the Company, entered into a supplemental working capital facility agreement (the "**Supplemental Working Capital Facility Agreement**"), pursuant to which the Investor agreed to increase the working capital facility from HK$5,000,000 to HK$55,000,000 on the terms and subject to the conditions as set out in the working capital facility agreement dated 17 June 2009 entered into between the Investor and Sino Front as supplemented by the Supplemental Working Capital Facility Agreement. The Group has been using the working capital facility for expansion of its toys manufacturing business.

The Group has resurrected its toy trading business through Sino Front since June 2009, and has gradually expanded its customer base whilst subcontracted its manufacturing operations to OEM manufacturers in the PRC. With secured orders yet diversifying Sino Front's reliance on its outsourced sub-contractors, the Company has resumed the Group's toy manufacturing business by acquiring production lines from an OEM manufacturer in the PRC.

On 6 July 2010, the Group completed an acquisition of Five Production Lines from 藍宇玩具有限公司 pursuant to the acquisition agreement dated 8 June 2010 entered into between Sino Front and 藍宇玩具有限公司. The Five Production Lines are located in Dongguan, the PRC, with an aggregate annual production capacity of approximately 3 million units of toy products and are equipped with ancillary facilities and machineries including plastic injection moulding machineries and assembly lines. The revival of the Group's toy manufacturing business through the acquisition of the Five Production Lines has been conducive to supporting a cohesive and sustaining resumption proposal.

On 14 October 2010, the Company submitted a supplemental Resumption Proposal followed by several rounds of submissions to the Stock Exchange with a view to addressing the issues set out in the Stock Exchange's letter dated 3 May 2010. The Stock Exchange is still in the process of reviewing and considering the Resumption Proposal.

On 31 December 2010, the Company, the Provisional Liquidators, the Investor, Mr. Yang and Mr. Ting entered into a restructuring agreement, which provided for, inter alia, a capital restructuring, an open offer, a subscription of ordinary shares by the Investor, a scheme of arrangement in Hong Kong, a group reorganisation and a whitewash wavier.

The hearing of the winding up petitions against the Company and the relevant subsidiaries, after several adjournments to allow time for the implementation of the Proposed Restructuring of the Group, is scheduled on 23 May 2011.

Employee

As at 31 December 2010, the Group had 24 full-time employees (2009: 13 employees) based in Hong Kong and the PRC. Through a contracting arrangement, it engaged 100 workers, designated to work in the Group's production lines located in Dongguan, the PRC.

Remuneration packages of the Group's employees are generally structured by reference to market terms and individual qualifications. The Group operates a defined contribution benefits scheme under the Mandatory Provident Fund Schemes Ordinance (Chapter 485 of the Laws of Hong Kong) for its employees in Hong Kong and makes contributions to social insurance for its employees in the PRC.

Prospects

It is the Investor's intention to continue the Group's trading and manufacturing of toys business through Sino Front and its subsidiaries.

As demonstrated by the annual results for the year of 2010, with the support provided by the Investor to the Group in both business and financial aspects, the Group has successfully revived its toy business and achieve significant profitability. It is anticipated that all liabilities arising from the creditors of the Company will be compromised and discharged by way of a scheme of arrangements as contemplated in the Resumption Proposal. Moreover, the proposed open offer and share subscription will also largely enhance the liquidity of the Group. As a result, the financial position of the Group will be substantially improved upon completion of the Proposed Restructuring.

Further to the acquisition of the Five Production Lines on 6 July 2010, 致福玩具(深圳)有限公司, a wholly-owned subsidiary of the Company, entered into an acquisition agreement in relation to the acquisition of entire equity interest of 東莞市金詡玩具有限公司 on 30 March 2011. The Group believes the acquisition will enhance existing operation, and will therefore possess a more comprehensive manufacturing and trading operation.

The Group will continue to explore opportunities and means to develop and strengthen alliance, with manufacturers and with customers with an aim to establishing a comprehensive production and value chain in line with its development strategies to sustain its toy business.

Once the Stock Exchange has approved the Proposed Restructuring, and, amongst other things, with creditors and shareholders approving the resolutions in relation to the Restructuring Agreement, the Shares of the Company will be able to resume trading on the Stock Exchange.

The Provisional Liquidators are confident that, with the Investor's strong support in the business and financial aspects as well as the recent acquisitions of additional manufacturing capacity, the business operations of the Group will sustain."

9. UNAUDITED FINANCIAL INFORMATION FOR THE SIX MONTHS ENDED 30 JUNE 2011

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30th June 2011

	Notes	**Six months ended 30th June 2011** *HK$'000* (Unaudited)	**Six months ended 30th June 2010** *HK$'000* (Unaudited)
Sales	*4*	285,694	93,559
Cost of sales		(251,561)	(88,847)
Gross profit		34,133	4,712
Other income	*7*	2,976	2,315
Administrative expenses		(10,310)	(4,578)
Selling expenses		(203)	(83)
Reversal for legal claims		–	5,368
Operating profit	*6*	26,596	7,734
Finance costs	*8*	(10,975)	(11,399)
Profit/(loss) before tax		15,621	(3,665)
Income tax expense	*9*	(6,900)	(485)
Profit/(loss) for the period		8,721	(4,150)
Attributable to:			
Equity holders of the Company		8,721	(4,150)
Non-controlling interest		–	–
		8,721	(4,150)
Earnings/(loss) per share for profit/(loss) attributable to the equity holders of the Company during the period (HK$ per share)			
basic and diluted (HK$)	*11*	0.02	(0.01)
Dividend	*10*	–	–

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30th June 2011

	Six months ended 30th June 2011	Six months ended 30th June 2010
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Profit/(loss) for the period	8,721	(4,150)
Other comprehensive income:	–	–
Total comprehensive income for the period	8,721	(4,150)
Total comprehensive income attributable to:		
Equity holders of the Company	8,721	(4,150)
Non-controlling interest	–	–
	8,721	(4,150)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30th June 2011

	Notes	**30th June 2011** *HK$'000* (Unaudited)	**31st December 2010** *HK$'000* (Audited)
ASSETS			
Non-current assets			
Property, plant and equipment		2,861	3,165
Intangible assets		–	–
Investments in unconsolidated subsidiaries		–	–
Investment in a former subsidiary		–	–
Investment in an associated company		–	–
		2,861	3,165
Current assets			
Inventories		–	2,675
Trade receivables	*12*	294,964	221,945
Amount due from unconsolidated subsidiaries		–	–
Amount due from a former subsidiary		–	–
Prepayments, deposits and other receivables		7,741	5,327
Convertible bonds		–	–
Tax recoverable		127	127
Cash and cash equivalents		19,609	16,562
		322,441	246,636
Total assets		325,302	249,801

	Notes	30th June 2011 HK$'000 (Unaudited)	31st December 2010 HK$'000 (Audited)
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital		55,259	55,259
Share premium		368,381	368,381
Other reserves		30,474	30,474
Accumulated losses		(756,419)	(765,140)
		(302,305)	(311,026)
Non-controlling interest		–	–
Total equity		(302,305)	(311,026)
LIABILITIES			
Non-current liabilities			
Borrowings		–	–
Deferred tax liabilities		16	16
		16	16
Current liabilities			
Trade payables	*13*	179,844	120,782
Other payables and accruals	*13*	229,576	228,758
Amounts due to unconsolidated subsidiaries		112,362	112,362
Borrowings		92,936	92,936
Tax payable		12,873	5,973
		627,591	560,811
Total liabilities		627,607	560,827
Total equity and liabilities		325,302	249,801
Net current liabilities		(305,150)	(314,175)
Total assets less current liabilities		(302,289)	(311,010)

Notes:

1. GENERAL INFORMATION

The Company was incorporated in the Cayman Islands on 8th 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 have been suspended for trading on the Stock Exchange since 15th October 2008. On 3rd May 2010, the Stock Exchange informed the Company that it has decided to place the Company in the second stage of delisting procedures with effect from 3rd May 2010 pursuant to Practice Note 17 to the Rules Governing the Listing of Securities on The Stock Exchange (the "Listing Rules").

The Group was principally engaged in manufacturing and trading of recreational and educational toys and equipment. The then operations of the Group have 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 (In Liquidation) ("Dream Link"), a subsidiary, continued its trading business until 28th February 2009. The Group has reactivated its trading of toys business through Sino Front Limited ("Sino Front"), a wholly-owned subsidiary of the Company, and its subsidiaries.

The condensed consolidated interim financial information is presented in units of thousands of Hong Kong dollars (HK$) unless otherwise stated. The condensed consolidated interim financial information has been approved for issue by the Provisional Liquidators and the Board on 16th August 2011.

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

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

As a result of the applications, Messrs. John Robert Lees and Mat Ng were appointed as the Provisional Liquidators and the joint and several provisional liquidators of six of its subsidiaries by the orders of the High Court dated 16th October 2008 and 17th 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 12th May 2009, an exclusivity agreement (the "Exclusivity Agreement") was entered into amongst Gold Bless International Invest Limited (the "Investor"), Mr. Yang Wang Jian ("Mr. Yang"), Mr. Ting Wai-min ("Mr. Ting"), the Company and the Provisional Liquidators to grant the Investor an exclusivity period to (i) prepare a resumption proposal; and (ii) negotiate in good faith and enter into a legally binding agreement for the implementation of the restructuring proposal in connection with the restructuring of the Company (the "Proposed Restructuring").

As part of the Proposed Restructuring, Sino Front was set up by the Company as a wholly-owned subsidiary in June 2009 to continue the Group's trading, and possibly, manufacturing of toys business.

On 3rd May 2010, the Stock Exchange informed the Company that the Resumption Proposal as defined hereafter did not satisfactorily demonstrate sufficiency of operations or assets under Rule 13.24 of the Listing Rules and the Stock Exchange decided to place the Company in the second stage of delisting procedures with effect from 3rd May 2010. The Company was required to submit a viable resumption proposal before 2nd November 2010, the expiry of the six-month period from the date the Company was placed in the second stage of delisting procedures. At the end of the period, the Stock Exchange was to determine whether it was appropriate to proceed to place the Company in the third stage of delisting procedures after considering any proposal made by the Company.

On 27th May 2010, the Investor, Mr. Yang, Mr. Ting, the Company and the Provisional Liquidators entered into a supplemental agreement to extend the exclusivity period under the Exclusivity Agreement dated 12th May 2009 to 31st December 2010. On the same day, the Investor and Sino Front entered into a supplemental working capital facility agreement (the "Supplemental Working Capital Facility Agreement"), pursuant to which the Investor agreed to increase the working capital facility from HK$5,000,000 to HK$55,000,000 on the terms and subject to the conditions as set out in the working capital facility agreement dated 17th June 2009 entered into by the Investor and Sino Front as supplemented by the Supplemental Working Capital Facility Agreement. The Group will use the working capital facility to meet the costs required for business expansion and reactivation of its toys manufacturing business as part of the Resumption Proposal.

On 31st May 2011, the Investor, Mr. Yang, Mr. Ting, the Company and the Provisional Liquidators entered into a supplemental agreement pursuant to which all parties agreed to extend the long stop date to 30th November 2011.

On 16th June 2011, the Investor and Sino Front entered into the second supplemental working capital facility agreement, pursuant to which the Investor agreed to extend the maturity date of the working capital facility from 16th June 2011 to 30th November 2011.

On 10th June 2011, the Stock Exchange informed the Company that resumption of trading in the shares of the Company will be allowed if the Company fulfils certain conditions by 30th November 2011, including (1) completion of the transactions under the Resumption Proposal; (2) inclusion in the circular to shareholders of a profit forecast for the year ending 31st December 2011 together with reports from the auditors and the financial adviser, a statement from directors of the Company (the "Directors") confirming working capital sufficiency for 12 months after resumption and a comfort letter from the auditors/financial adviser on the Directors' statement and a pro forma balance sheet upon completion of the Resumption Proposal and a comfort letter from the auditors under Rule 4.29 of the Listing Rules; (3) provision of a full scope internal control review report confirming an adequate and effective internal control system; and (4) dismissal of the winding-up petition and discharge of the Provisional Liquidators.

On 20th June 2011 and 20th July 2011, the Company, the Provisional Liquidators, the Investor, Mr. Yang and Mr. Ting entered into the second supplemental restructuring agreement and a side letter respectively, pursuant to which the parties agreed to, inter alia, (1) revise the structure of the capital restructuring; (2) adjust the number of creditors shares; (3) adjust the terms of the subscription; (4) replace the proposed open offer with the placing of convertible bonds; and (5) include the placing of the placing shares as part of the Proposed Restructuring.

On 6th July 2010, Sino Front completed an acquisition of five production lines ("Five Production Lines") at a consideration of RMB3,000,000 (approximately HK$3,450,000). The Five Production Lines are located in Dongguan, the PRC and are equipped with ancillary facilities and machineries including plastic injection moulding machineries and assembly lines.

On 1st August 2011, Sino Front completed another acquisition, of which, the Group acquired the entire equity interest of Dongguan Jinxu Toy Limited (東莞市金詡玩具有限公司) ("Jinxu"), a PRC OEM toy manufacturer and operates a factory with 3 production lines in Dongguan, the PRC.

The hearings of the winding up petitions against the Company and the relevant subsidiaries, after several adjournments to allow time for the implementation of the Proposed Restructuring of the Group, are scheduled on 14th November 2011.

The Directors and the Provisional Liquidators have prepared the condensed consolidated interim financial information on the assumption that the restructuring of the Company will be implemented in accordance with its terms and the Group will be able to improve its financial position and business upon completion of the Proposed Restructuring. As at the date of approval of the condensed consolidated interim financial information, the Directors and the Provisional Liquidators are not aware of any circumstances or reasons that would likely affect the implementation of the Proposed Restructuring. In light of the foregoing, the Directors and the Provisional Liquidators considered that it is appropriate to prepare the condensed consolidated interim financial information on a going concern basis. The condensed consolidated interim financial information do not incorporate any adjustments for possible failure of the Proposed Restructuring and the continuance of the Group as a going concern. Should the Group be unable to continue as a going concern, adjustments would have to be made to restate the value of assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets as current assets. The effects of these adjustments have not been reflected in these condensed consolidated interim financial information.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of the condensed consolidated interim financial information is set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

3.1 Basis of preparation

The condensed consolidated interim financial information of the Company has been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") except for the non-consolidation of certain subsidiaries of the Group as explained in Note 3.2 and the non-consolidation of the results of a former subsidiary, and an associated company, which has not been properly equity accounted for. The condensed consolidated interim financial information has been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets.

As at 30th June 2011, the Group had net current liabilities of approximately HK$305,150,000 and net liabilities of approximately HK$302,305,000. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern. The condensed consolidated interim financial information has been prepared on a going concern basis, the reasons of which are discussed in Note 2 above.

3.2 Subsidiaries not consolidated

The condensed consolidated interim financial information has been 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 (Provisional Liquidators Appointed) ("SU Industrial"), having been subject to freezing orders obtained by its creditors in the PRC since October 2008. The Directors have not been able to gain 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"), have not been included into the condensed consolidated interim financial information of the Group for the six months ended 30th June 2011. The resulting de-consolidation loss, which is determined based on the net asset value of these subsidiaries as at 1st January 2008, and the impairment loss of the investment in SU Industrial of approximately HK$63,393,000 and HK$3,600,000 respectively have been recognised in the consolidated income statement during the year ended 31st December 2008. Moreover, as at 30th June 2011 and 31st 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 have been recognised in the condensed consolidated financial information. In addition, there was a total amount due to SU Industrial and Perfect Design of approximately HK$112,362,000 as at 30th June 2011 and 31st December 2010.

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 since 14th 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 deconsolidated from the condensed consolidated interim financial information since 14th October 2008. Due to the lack of complete books and records of SU Qingyuan, it was deemed disposed of and deconsolidated from the consolidated financial statements of the Group only based on its net asset value as at 31st December 2007, resulting in a gain of HK$506,000 which was included in the consolidated income statement for the year ended 31st December 2008. Moreover, as at 30th June 2010, the investment in SU Qingyuan and the amount due from SU Qingyuan of approximately HK$30,000,000 and HK$43,307,000 respectively are considered not recoverable and, accordingly, full impairment losses have been recognised in the consolidated financial statements for the year ended 31st December 2008.

In 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 has been returned.

Moreover, as at 30th June 2011, the investment in SU Qingyuan and the amount due from SU Qingyuan of approximately HK$30,000,000 (31st December 2010: HK$30,000,000) and HK$32,241,000 (31st December 2010: HK$32,241,000) respectively are considered not recoverable and, accordingly, full impairment losses have been recognised in the consolidated financial statements.

Due to the significance of the operations of SU Industrial and SU Qingyuan, any changes to the status or possible outcome of the freezing orders against SU Industrial and SU Qingyuan may have a significant consequential effect on the net liabilities and the results of the Group for the six months ended 30th June 2011.

In the opinion of the Directors, the condensed consolidated interim financial information as at and for the six months ended 30th June 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, and the non-consolidation of the results of SU Qingyuan from the beginning of the year 2008 till the date of the deemed disposal of SU Qingyuan on 14th October 2008, are not in compliance with the requirements of Hong Kong Accounting Standard 27 "Consolidated and Separate Financial Statements".

3.3 Accounting policies

The accounting policies and method of computation used in the preparation of the condensed consolidated interim financial information are consistent with those used in the annual financial statements for the period ended 31st December 2010, except as mentioned below.

(a) Effect of adopting new standards and amendments to standards

The following amendments to standards and interpretations are mandatory for financial year beginning 1st 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 Rights Issues
HK(IFRIC)-lnt 14 (Amendments)	Amendments to HK(IFRIC)-lnt 14 Prepayments of a Minimum Funding Requirement
HK(IFRIC)-lnt 19	Extinguishing Financial Liabilities with Equity Instruments

The adoption of these new and revised HKFRSs has had no material effect on the condensed consolidated interim financial information and there have been no significant changes to the accounting policies applied in these financial statements.

(b) Amendments to standards and interpretations that have been issued but are not effective

In the condensed consolidated interim financial information, the Group has not applied the following new and revised HKFRSs that have been issued but are not yet effective.

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 9	Financial Instruments[4]
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 (Revised)	Presentation of Financial Statements[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]

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

The Directors and the Provisional Liquidators anticipate that the adoption of other amendments to standards and interpretations will not result in a significant impact on the results and financial position of the Group.

4. TURNOVER

	Six months ended 30th June	
	2011	**2010**
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Sales of goods	285,694	93,559

5. **SEGMENT INFORMATION**

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker.

The Group is principally engaged in the trading and manufacturing of toys and subject to similar business risk.

The Group primarily operates in Hong Kong and the PRC.

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

	Six months ended 30th June	
	2011	**2010**
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Hong Kong	285,694	93,559

Sales are allocated based on the places/countries in which goods are delivered.

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

	30th June 2011	**31st December 2010**
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Hong Kong	310,962	234,919
The PRC	14,340	14,882
	325,302	249,801

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

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

	Six months ended 30th June	
	2011	**2010**
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Hong Kong	11	5
The PRC	2,850	–
	2,861	5

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

6. OPERATING PROFIT

Operating profit is stated after charging the following during the period:

	Six months ended 30th June 2011 HK$'000 (Unaudited)	2010 HK$'000 (Unaudited)
Depreciation of property, plant and equipment	304	–

7. OTHER INCOME

	Six months ended 30th June 2011 HK$'000 (Unaudited)	2010 HK$'000 (Unaudited)
Other income:		
– Non-refundable income	2,902	2,315
– Sundry income	74	–
	2,976	2,315

8. FINANCE COSTS

	Six months ended 30th June 2011 HK$'000 (Unaudited)	2010 HK$'000 (Unaudited)
Interest expense:		
– Other borrowings	2,098	1,165
– Provision for financial guarantees to an unconsolidated subsidiary	8,877	10,234
	10,975	11,399

9. INCOME TAX EXPENSE

	Six months ended 30th June 2011 HK$'000 (Unaudited)	2010 HK$'000 (Unaudited)
Current taxation:		
– Hong Kong profits tax	6,900	485

10. DIVIDEND

The Directors do not recommend the payment of an interim dividend for the six months ended 30th June 2011 (2010: Nil).

11. EARNINGS/(LOSS) PER SHARE

Basic

The calculation of basic earnings/(losses) per share is based on the consolidated profit attributable to equity holders of the Company of approximately HK$8,721,000 (30th June 2010: loss of HK$4,150,000) and on the weighted average number of 552,586,000 (30th June 2010: 552,586,000) ordinary shares in issue during the period.

	Six months ended 30th June 2011 (Unaudited)	2010 (Unaudited)
Profit/(loss) attributable to equity holders of the Company (HK$'000)	8,721	(4,150)
Weighted average number of ordinary shares in issue (thousands)	552,586	552,586
Basic profit/(loss) per share (HK$)	0.02	(0.01)

There is no dilutive effect on the earnings/(loss) per share.

12. TRADE RECEIVABLES

	30th June 2011 *HK$'000* (Unaudited)	31st December 2010 *HK$'000* (Audited)
Trade receivables	294,964	221,945
Less: provision for impairment of receivables	–	–
Trade receivables – net	294,964	221,945

The Group's trade receivables from its customers are generally with credit periods of less than 30 to 60 days. The customers with good repayment history comprise a significant proportion of the Group's sales. The Group has policies in place to ensure that sales of products are made to customers with an appropriate credit history to minimise the credit risk.

The maximum exposure to credit risk at the reporting date is the fair value of the trade receivables. The Group does not hold any collateral as security.

The carrying amounts of trade receivables approximate their fair values. The ageing analysis of trade receivables as at 30th June 2011 and 31st December 2010 were as follows:

	30th June 2011 *HK$'000* (Unaudited)	31st December 2010 *HK$'000* (Audited)
0 – 30 days	59,602	56,438
31 – 60 days	47,792	26,779
61 – 90 days	52,967	38,120
91 days – 180 days	94,854	100,536
Over 180 days	39,749	72
	294,964	221,945

13. TRADE AND OTHER PAYABLES AND ACCRUALS

	30th June 2011	31st December 2010
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Trade payables	179,844	120,782
Other payables and accruals *(Note (i))*	229,576	228,758
	409,420	349,540

Note:

(i) SU Industrial, an unconsolidated subsidiary, defaulted on the repayment of loans from certain banks and a finance-lease provider. As at 30th June 2011, the total outstanding principal, interest and other charges thereon amounted to approximately HK$152,748,000 and HK$41,956,000 respectively (31st December 2010: outstanding principal and interest: HK$152,748,000 and HK$33,079,000 respectively). As the Company has provided corporate guarantees for these loans, full provisions for such financial guarantees have been made by the Company and the Group as at 30th June 2011. During the period, an additional provision of approximately HK$8,877,000 (31st December 2010: HK$17,373,000) was made.

The ageing analysis of trade payables as at 30th June 2011 and 31st December 2010 are as follows:

	30th June 2011	31st December 2010
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
0 – 30 days	45,476	29,423
31 – 60 days	34,147	18,448
61 – 90 days	42,347	23,839
91 days – 1 year	55,795	46,993
Over 1 year	2,079	2,079
	179,844	120,782

The carrying amounts of trade payables approximate their fair values.

MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS

For the six months ended 30th June 2011, the Group's turnover was approximately HK$286 million (30th June 2010: HK$94 million), representing an increase of approximately 204% from the same period in last financial year. Similar to last year, as the Directors and the Provisional Liquidators have not been able to gain access to certain books and records of SU Industrial and SU Qingyuan, the financial statements of SU Industrial and its wholly-owned subsidiary, Perfect Design have not been included in the condensed consolidated interim financial information of the Group. The results of SU Qingyuan, from the beginning of the year 2008, have also not been included in the condensed consolidated interim financial information of the Group.

The consolidated profit attributable to shareholders of the Company amounted to approximately HK$8 million (30th June 2010: loss of HK$4 million) for the six months ended 30th June 2011. The accrued finance costs for the six months ended 30th June 2011 of approximately HK$11 million (30th June 2010: HK$11 million) would become a part of the scheme of arrangement that the Company contemplates to implement as an element of the Company's Proposed Restructuring.

Operating profit for the six months ended 30th June 2011 was approximately HK$27 million compared to an operating profit of approximately HK$8 million in the corresponding period in 2010.

LIQUIDITY, FINANCIAL RESOURCES AND FUNDING

Bank balances and cash as at 30th June 2011 was approximately HK$20 million (31st December 2010: HK$17 million). As at 30th June 2011, the total amount of banking facilities outstanding was approximately HK$195 million (31st December 2010: HK$186 million), which are currently in default and the Group is currently undergoing restructuring. The Group's gearing ratio, representing total bank borrowing less bank balances and cash (including pledged bank deposits) and divided by shareholders' equity was not applicable as the Group has negative shareholders' funds (31st December 2010: Nil).

ASSETS AND LIABILITIES

As at 30th June 2011, the Group had total assets of approximately HK$325 million (31st December 2010: HK$250 million), total liabilities of approximately HK$628 million (31st December 2010: HK$561 million). The net liabilities of the Group as at 30th June 2011 were approximately HK$303 million (31st December 2010: net liabilities of HK$311 million).

FOREIGN EXCHANGE EXPOSURE

The Group is exposed to foreign exchange risk, most of the Group's assets and liabilities, revenue and expenditure are denominated in Renminbi, United States dollar and Hong Kong dollar. As at 30th June 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 Renminbi, United States dollar and Hong Kong dollar.

INTERIM DIVIDEND

The Directors do not recommend any dividend for the six months ended 30th June 2011 (2010: Nil).

BUSINESS REVIEW

On 1st September 2009, the Company submitted a resumption proposal (the "Resumption Proposal") to the Stock Exchange with a view to seeking the Stock Exchange's approval for the resumption of trading in the shares of the Company. On 3rd May 2010, the Stock Exchange informed the Company that the Resumption Proposal did not satisfactorily demonstrate sufficiency of operations or assets under Rule 13.24 of the Listing Rules and the Stock Exchange decided to place the Company in the second stage of delisting procedures with effect from 3rd May 2010. The Company was required to submit a viable resumption proposal before 2nd November 2010, the expiry of the six-month period from the date the Company was placed in the second stage of delisting procedures. At the end of the period, the Stock Exchange was to determine whether it was appropriate to proceed to place the Company in the third stage of delisting procedures after considering any proposal made by the Company.

On 27th May 2010, the Investor, Mr. Yang, Mr. Ting, the Company and the Provisional Liquidators entered into a supplemental agreement to extend the exclusivity period under the Exclusivity Agreement to 31st December 2010 (the "Supplemental Exclusivity Agreement").

On the same day, the Investor and Sino Front entered into the Supplemental Working Capital Facility Agreement, pursuant to which the Investor agreed to increase the working capital facility from HK$5,000,000 to HK$55,000,000 on the terms and subject to the conditions as set out in the working capital facility agreement dated 17th June 2009 entered into by the Investor and Sino Front as supplemented by the Supplemental Working Capital Facility Agreement.

The Group has resurrected its toy trading business through Sino Front since June 2009, and has gradually expanded its customer base whilst subcontracting its manufacturing operations to OEM manufacturers in the PRC.

On 6th July 2010, the Group completed an acquisition of Five Production Lines pursuant to the acquisition agreement dated 8th June 2010 entered into between Sino Front and 藍宇玩具有限公司 and resumed its toy manufacturing business. The Five Production Lines are located in Dongguan, the PRC, with an aggregate annual production capacity of approximately 3 million units of toy products and are equipped with ancillary facilities and machineries including plastic injection moulding machines and assembling lines.

On 14th October 2010, the Company submitted a supplemental Resumption Proposal followed by several rounds of submissions to the Stock Exchange with a view to addressing the issues set out in the Stock Exchange's letter dated 3rd May 2010.

On 31st December 2010, the Company, the Provisional Liquidators, the Investor, Mr. Yang and Mr. Ting entered into a restructuring agreement in relation to the Proposed Restructuring of the Group, which provided for, inter alia, a capital restructuring, an open offer, a subscription of ordinary shares by the Investor, a scheme of arrangement in Hong Kong, a group reorganisation and a whitewash wavier.

On 31st May 2011, the Investor, Mr. Yang, Mr. Ting, the Company and the Provisional Liquidators entered into a supplemental restructuring agreement pursuant to which all parties agreed to extend the long stop date to 30th November 2011.

On 10th June 2011, the Stock Exchange informed the Company that resumption of trading in the shares of the Company will be allowed if the Company fulfils certain conditions by 30th November 2011, including (1) completion of the transactions under the Resumption Proposal; (2) inclusion in the circular to shareholders of a profit forecast for the year ending 31st December 2011 together with reports from the auditors and the financial adviser, a statement from Directors confirming working capital sufficiency for 12 months after resumption, a comfort letter from the auditors/financial adviser on the Directors' statement, a pro forma balance sheet upon completion of the Resumption Proposal and a comfort letter from the auditors under Rule 4.29 of the Listing Rules; (3) provision of a full scope internal control review report confirming an adequate and effective internal control system; and (4) dismissal of the winding-up petition and discharge of the Provisional Liquidators.

On 16th June 2011, the Investor and Sino Front entered into the second supplemental working capital facility agreement, pursuant to which the Investor agreed to extend the maturity date of the working capital facility from 16 June 2011 to 30 November 2011.

On 20th June 2011 and 20th July 2011, the Company, the Provisional Liquidators, the Investor, Mr. Yang and Mr. Ting entered into the second supplemental restructuring agreement and a side letter respectively, pursuant to which the parties agreed to, inter alia, (1) revise the structure of the capital restructuring; (2) adjust the number of creditors shares; (3) adjust the terms of the subscription; (4) replace the proposed open offer with the placing of convertible bonds; and (5) include the placing of the placing shares as part of the Proposed Restructuring.

The hearing of the winding up petitions against the Company and the relevant subsidiaries, after several adjournments to allow time for the implementation of the Proposed Restructuring of the Group, is scheduled on 14th November 2011.

PROSPECTS

It is understood that it is the Investor's intention to continue the Group's trading and resurrect manufacturing of toys business through Sino Front and its subsidiaries.

Further to the acquisition of the Five Production Lines on 6th July 2010, 致福玩具 (深圳) 有限公司 , an indirectly wholly-owned subsidiary of the Company, entered into an acquisition agreement in relation to the acquisition of entire equity interest of Jinxu on 30th March 2011. The acquisition was completed on 1st August 2011.

Jinxu is a PRC OEM toy manufacturer and operates a factory with 3 production lines in Dongguan, the PRC. With increasing orders from customers, it is expected that the Group will benefit from this acquisition which further enhances the operating efficiency for toy manufacturing. It also marks another important milestone of the Group's strategy to further reduce its reliance on existing sub-contractors. The Group believes the acquisition will enhance existing operation, and will therefore possess a more comprehensive manufacturing and trading operation.

The Group will continue to explore opportunities and means to develop and strengthen alliance with manufacturers and with customers with an aim to establishing a comprehensive production and value chain in line with its development strategies to sustain its toy business.

1. INDEBTEDNESS

As at the close of business on 30 June 2011, being the latest practicable date for the purposes of this statement of indebtedness, the Group had in aggregate outstanding borrowings of approximately HK$92.94 million, which comprised of secured loans of approximately HK$91.91 million.

The above indebtedness does not include a debt of approximately HK$33 million due by Smart Union Industrial Limited (Provisional Liquidators Appointed) ("**SU Industrial**"), which is one of the Excluded Companies. The major assets and production facilities of SU Industrial have been subject to freezing orders obtained by its creditors in the PRC since October 2008 and the Group has ceased to have control over the assets, books, records and facilities of SU Industrial in the PRC. The Directors have not been able to access 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 have not been included into the consolidated financial statements of the Group since 1 January 2008.

Save as aforesaid and apart from intra-group liabilities, none of the entities of the Group had any debt securities which are issued and outstanding, or authorised or otherwise created but unissued, term loans, loans or other similar indebtedness, other borrowings or indebtedness in the nature of borrowing of the Group including bank overdrafts, liabilities under acceptances (other than normal trade bills), acceptance credits or hire purchase commitments, mortgage, charges, guarantees or other material contingent liabilities as at the close of business on 30 June 2011.

2. WORKING CAPITAL

The Investor and the Provisional Liquidators, after due and careful consideration, are of the opinion that, taking into account the internal financial resources, the proceeds from the Subscription, the placing of the Placing Shares and the Convertible Bonds, and the cash flows in connection with the operating activities, without any unforeseen circumstances, the Group will have sufficient working capital for the twelve months from the date of resumption of trading in the Shares.

3. MATERIAL CHANGE

As at the Latest Practicable Date, there is no material change in the financial or trading position or outlook of the Group since 31 December 2010, the date to which the latest published audited financial statements of the Company were made up. These audited financial statements together with the auditors' qualified opinions have been disclosed in pages I-14 to I-25 of this circular.

A. INTRODUCTION TO THE UNAUDITED PRO FORMA STATEMENT OF FINANCIAL POSITION OF THE GROUP

The accompanying unaudited pro forma statement of financial position of the Group has been prepared to illustrate the effect of the Proposed Restructuring might have affected the financial position of the Group.

The unaudited pro forma statement of financial position of the Group as at 30 June 2011 is prepared based on the unaudited consolidated statement of financial position of the Group as at 30 June 2011 as extracted from the interim results announcement of the Company for the six months ended 30 June 2011, as if the Proposed Restructuring had been completed on 30 June 2011.

The unaudited pro forma statement of financial position of the Group is prepared based on a number of assumptions, estimates, uncertainties and currently available information, and is provided for illustrative purposes only. Accordingly, as a result of the nature of the unaudited pro forma statement of financial position of the Group, it may not give a true picture of the actual financial position of the Group that would have been attained had the Proposed Restructuring actually occurred on the date indicated herein. Furthermore, the unaudited pro forma statement of financial position of the Group does not purport to predict the Group's future financial position.

The unaudited pro forma statement of financial position of the Group should be read in conjunction with the financial information of the Group as set out in Appendix I and other financial information included elsewhere in this circular.

B. UNAUDITED PRO FORMA STATEMENT OF FINANCIAL POSITION OF THE GROUP AS AT 30 JUNE 2011

	Unaudited consolidated statement of financial position of the Group as at 30 June 2011	Pro Forma adjustments						Unaudited pro forma statement of financial position of the Group
		Note 1	Note 2	Note 3	Note 4	Note 5	Note 6	
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Non-current assets								
Property, plant and equipment	2,861	–	–	–	–	–	–	2,861
	2,861	–	–	–	–	–	–	2,861
Current assets								
Trade receivables	294,964	–	–	–	–	–	–	294,964
Prepayments, deposits and other receivables	7,741	–	–	–	–	(3,819)	–	3,922
Tax recoverable	127	–	–	–	–	(127)	–	–
Cash and cash equivalents	19,609	–	79,920	4,849	82,547	(50,000)	(17,000)	49,221
						(15,704)	(55,000)	
	322,441	–	79,920	4,849	82,547	(69,650)	(72,000)	348,107
Current liabilities								
Trade payables	179,844	–	–	–	–	(2,080)	–	177,764
Other payables and accruals	229,576	–	–	–	–	(221,942)	–	7,634
Amounts due to unconsolidated subsidiaries	112,362	–	–	–	–	(112,362)	–	–
Due to the Investor	55,000	–	–	–	–	–	(55,000)	–
Borrowings	37,936	–	–	–	–	(37,936)	–	–
Tax payable	12,873	–	–	–	–	–	–	12,873
	627,591	–	–	–	–	(374,320)	(55,000)	198,271
Net current (liabilities)/assets	(305,150)	–	79,920	4,849	82,547	304,670	(17,000)	149,836
Total assets less current liabilities	(302,289)	–	79,920	4,849	82,547	304,670	(17,000)	152,697
Non-current liabilities								
Convertible notes	–	–	–	–	69,127	–	–	69,127
Deferred income tax liabilities	16	–	–	–	–	(16)	–	–
	16	–	–	–	69,127	(16)	–	69,127
NET (LIABILITIES)/ASSETS	(302,305)	–	79,920	4,849	13,420	304,686	(17,000)	83,570
Capital and reserves								
Share capital	55,259	(54,430)	4,320	270	–	341	–	5,760
Share premium	368,381	(368,381)	75,600	4,579	–	5,968	–	86,147
								43,894
Other reserves	30,474	–	–	–	13,420	–	–	43,894
Accumulated losses	(756,419)	422,811	–	–	–	298,377	(17,000)	(52,231)
TOTAL EQUITY	(302,305)	–	79,920	4,849	13,420	304,686	(17,000)	83,570

C. NOTES TO THE UNAUDITED PRO FORMA STATEMENT OF FINANCIAL POSITION OF THE GROUP

(1) The adjustment reflects the capital restructuring where:

(a) A Share Consolidation whereby every 20 Existing Shares of HK$0.10 each will be consolidated into 3 Consolidated Shares of approximately HK$0.67 each.

(b) A Capital Reduction whereby the value of Consolidated Share will be reduced from approximately HK$0.67 to HK$0.01 each. The credit generated from the Capital Reduction will be applied to setting off part of the accumulated losses of the company.

(c) Share Premium Cancellation whereby the entire amount standing to the credit of the share premium of the Company will be cancelled.

Upon the Capital Restructuring as mentioned above becoming effective, the share capital and share premium will be reduced by HK$54,430,000 and HK$368,381,000 respectively.

(2) The adjustment reflects the Subscription of New Shares by the Investor. There are 432,000,000 Subscription Shares to be issued at the subscription price of HK$79,920,000 (equivalent to approximately HK$0.185 per Subscription Share).

(3) The adjustment reflects the placing of New Shares to public which 27,020,000 Placing Shares to be issued at the placing price of HK$4,998,700 (equivalent to approximately HK$0.185 per Placing Share). The net proceed after deducting placing commission is approximately HK$4,849,000.

(4) The adjustment reflects the issuance of Convertible Bonds with principal amount of HK$85,100,000 and convertible at HK$0.185 per share. The net proceed after deducting commission is HK$82,547,000. After considering the prevailing market interest rate for similar debt without conversion options, it is assumed that the liability portion and equity portion of the Convertible Bonds are approximately HK$69,127,000 and HK$13,420,000 respectively.

(5) The adjustment reflects the Scheme arrangement where:

(a) All the Claims of the Creditors shall be compromised and discharged as a matter of Hong Kong law.

(b) A sum of HK$50,000,000 shall be paid to the Scheme Administrators for the benefit of the Scheme Creditors (less relevant costs and expenses).

(c) 34,100,000 Creditors Shares shall be issued and allotted by the Company to the Scheme Administrators for the benefit of the Scheme Creditors.

(d) All the assets of the Company (other than the shareholding in and the assets of Sino Front and its subsidiaries) including but not limited to all cash and cash equivalents held by the Company, all intercompany receivables, all causes of actions and Claims which the Company has against any person whether or not known to the Company as at the date when the Scheme takes effect and the excluded companies shall be transferred to a special purpose vehicle controlled by the Scheme Administrators for the benefit of the Scheme Creditors.

(6) The adjustment reflects the Restructuring Costs of approximately HK$17,000,000 which shall be settled and the Working Capital Facility of HK$55,000,000 advanced by the Investor to Sino Front shall be repaid.

ANDA
CPA Limited
安達會計師事務所有限公司

24 August 2011

The Provisional Liquidators
Smart Union Group (Holdings) Limited
(Provisional Liquidators Appointed)

Dear Sirs,

We report on the unaudited pro forma statement of financial position of Smart Union Group (Holdings) Limited (Provisional Liquidators Appointed) (the "**Company**") and its subsidiaries (hereinafter collectively referred to as the "**Group**"), which has been prepared by the Provisional Liquidators and the director of the Investor , for illustrative purposes only, to provide information about how the proposed restructuring might have affected the financial position of the Group presented, for inclusion in Appendix III to the circular of the Company dated 24 August 2011 (the "**Circular**"). The basis of preparation of the unaudited pro forma statement of financial position is set out on page III-1 to the Circular.

Respective Responsibilities of Provisional Liquidators and director of the Investor and Reporting Accountants

It is the responsibilities solely of the Provisional Liquidators and the director of the Investor to prepare the unaudited pro forma statement of financial position in accordance with paragraph 29 of Chapter 4 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**").

It is our responsibility to form an opinion, as required by Rule 4.29(7) of the Listing Rules, on the unaudited pro forma statement of financial position and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma statement of financial position beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of opinion

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by the HKICPA. Our work consisted primarily of comparing the unadjusted financial information with source documents, considering the evidence supporting the adjustments and discussing the unaudited pro forma statement of financial position with the Provisional Liquidators and the director of the Investor. The engagement did not involve independent examination of any of the underlying financial information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the unaudited pro forma statement of financial position has been properly compiled by the Provisional Liquidators and the director of the Investor on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purposes of the unaudited pro forma statement of financial position as disclosed pursuant to Rule 4.29(1) of the Listing Rules.

The unaudited pro forma statement of financial position is for illustrative purposes only, based on the judgements and assumptions of the Provisional Liquidators and the director of the Investor, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in the future and may not be indicative of the financial position of the Group as at 30 June 2011 or any future date.

Opinion

In our opinion:

(a) the unaudited pro forma statement of financial position has been properly compiled by the Provisional Liquidators and the director of the Investor on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the unaudited pro forma statement of financial position as disclosed pursuant to Rule 4.29(1) of the Listing Rules.

Yours faithfully,
ANDA CPA Limited
Certified Public Accountants
Sze Lin Tang
Practising Certificate Number P03614
Hong Kong

(A) PROFIT FORECAST FOR THE YEAR ENDING 31 DECEMBER 2011

On the bases and assumptions as set forth below, and in the absence of unforeseen circumstances, the Company forecasts that the consolidated profit attributable to equity holders of the Company and earnings per New Share for the year ending 31 December 2011 will be:

	Consolidated profit attributable to equity holders of the Company	**Earnings per New Share**
Including all resumption related income or expenses	not less than HK$304 million	not less than HK 52.78 cents
Excluding all resumption related income or expenses	not less than HK$22 million	not less than HK 3.82 cents

The profit forecast has been prepared by the Provisional Liquidators and Mr. Yang, the sole director of the Investor, based on the Group's unaudited results for the six months ended 30 June 2011 (which were approved by the Directors and the Provisional Liquidators) and the forecast performance of the Group for the remaining six months ending 31 December 2011. For the avoidence of doubt, the Directors did not have any involvement in the preparation of the profit forecast. The profit forecast is presented on a basis consistent in all material respects with the accounting policies currently adopted by the Company as set out in its annual report for the year ended 31 December 2010.

The calculation of unaudited forecast earnings per New Share is based on the forecast consolidated profit attributable to equity holders of the Company for the year ended 31 December 2011 and as if there are 576,007,900 New Shares in issue (the number of New Shares immediately following the Completion) but before any of the conversion of the Convertible Bonds throughout the year ending 31 December 2011.

(B) BASES AND ASSUMPTIONS

- the Proposed Restructuring will be successfully implemented and completed on or before 30 November 2011, the latest date for the satisfactions of all the conditions for resumption of trading in the Shares as set out in the letter dated 10 June 2011 from the Stock Exchange;

- there will be no material changes in existing political, legal, fiscal, market or economic conditions in the PRC, Hong Kong, the U.S.A. or Europe where the Group carries on its business or the products of the Group are normally delivered to;

- the recent stock market fluctuation, the credit rating downgrade and development of further quantitative easing in the U.S.A., the European debt crisis and the mounting PRC inflation rate will not have a material adverse effect on the toys market;

- there will be no material changes in interest rates or foreign currency exchange rates from those currently prevailing in the PRC or Hong Kong;

- there will be no changes in legislation, regulations or rules in the PRC, Hong Kong, the U.S.A. or Europe where the Group carries on its business or the products of the Group are normally delivered to, which may have a material adverse effect on its business;

- there will be no material changes in the bases or rates of taxation, duties or other government levies in the PRC, Hong Kong, the U.S.A. or Europe where the Group carries on its business or the products of the Group are normally delivered to;

- there will be no material change in accounting standards or financial reporting requirements;

- there will be no abnormal items, including primarily material impairment of trade or other receivables or inventory, during the forecast period;

- save for the Proposed Restructuring, there will be no material changes in the industry practice and market conditions and the Group's operations including but not limited to its supplies and procurement, manufacturing operations, human resources and cost control and management;

- there will be no force majeure events, including primarily the occurrence of natural disasters or catastrophes (such as floods and typhoons), epidemics or serious accidents, which will have a material adverse effect on the results of the operations of the Group;

- the expansion plan of the Group after the resumption of trading in the New Shares but before 31 December 2013, of which certain of the forecast period form part as set out in pages 41 to 42 under the section headed "BUSINESS DEVELOPMENT PLAN" in this circular will materialize; and

- upon Completion, the Group is expected to record an accounting gain of approximately HK$281 million for the year ending 31 December 2011 from the Proposed Restructuring.

LETTERS

(1) LETTER FROM THE REPORTING ACCOUNTANT ON THE PROFIT FORECAST

The following is the text of a letter, prepared for inclusion in this Circular, received by the Provisional Liquidators from the Company's reporting accountants, ANDA CPA Limited, in connection with the forecast of the consolidated profit attributable to equity holders of the Company for the year ending 31 December 2011.

ANDA
CPA Limited
安達會計師事務所有限公司

The Provisional Liquidators
Smart Union Group (Holdings) Limited
(Provisional Liquidators Appointed)

Dear Sirs,

We have reviewed the calculations of and accounting policies adopted in arriving at the forecast of the profit attributable to equity holders of Smart Union Group (Holdings) Limited (Provisional Liquidators Appointed) (the "**Company**") in respect of the Company and its subsidiaries (hereafter collectively referred to in this letter as the "**Group**") for the year ending 31 December 2011 (the "**Forecast**") as set out in Appendix V in the circular of the Company dated 24 August 2011 (the "**Circular**"), for which the Provisional Liquidators and the director of the Investor are jointly responsible.

The Forecast has been prepared by the the Provisional Liquidators and the director of the Investor based on the unaudited results of the Group for the six months ended 30 June 2011 and a forecast of the results of the Group for the remaining six months ending 31 December 2011.

In our opinion, the Forecast, so far as the calculations and accounting policies are concerned, has been properly compiled in accordance with the bases and assumptions made by the Provisional Liquidators and the director of the Investor as set out in Appendix V to the Circular, and is presented on a basis consistent in all material respects with the accounting policies currently adopted by the Group as set out in the annual report of the Company for the year ended 31 December 2010.

Yours faithfully,
ANDA CPA Limited
Certified Public Accountants
Sze Lin Tang
Practising Certificate Number P03614

Hong Kong, 24 August 2011

(2) LETTER FROM THE FINANCIAL ADVISER

The following is the text of a letter, prepared for inclusion in this circular, received by the Provisional Liquidators from the financial adviser to the Company, Asian Capital, in connection with the forecast of the consolidated profit attributable to the equity holders of the Company for the year ending 31 December 2011.

ASIAN CAPITAL
(CORPORATE FINANCE) LIMITED
卓亞(企業融資)有限公司

24 August 2011

The Provisional Liquidators
Smart Union Group (Holdings) Limited
(Provisional Liquidators Appointed)

Dear Sirs,

We refer to the consolidated profit forecast of Smart Union Group (Holdings) Limited (Provisional Liquidators Appointed) (the "**Company**") and its subsidiaries (collectively as the "**Group**") for the year ending 31 December 2011 (the "**Profit Forecast**") as set out in the Appendix V "Profit Forecast for the year ending 31 December 2011" in the circular of the Company dated 24 August 2011 (the "**Circular**").

The Profit Forecast, for which the Provisional Liquidators and the director of the Investor are jointly responsible, has been prepared based on the unaudited results of the Group for the six months ended 30 June 2011 and a forecast of the results of the Group for the remaining six months ending 31 December 2011.

We have discussed with you the bases and assumptions, as set forth in part (B) of Appendix V to the Circular, upon which the Profit Forecast has been made. We have also considered the letter dated 24 August 2011 addressed to your good selves from ANDA CPA Limited regarding the accounting policies and calculations upon which the Profit Forecast has been made.

On the basis of the foregoing, the bases and assumptions made by you and the accounting policies and calculations adopted by you and reviewed by ANDA CPA Limited, we are of the opinion that the Profit Forecast, for which the Provisional Liquidators and the director of the Investor are jointly responsible, has been made after due care and consideration.

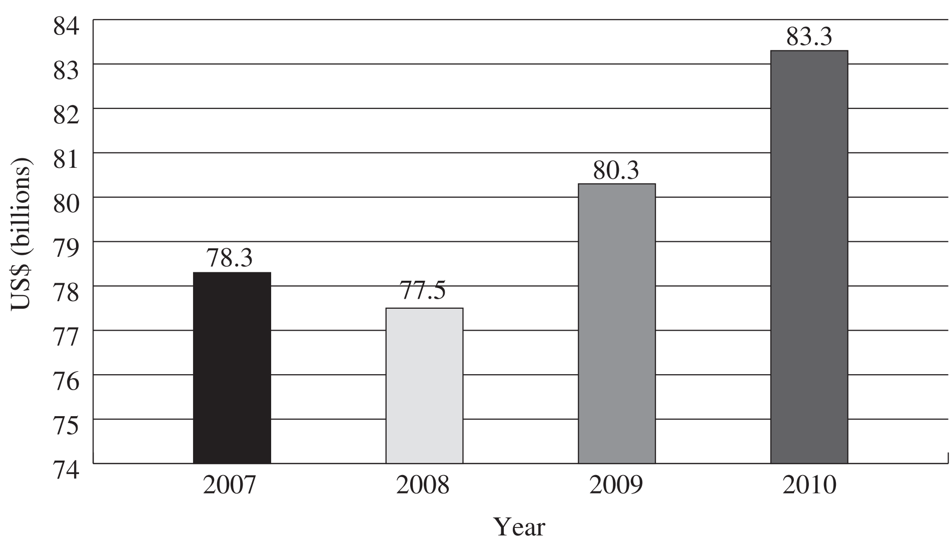
Yours faithfully,
For and on behalf of
Asian Capital (Corporate Finance) Limited
Larry Chan
Executive Director

THE GLOBAL TOYS MARKET

According to the Toy Industry Association™, Inc. ("**TIA**"), a not-for-profit trade association for producers and importers of toys and youth entertainment products sold in North America, even though toy sales revenue dropped by approximately 6% to US$22 billion in 2010 from US$23.4 billion in 2009, the U.S.A. remains the largest market for toys. The next four countries by sales revenue were Japan, the PRC, the United Kingdom and France, with these top five countries capturing more than 50% of the world market.

The global toy sales revenue is generally on an upward trend. In 2009, global sales revenue generated from the toy market reached a total of approximately US$80.3 billion, and the upward trend continued with further increased by nearly 5% in 2010 to reach US$83.3 billion.

Global Toy Sales Revenue (US$ Billions)



Source: The NPD Group

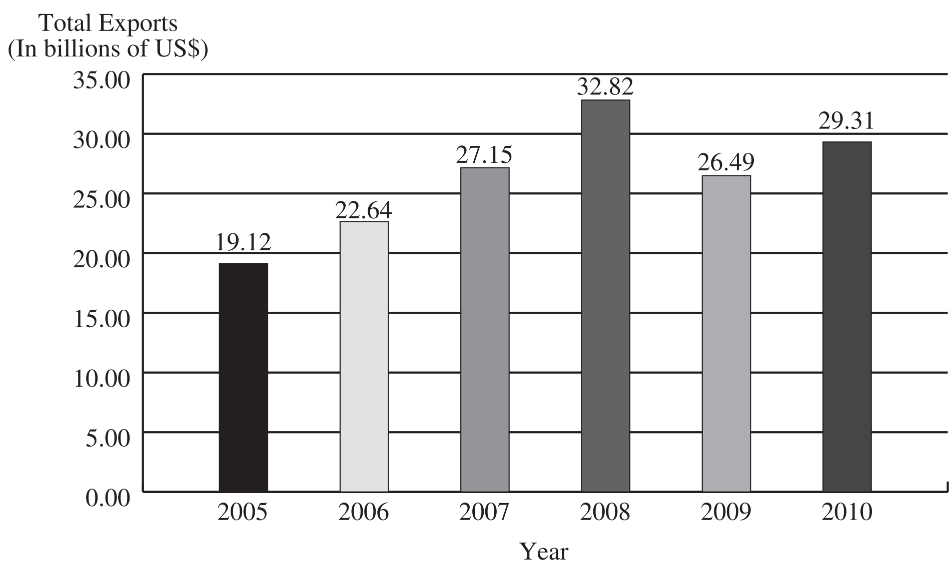
TOY INDUSTRY IN THE PRC

According to The United Nations Commodity Trade Statistics Database, the PRC was the world's largest exporter of toys, games and sports requisites in 2005 with a total export value of approximately US$19.1 billion. Since then, total exports for toys, games and sports requisites have grown steadily, reaching approximately US$32.8 billion in 2008. Due to the recession, exports fell to approximately US$26.5 billion in 2009 which is about the same level as in 2007. The total exports picked up again in 2010 with an increase of 3.7% year-on-year in 2010 to approximately US$29.3 billion.

According to the Hong Kong Trade Development Council, toy exports from Guangdong province represented nearly 70% of the PRC's total toy exports in 2009. In the first two months of 2011, toy export value of the Guangdong province rose to approximately US$720 million, representing an increase of approximately 26.3% over that of the same period in 2009. In February 2010 alone, the export value of toys in the Guangdong province amounted to approximately US$330 million, representing an increase of approximately 47.3% year-on-year.

The graph below illustrates the value of total exports of China's toys, games and sports requisites:

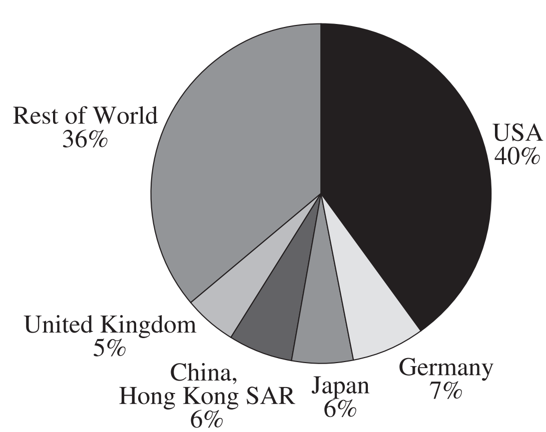
Total Exports (in US$)



Source: The United Nations Commodity Trade Statistics Database

In terms of major markets, the U.S.A. is one of the largest markets which accounted for approximately 40% of the total toys, games and sports requisites exports from the PRC in 2010. The U.S.A. together with Germany, Japan, Hong Kong and the United Kingdom markets accounted for approximately 64% of total toys, games and sports requisites exports from the PRC. The following is a breakdown of total exports to major markets from the PRC in 2010:

Breakdown of Toy and Sports Exports from the PRC 2010



Source: The United Nations Commodity Trade Statistics Database

PRODUCT TREND

Annual domestic sales of traditional toys comprising mainly infant/preschool toys, arts and crafts, dolls, outdoor & sports toys and games/puzzles in the U.S.A., the largest toy market, had been stagnant for some years, with sales amounting to approximately US$22.9 billion in 2003 and 2004, decreasing slightly over the years to approximately US$21.9 billion in 2010. However, annual domestic sales of video games reflected a faster growing trend, increasing from approximately US$10.0 billion in 2003 to approximately US$18.6 billion in 2010. The table below shows the annual domestic sales of the various toy categories from 2003 to 2010:

ANNUAL U.S. DOMESTIC TOY SALES DATA
Rolling Report

SUPERCATEGORY *(US$ billion)*	ANNUAL DOMESTIC SALES DATA 2010	2009	2008	2007	2006	2005	2004	2003
Action Figures, Accessories and Role Play	1.4	1.6	1.5	1.5	1.4	1.5	1.3	1.3
Arts & Crafts	2.8	2.8	2.6	2.6	2.7	2.6	2.6	2.6
Building Sets	1.2	1.1	0.9	0.7	0.7	0.7	0.6	0.6
Dolls	2.8	2.6	2.7	3.0	3.1	3.2	2.8	2.9
Games/Puzzles	2.2	2.4	2.3	2.3	2.4	2.5	2.7	2.7
Infant/Preschool Toys	3.2	3.0	3.1	3.2	3.4	3.3	3.1	3.1
Youth Electronics	0.6	0.7	0.9	1.0	1.0	0.9	0.9	0.8
Outdoor & Sports Toys	2.8	2.6	2.7	2.9	3.0	2.9	2.9	2.9
Plush	1.7	1.5	1.7	1.4	1.4	1.4	1.6	1.7
Vehicles	1.8	1.8	1.9	2.3	2.1	2.1	2.1	2.2
All Other Toys	1.5	1.4	1.3	1.4	1.6	1.6	2.3	2.1
TOTAL TRADITIONAL TOY INDUSTRY*	21.9	21.5	21.6	22.2	22.7	22.7	23.0	22.9
Video Games**	18.6	19.7	21.4	18.0	12.5	10.5	9.9	10.0

*Source: * TIA – The NPD Group (consumer panel tracking)*
*** TIA – The NPD Group (retail tracking service)*

As set out in the table above, annual domestic toy sales in the U.S.A. generated from action figures, accessories and role play was between approximately US$1.3 billion and US$1.6 billion from 2003 to 2010. For 2010, such sales were approximately US$1.4 billion. The total value of PRC's online gaming exports amounted to US$71.78 million in 2008, indicating a year-on-year growth of 30.5%, with export value further increasing to US$109 million in 2009 which was 53.9% more than that in 2008. There were 64 products from 29 online game companies in the PRC sold overseas in 2009. By the end of 2010, China's online games market was valued at approximately US$1.4 billion, although it has declined to US$1.1 billion by the middle of 2011.

TOY SAFETY

The International Council of Toy Industries ("**ICTI**") was formed in 1975 as an association of toy trade associations from around the world. The CARE (Caring, Awareness, Responsible, Ethical) Process is the ICTI program to promote ethical manufacturing, in the form of fair labor treatment, as well as employee health and safety, in the toy industry supply chain worldwide. Its initial focus is in China, where 70% of the world's toy volume is manufactured. Its intent is to provide a single, fair, thorough and consistent program to monitor toy factories' compliance with ICTI's Code of Business Practices. Members of ICTI have been actively involved in the development of an international toy safety standard through the International Standardization Organization (ISO).

In February 2009, TIA launched the first phase of the Toy Safety Certification Program ("**TSCP**"), a new safety assurance program to provide reasonable verification that toys meet applicable mandatory U.S.A. toy safety standards in the U.S.A.. The TSCP includes procedures and audit mechanisms for hazard analysis, auditing factory process control and product sample testing. The primary objective of the TSCP is to develop a sustainable system to enhance both the reality and public confidence that toys sold in the U.S.A. market are safe. The TSCP applies to toys that are produced for sale in the U.S.A. and is designed to ensure that toys manufactured in any nation conform to the safety standards used and accepted by the U.S.A. government and the market in the U.S.A..

Upon compliance of the applicable requirements (certification), the product or packaging may bear a Toy Safety Mark. This mark will be controlled by product certification bodies that are overseen by a single accreditation body – American National Standards Institute, authorized by TIA. This mark will assure consumers, retailers, government agencies and others that the toys bearing the mark comply with applicable U.S.A. regulations and consensus safety standards. The first phase of implementation began with the launching of a web-based Electronic Certification System that provides a comprehensive workflow to help domestic manufacturers and importers of toys to the U.S.A. efficiently meet the General Certificates of Compliance requirements of the Consumer Product Safety Improvement Act of 2008 in the U.S.A..

1. RESPONSIBILITY STATEMENT

This circular, save for the information relating to the Provisional Liquidators, the Proposed Restructuring, the Investor and the proposed Change in Board Lot Size (collectively, the "**Excluded Information**"), for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular, save for the Excluded Information, is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

This circular, for which the proposed Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The proposed Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular, is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

This circular, for which the Provisional Liquidators collectively and individually accept full responsibility, save for the information relating to the Investor, the proposed Directors or the development of the Restructured Group after the Completion, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Provisional Liquidators, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular, save for the information relating to the Investor, the proposed Directors (which collectively was provided by the Investor and accordingly the Provisional Liquidators have relied on such information) or the development of the Restructured Group after the Completion, is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

The Directors jointly and severally accept full responsibility for the accuracy of the information contained in this circular, save for the Excluded Information. The Directors confirm, having made all reasonable enquiries, that to the best of their knowledge, the opinions expressed in this circular, other than those expressed by the Provisional Liquidators or the Investor, have been arrived at after due and careful consideration and there are no other facts not contained in this circular, the omission of which would make any statement not relating to the Excluded Information in this circular misleading.

The Provisional Liquidators jointly and severally accept full responsibility for the accuracy of the information contained in this circular, save for the information relating to the Investor, the proposed Directors or the development of the Restructured Group after Completion, and confirm, having made all reasonable enquiries, that to the best of their knowledge, the opinions expressed in this circular, other than those expressed by the Investor, have been arrived at after due and careful consideration and there are no other facts not contained in this circular, the omission of which would make any statement in this circular misleading.

The sole director of the Investor accepts full responsibility for the accuracy of the information contained in this circular, save for the information relating to the Company before Completion, the Excluded Companies or the Provisional Liquidators, and confirm, having made all reasonable enquiries, that to the best of his knowledge, the opinions expressed in this circular other than those expressed by the Provisional Liquidators, have been arrived at after due and careful consideration and there are no other facts not contained in this circular, the omission of which would make any statement in this circular misleading.

2. SHARE CAPITAL

(a) Share capital

The authorised issued share capital of the Company as at the Latest Practicable Date and immediately following (i) the Capital Restructuring becoming effective; (ii) issue of the Creditors Share under the Scheme; (iii) completion of the Subscription; (iv) completion of the placing of the Placing Shares; and (v) full exercise of the conversion rights under the Convertible Bonds:

Authorised share capital:		*HK$*
2,000,000,000	Shares as at the Latest Practicable Date	200,000,000.00
Issued and fully paid or credited as fully paid:		
552,586,000	Shares in issue as at the Latest Practicable Date	55,258,600
82,887,900	New Shares in issue immediately after the Capital Restructuring becoming effective	828,879
34,100,000	Creditors Shares to be allotted and issued under the Restructuring Agreement	341,000
432,000,000	Subscription Shares to be allotted and issued under the Subscription	4,320,000
27,020,000	Placing Shares to be issued under the placing of Placing Shares	270,200
460,000,000	Conversion Shares to be issued upon exercise in full the conversion rights under the Convertible Bonds	4,600,000
1,036,007,900		10,360,079

All of the New Shares to be issued will rank pari passu in all aspects, including all rights as to dividend, voting and interest in capital, among themselves and with all other Shares in issue on the date of issue.

The Shares are listed on the Main Board of the Stock Exchange. No part of the Share or loan capital of the Company is listed or dealt in, nor is listing or permission to deal in the Shares or loan capital of the Company being, or proposed to be, sought on any other stock exchange.

(b) Options, derivatives, warrants and conversion rights

Set out below are the details of the Share Options granted under the Share Option Scheme, which (subject to prior valid exercise) shall all lapse no later than the Scheme becoming effective, as at the Latest Practicable Date:

Name of grantee	Exercise price	Exercisable period *(note)*	Number of options as at the Latest Practicable Date
	HK$	*(dd/mm/yy)*	
Directors			
Wu Kam Bun ("**Mr. Wu**")	0.78	14.5.2008 to 26.4.2017	300,000
Ho Wai Wah	0.78	14.5.2008 to 26.4.2017	500,000
Wong Wai Chuen	0.78	10.5.2008 to 26.4.2017	1,000,000
			1,800,000
Former director	0.78	23.5.2007 to 26.4.2017	80,000
Former director	0.78	16.5.2007 to 26.4.2017	80,000
Former suppliers	0.78	14.5.2008 to 26.4.2017	3,800,000
			5,760,000

Note: As set out in the section headed "Scheme" in this circular, all of the above Share Options will (subject to prior valid exercise) lapse no later than the Scheme becoming effective. As such, there will be no Share Options upon Completion.

As at the Latest Practicable Date, no share or loan capital of the Company has been issued or is proposed to be issued for cash or otherwise and no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any such capital, except for the Subscription Shares, the Creditors Shares, Placing Shares, Convertible Bonds and the share options granted pursuant to the Share Option Scheme.

Since 31 December 2010, the date to which the latest audited financial statements of the Company were made up, and up to the Latest Practicable Date, no Shares have been allotted and issued by the Company.

3. DISCLOSURE OF INTERESTS

As at the Latest Practicable Date, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were required (i) to be notified to the Company and the Stock Exchange pursuant to the Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) pursuant to the Model Code for Securities Transactions by Directors contained in the Listing Rules, to be notified to the Company and the Stock Exchange; or (iv) pursuant to the requirement of the Takeovers Code were as follows:

(a) Interests of Directors

Interest in the Shares and underlying Shares:

Long positions in the Shares

Name of Director	*Note*	Capacity	Number of Shares held	Approximate percentage of shareholding
Mr. Wu	*(1)*	Interest of controlled corporations	179,328,000	32.45%
		Beneficial owner	2,276,000	0.41%
			181,604,000	32.86%

Note:

(1) The 179,328,000 Shares were owned by Smart Place Investments Limited, a company incorporated in the British Virgin Islands, the entire share capital of which is held as to 38.5% by Mr. Wu, 38.5% by Mr. Lai Chiu Tai (deceased) ("**Mr. Lai**"), 10% by Mr. Ho Wai Wah, 10% by Mr. Lo Kwok Choi, and 3% by Mr. Wong Wai Chuen, all being executive Directors and former executive Directors. Mr. Wu and Mr. Lai are deemed to be interested in the 179,328,000 Shares held by Smart Place Investments Limited by virtue of the SFO.

Long positions in underlying Shares

Details of Share Options (unlisted equity derivatives) granted to the Directors under the Share Option Scheme as at the Latest Practicable Date were as follows:

Name of Director	Capacity	Number of Shares in the option	Exercise period	Price of grant *HK$*	Exercise price per Share *HK$*
Mr. Wu	Beneficial owner	300,000	14.5.2008 to 26.4.2017	1.00	0.78
Mr. Ho Wai Wah	Beneficial owner	500,000	14.5.2008 to 26.4.2017	1.00	0.78
Mr. Wong Wai Chuen	Beneficial owner	1,000,000	10.5.2008 to 26.4.2017	1.00	0.78

(b) Interests of Substantial Shareholders

As at the Latest Practicable Date, so far as is known to the Provisional Liquidators and the Directors, the following persons (other than a Director or chief executive of the Company) had an interest or short position in the Shares and underlying Shares which fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who are, directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at a general meeting of any member of the Group.

Long position in Shares and underlying Shares

Name of Shareholder	Capacity	Number of Shares held/interested	Approximate percentage of shareholding
Mr. Yang Wang Jian *(Note 1)*	Interest of controlled corporation	777,000,000	140.61%
The Investor *(Note 1)*	Beneficial owner	777,000,000	140.61%
Starmate Development Inc. *(Note 2)*	Security interest in Shares	168,000,000	30.40%

Name of Shareholder	Capacity	Number of Shares held/interested	Approximate percentage of shareholding
Mr. Wong Ying Wai *(Note 3)*	Interest of controlled corporation	168,000,000	30.40%
Mr. Lai Chiu Tai *(Note 4)*	Interest of controlled corporation	179,328,000	32.45%
Ms. Chan Wai Ling *(Note 4)*	Interest of spouse	179,328,000	32.45%
Smart Place Investments Limited	Beneficial owner	179,328,000	32.45%
Mr. Tang Xue Jin *(Note 5)*	Beneficial owner	118,000,000	21.35%
Ms. Cheng Su Chen *(Note 6)*	Interest of controlled corporation	92,096,000	16.67%
Sky Metro Limited *(Note 6)*	Beneficial owner	92,096,000	16.67%

Notes:

(1) Pursuant to the Restructuring Agreement, the Investor has agreed to subscribe for 432,000,000 New Shares and has committed to take up the maximum principal amount of HK$63,825,000 which may be converted into a maximum of 345,000,000 New Shares at the initial conversion price of HK$0.185. Mr. Yang is deemed to be interested in the block of 777,000,000 New Shares pursuant to the SFO by virtue of his holding 85% interest in the Investor.

(2) The 168,000,000 Shares were purportedly pledged by Smart Place Investments Limited to Starmate Development Inc., a company incorporated in British Virgin Islands.

(3) Starmate Development Inc. is wholly owned by Mr. Wong Ying Wai.

(4) The 179,328,000 Shares were owned by Smart Place Investments Limited and 38.5% of the entire share capital of which is held by Mr. Lai, who passed away on 1 November 2009. Mr. Lai is deemed to be interested in the 179,328,000 Shares held by Smart Place Investments Limited by virtue of the SFO. Ms. Chan Wai Ling is the wife of Mr. Lai. She is deemed to be interested in all the shares in which Mr. Lai is interested by virtue of the SFO.

(5) The 118,000,000 Shares referred to are the Escrow Shares registered under the name of Mr. Tang and held in safe custody by SU Mining for realization for the satisfaction of the debt owing by Mr. Tang as a result of his breach of the Undertakings under the Mining Agreement. Details have been set out in the section headed “EGM” in the “Letter from the Provisional Liquidators” in this circular.

(6) 92,096,000 Shares were beneficially held by Sky Metro Limited, a company incorporated in British Virgin Islands, and it is wholly controlled by Ms. Cheng Su Chen, accordingly, Ms. Cheng Su Chen is deemed to be interested in all 92,096,000 Shares.

4. MARKET PRICES

The table below shows the closing prices of the Shares as recorded on the Stock Exchange on (i) the last trading day on which dealings took place in each of the calendar months during the Relevant Period; (ii) the Last Trading Day; and (iii) the Latest Practicable Date.

Date	Closing price of Shares *(HK$)*
14 October 2008 (Last Trading Day)	0.099
30 September 2010	suspended
31 October 2010	suspended
30 November 2010	suspended
31 December 2010	suspended
31 January 2011	suspended
28 February 2011	suspended
31 March 2011	suspended
29 April 2011	suspended
31 May 2011	suspended
30 June 2011	suspended
29 July 2011	suspended
Latest Practicable Date	suspended

Trading in the Shares has been suspended during this period and that the last closing price before the suspension was HK$0.099 on 15 October 2008.

5. ADDITIONAL DISCLOSURE OF INTERESTS

As at the Latest Practicable Date:

(a) none of the Directors had any direct or indirect interest in any assets which have been, since 31 December 2010, being the date to which the latest published audited consolidated financial statements of the Group were made up, acquired or disposed of by, or leased to, any member of the Group, or are proposed to be acquired or disposed of by, or leased to, any member of the Group;

(b) none of the Directors was given any benefit as compensation for loss of office or otherwise in connection with the Proposed Restructuring;

(c) there was no agreement, arrangement or understanding (including any compensation arrangement) existing between any member of the Concert Group and any Director, recent Directors, Shareholders or recent Shareholders having any connection with or dependence upon the Proposed Restructuring;

(d) none of the Directors has entered into any agreement or arrangement with any other persons which is conditional on or dependent upon the outcome of the Proposed Restructuring or otherwise connected with the Proposed Restructuring;

(e) none of the Directors was materially interested in any contract or arrangement subsisting at the Latest Practicable Date which was significant to the business of the Group; and

(f) no material contract was entered into by any member of the Concert Group in which any Director has a material personal interest.

6. SHAREHOLDINGS AND DEALINGS

As at the Latest Practicable Date:

(a) the Company and the Directors had no Shares, convertible securities, warrants, options or derivatives in the Investor;

(b) save as disclosed in sub-section headed "DISCLOSURE OF INTERESTS" above, no Shares, convertible securities, warrants, options and derivatives in the Company were owned, controlled, borrowed or lent by the Directors;

(c) no Shares, convertible securities, warrants, options and derivative in the Company were owned, controlled, borrowed or lent by (i) the Investor, (ii) the sole director of the Investor, or (iii) any persons acting in concert with the Investor;

(d) no Shares, convertible securities, warrants, options and derivatives in the Company were owned or controlled by a subsidiary of the Company or by a pension fund of any member of the Group or by Asian Capital or CIMB or by any adviser to the Company as specific in class (2) of the definition of associate under the Takeovers Code;

(e) no arrangement of any kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Company or with any person who is an associate of the Company by virtue of classes (1), (2), (3) and (4) of the definition of associate existed;

(f) no Shares, convertible securities, warrants, options or derivatives of the Company were managed on a discretionary basis by fund managers connected with the Company;

(g) no persons have, prior to the posting of this circular, irrevocably committed themselves to vote for or against the Proposed Restructuring and any other resolutions to be presented for approval at the EGM;

(h) no arrangement of any kind referred to in Note 8 to Rule 22 of the Takeovers Code existed between a person with whom the Investor or any person acting in concert with it;

(i) no Shares, convertible securities, warrants, options, or derivatives in the Company to be acquired by the Investor or parties acting in concert with it in pursuance of the Proposed Restructuring will be transferred, charged or pledged to any other persons after Completion; and

(j) each of the Directors who hold Shares has indicated that he will vote for the resolutions to be proposed at the EGM.

During the Relevant Period:

(a) none of the Company or the Directors had dealt for value in shares, convertible securities, warrants, options and derivatives of the Investor or the Company;

(b) none of (i) the sole director of the Investor; (ii) the Investor; (ii) the beneficial owners of the Investor or (iv) parties acting in concert with any of them had dealt for value in the shares, convertible securities, warrants, options and derivatives of the Company; and

(c) none of the the Directors, the Investor and its beneficial owners and parties acting in concert with any of them has borrowed or lent any of the Shares, convertible securities, warrants, options or derivatives of the Company.

7. MATERIAL CONTRACTS

The following contracts have been entered into by the Group (not being contracts entered into in the ordinary course of business carried on or intended to be carried on by the Group) after the two years immediately preceding 18 March 2011, the date of the Company's first announcement in relation to the Proposed Restructuring, and up to the Latest Practicable Date and are or may be material:

(i) The Exclusivity Agreement dated 12 May 2009 entered into among the Investor, Mr. Yang, Mr. Ting, the Company and the Provisional Liquidators to grant the Investor exclusivity to prepare the Resumption Proposal and to enter into the Restructuring Agreement for the implementation of the Resumption Proposal;

(ii) The letter agreement dated 12 May 2009 entered into among the Investor, the Company, the Provisional Liquidators and the Escrow Agent in relation to the holding in escrow of the Earnest Money paid by the Investor;

(iii) The working capital facility agreement dated 17 June 2009 entered into between the Investor and Sino Front for the Investor to provide a loan of HK5,000,000 as Working Capital Facility of Sino Front;

(iv) The supplemental exclusivity agreement dated 27 May 2010 entered into between the Investor, Mr. Yang, Mr. Ting, the Company and the Provisional Liquidators to extend the Exclusivity Period under the Exclusivity Agreement to 31 December 2010;

(v) The supplemental working capital facility agreement dated 27 May 2010 entered into between the Investor and Sino Front to increase the Working Capital Facility of HK$5,000,000 advanced by the Investor to Sino Front pursuant to the working capital facility agreement dated 17 June 2009 to HK$55,000,000;

(vi) The acquisition agreement dated 8 June 2010 entered into between Sino Front and 藍宇玩具有限公司 in relation to the acquisition of the five production lines for consideration of RMB3 million;

(vii) The sale and purchase agreement dated 8 June 2010 entered into between Sino Front and an independent third party in relation to the acquisition of the entire issued share capital of Victory Ford (HK) Limited, which in turn owns 致福玩具(深圳)有限公司;

(viii) The lease agreement dated 8 June 2010 entered into between Sino Front and 藍宇玩具有限公司 in relation to the lease of the premises and storage facilities at where the production lines are located;

(ix) The Restructuring Agreement dated 31 December 2010 entered into between the Company, the Provisional Liquidators, the Investor, Mr. Yang and Mr. Ting in respect of the Proposed Restructuring;

(x) The acquisition agreement dated 30 March 2011 entered into between 致福玩具(深圳)有限公司, a wholly-owned subsidiary of the Company, Fang Zhao Hua and Hu Zhi Yin in relation to the acquisition of the entire equity interest of 東莞市金詡玩具有限公司 for consideration of RMB2 million;

(xi) The supplemental restructuring agreement dated 31 May 2011 entered into between the Investor, Mr. Yang, Mr. Ting, the Company and the Provisional Liquidators to extend the Long Stop Date to 30 November 2011;

(xii) The second supplemental working capital facility agreement dated 16 June 2011 entered into between the Investor and Sino Front to extend the maturity date from 16 June 2011 to 30 November 2011;

(xiii) The second supplemental restructuring agreement dated 20 June 2011 and a side letter dated 20 July 2011 entered into between the Company, the Provisional Liquidators, the Investor, Mr. Yang and Mr. Ting to revise certain terms of the Restructuring Agreement; and

(xiv) The Placing Agreement dated 22 August 2011 entered into between the Company and the Placing Agent to procure the subscription of the Placing Shares and the Convertible Bonds.

Service Contracts

None of the Directors has service contract with the Company or any of its subsidiaries or associated companies, which:

(i) (including both continuous and fixed term contracts) have been entered into or amended within 6 months before the 18 March 2011, the date of the Company's first announcement in relation to the Proposed Restructuring;

(ii) are continuous contracts with a notice period of 12 months or more; or

(iii) are fixed term contracts with more than 12 months to run irrespective of the notice period.

8. LITIGATION

On 13 December 2008, five judgments ("**PRC Judgments**") were handed down by the court in the PRC against Smart Union Industrial Limited (Provisional Liquidators Appointed), the two processing factories operated by it in Dongguan, the PRC, and the Company in favour of the following:

(a) 東莞市樟木頭泰安經濟發展公司 under the judgment of 廣東省東莞市人民法院民事判決書(2008)東法民 – 初字第26134號;

(b) 東莞市樟木頭鎮圩鎮股份經濟聯合社 under the judgment of 廣東省東莞市人民法院民事判決書(2008)東法民 – 初字第27022號;

(c) 東莞市樟木頭鎮圩鎮社區居民委員會 under the judgment of 廣東省東莞市人民法院民事判決書(2008)東法民 – 初字第26135號;

(d) 東莞市昊利物業投資有限公司 under the judgment of 廣東省東莞市人民法院民事判決書(2008)東法民 – 初字第27020號; and

(e) 東莞市樟木頭鎮人民政府 under the judgment of 廣東省東莞市人民法院民事判決書(2008)東法民 – 初字第27021號.

As at the Latest Practicable Date, the claims of the judgment creditors under the PRC Judgments have been fully settled by the assets of the relevant subsidiary of the Company in the PRC.

Pursuant to the orders of the High Court dated 16 October 2008 and 17 October 2008, Messrs. John Robert Less and Mat Ng were appointed as the Provisional Liquidators and the joint and several provisional liquidators of six subsidiaries of the Company, following the winding-up petitions presented by the Company and its subsidiaries.

Upon the appointment of the Provisional Liquidators, no action or proceeding shall be proceeded with or commenced against the Company except with leave of the High Court, and subject to such terms as the High Court may impose. Claims against the Company will be compromised under the Scheme to be implemented by the Company and sanctioned by the High Court.

Save as disclosed above, the Provisional Liquidators are not aware of (1) any other outstanding claims, litigation, arbitration or any adverse findings on the Group; or (2) any existing or potential legal proceedings to which any member of the Group is, or may become a party as at the Latest Practicable Date.

9. EXPERTS AND CONSENTS

The following is the qualification of the experts who have given opinion or advice which are contained in this circular:

Name	Qualification
Asian Capital	a corporation licensed to carry out Type 1 (dealing in securities), 4 (advising on securities), 6 (advising on corporate finance) and 9 (asset management) regulated activities under the SFO
CIMB	a corporation licensed to carry out Type 1 (dealing in securities), 4 (advising on securities) and 6 (advising on corporate finance) regulated activities under the SFO
ANDA CPA Limited ("**ANDA**")	Certified Public Accountants

Each of Asian Capital, CIMB and ANDA has given and has not withdrawn its consent to the issue of this circular with the inclusion of its report or letter, as the case may be, and reference to its names in the form and context in which it respectively appears.

As at the Latest Practicable Date, other than the Placing Agreement entered into between the Company and Asian Capital, each of Asian Capital, CIMB and ANDA was not beneficially interested in the share capital of any member of the Group, nor did they have any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group nor did they have any interest, either direct or indirect, in any assets which had been since 31 December 2010 (being the date to which the latest published audited consolidated financial statements of the Group were made up) acquired or disposed of by or leased to or were proposed to be acquired or disposed of by or leased to any member of the Group.

10. THE INVESTOR AND ITS ADVISERS

The Investor	Gold Bless International Invest Limited Suite 2106, 21/F China Merchants Tower Shun Tak Centre 168-200 Connaught Road Central Hong Kong
Mr. Yang	Suite 2106, 21/F China Merchants Tower Shun Tak Centre 168-200 Connaught Road Central Hong Kong
Mr. Ting	Nos. 9 and 11, 4/F, Block 8 Hang Wai Industrial Centre 6 Kin Tai Street Tuen Mun New Territories Hong Kong
Financial adviser to the Investor	VC Capital Limited 28/F The Centrium 60 Wyndham Street Central Hong Kong
Legal adviser to the Investor	P. C. Woo & Co. 12/F, Prince's Building 10 Chater Road Central Hong Kong

11. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during normal business hours (Saturdays and public holidays excepted) at the principal place of business in Hong Kong of the Company at John Lees & Associates Limited, 20/F, Henley Building, 5 Queen's Road, Central, Hong Kong from the Latest Practicable Date up to and including the date of the EGM in accordance with Note 1 to Rule 8 of the Takeovers Code and will be displayed on the websites of the SFC (www.sfc.hk) and on the Company's website (www.smartunion.com.hk) during the aforesaid period:

(i) Memorandum and Articles of Association;

(ii) memorandum and articles of association of the Investor;

(iii) the annual reports of the Company for the two financial years ended 31 December 2009 and 31 December 2010;

(iv) the report from ANDA on unaudited pro forma financial information of the Group dated 24 August 2011, the text which is set out in Appendix IV to this circular;

(v) the letters in relation to the profit forecast for the year ending 31 December 2011 issued by ANDA and Asian Capital both on 24 August 2011, the texts which are set out in Appendix VI to this circular;

(vi) the "Letter from CIMB" as set out in this circular;

(vii) the written consents referred to in the paragraph headed "Experts and Consents" in this appendix; and

(viii) all material contracts referred to in the paragraph headed "Material Contracts" in this appendix.

12. GENERAL

The English version of this circular shall prevail over the Chinese text.

SMART UNION GROUP (HOLDINGS) LIMITED

(Provisional Liquidators Appointed)

合俊集團（控股）有限公司

（已委任臨時清盤人）

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2700)

NOTICE OF THE EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the "**EGM**") of Smart Union Group (Holdings) Limited (Provisional Liquidators Appointed) (the "**Company**") will be held at Auditorium, 1/F Duke of Windsor Social Service Building, 15 Hennessy Road, Wanchai, Hong Kong on 16 September 2011, at 10:00 a.m. for the purpose of considering and, if thought fit, passing with or without modifications, the following resolutions of the Company:

SPECIAL RESOLUTION

1. "**THAT** conditional upon (*inter alia*) (i) the approval of the capital reduction referred to in resolution number 1(b) set out in the notice convening this meeting ("**Capital Reduction**") by the Grand Court of the Cayman Islands (the "**Cayman Court**"); (ii) 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 under the Companies Law of the Cayman Islands (2010 Revision) (the "**Companies Law**"); (iii) compliance with any conditions or directions as may be imposed by the Cayman Court; and (iv) on the Listing Committee of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") granting the listing of, and permission to deal in the New Shares (as defined below) in issue upon the matters set out in resolutions 1(a) to (f) set out in the notice convening this meeting (together being the "**Capital Restructuring**") becoming effective (the background to and material terms of the Capital Restructuring being detailed in the circular of the Company dated 24 August 2011) (the "**Circular**"):

   (a) every twenty existing shares in the capital of the Company of HK$0.10 each be consolidated into three consolidated shares (each a "**Consolidated Share**") each having a par value of approximately HK$0.666 ("the **New Par Value**") (the "**Share Consolidation**") in accordance with Article 4(b) of the articles of association of the Company (the "**Articles**") 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 of the Company (the "**Directors**") be authorised to apply such credit in a manner as permitted by the Companies Law and by the Articles;

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

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

(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 deleting it entirely and replacing it 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 this Special 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 be dealt with in such other manner as the Company or the joint and several provisional liquidators of the Company (the "**Provisional Liquidators**") may agree with the Stock Exchange from time to time;

(i) all of the New Shares in the capital of the Company after completion of the Capital Restructuring pursuant to this Special 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 Articles as amended;

(j) the credit which will arise as a result of the Capital Reduction pursuant to resolution number 1(b) set out in the notice convening this meeting 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."

ORDINARY RESOLUTIONS

CHANGE IN BOARD LOT

2. "**THAT** the board lot size of the existing shares of HK$0.10 each be changed from 2,000 shares such that the New Shares (as defined in resolution number 1(e) of the notice convening this meeting) be traded in board lots of 20,000 shares of HK$0.01 each."

THE RESTRUCTURING PROPOSAL

3. "**THAT**

(a) the restructuring agreement dated 31 December 2010 as amended and supplemented by a supplemental agreement dated 31 May 2011, a second supplemental agreement dated 20 June 2011 and a side letter dated 20 July 2011 and from time to time (collectively, the "**Restructuring Agreement**") each made between the Company, the Provisional Liquidators (as defined in resolution number 1(h) of the notice convening this meeting), Gold Bless International Invest Limited (the "**Investor**"), Mr Yang Wang Jian ("**Mr Yang**") and Mr Ting Wai-min ("**Mr Ting**") in relation to the restructuring of the Company and transactions contemplated thereunder (the material terms of which are detailed in the Circular), a copy of each of which has been produced to the meeting and marked "A" and initialled by the chairman for the purpose of identification, be and is hereby approved, ratified and confirmed;

(b) the escrow agreement dated 12 May 2009 entered into among John Lees & Associates Limited as the escrow agent, the Company, the Provisional Liquidators and the Investor in relation to the holding in escrow of the earnest money paid by the Investor, a copy of which has been produced to the meeting and marked "B" and initialled by the chairman for the purpose of identification, be and is hereby approved, ratified and confirmed;

(c) the placing agreement dated 22 August 2011 (the "**Placing Agreement**") between the Company and Asian Capital (Corporate Finance) Limited ("**Placing Agent**") for the purpose of:

(i) the issue and allotment by the Company of 27,020,000 New Shares (as defined in resolution number 1(e) of the notice convening this meeting) at the placing price of HK$0.185 each for a total consideration of not less than HK$4,998,700 ("**Placing Shares**") to investors who are independent of and not connected persons of the Company (as defined in the Listing Rules) and independent of and not acting in concert with the Investor or its ultimate beneficial owners (Mr Yang and Mr Ting) and deemed by the Stock Exchange to be public shareholders for the purposes of the public float (pursuant to the meaning ascribed to such term under Rule 8.08 of the Rules Governing the Listing of Securities on the Stock Exchange from time to time ("**Listing Rules**") and as applicable to the Company ("**Public Float**")), via the Placing Agent; and

(ii) the issue by the Company of convertible bonds in the aggregate principal amount of HK$85,100,000 convertible into New Shares at an initial conversion price of HK$0.185 each ("**Convertible Bonds**") comprising the issue of the Convertible Bonds to the Investor up to HK$63,825,000 in aggregate principal amount and the remaining balance of Convertible Bonds to be taken up by public placees (and/or the Placing Agent under the underwriting arrangement pursuant to the Placing Agreement), via the Placing Agent;

a copy of the Placing Agreement which has been produced to the meeting and marked "C" and initialled by the chairman for the purpose of identification, the transactions contemplated thereunder and the performance thereof by the Company be and are hereby approved, ratified and confirmed; and

(d) conditional upon resolution number 1 set out in the notice convening this meeting becoming effective, all the transactions and matters contemplated under the agreements referred to in paragraphs (a) – (c) of this resolution including but not limited to:

(i) the issue and allotment of 432,000,000 New Shares by the Company to the Investor or its designated nominee;

(ii) the issue and allotment of the Placing Shares by the Company to the relevant Placees;

(iii) the issue and allotment of 34,100,000 New Shares by the Company to a company ("**SchemeCo**") held and controlled for the purpose of the scheme of arrangement pursuant to section 166 of the Companies Ordinance (Chapter 32) of the Laws of Hong Kong to be made between the Company and its ordinary creditors (other than the Investor) (the "**Scheme**") by the persons appointed pursuant to its terms as scheme administrators (the "**Scheme Administrators**") or a designated nominee; and

(iv) the issue of the Convertible Bonds to the Investor and/or the relevant public placees of the Convertible Bonds (and/or the Placing Agent),

be and are hereby approved, ratified and confirmed."

GROUP REORGANISATION

4. "**THAT**, subject to the passing of resolution number 3 set out in the notice convening this meeting:

(a) the transfer of all the equity interests in Smart Union Investments Limited ("**SU Investments**") by the Company to SchemeCo (as defined in resolution number 3(d)(iii) of the notice convening this meeting) or its designated nominee, and execution by the Company and SU Investments of all necessary transfer documentation as may be reasonably requested by the Provisional Liquidators (as defined in resolution number 1(h) of the notice convening this meeting) or the Scheme Administrators (as defined in resolution number 3(d)(iii) of the notice convening this meeting) (as the case may be) to effect such transfer, be and are hereby approved;

(b) assignment of all and any indebtedness, actual or contingent, owing to the Company and/or the Restructured Subsidiaries (as defined in paragraph (c) of this resolution) by any of the Excluded Companies (as defined in paragraph (c) of this resolution) to SchemeCo or its designated nominee, and execution by the Company and other relevant subsidiaries of the Company of all necessary documentation to effect such assignment, be and are hereby approved;

(c) for the purpose of this resolution:

"Excluded Companies" means Smart Union Investments Limited (Provisional Liquidators Appointed); Smart Union China Investments Limited (Provisional Liquidators Appointed); Smart Union Group Limited (Provisional Liquidators Appointed); Smart Union (Hong Kong) Limited (Provisional Liquidators Appointed); Amart International Company Limited; Smart Union Mining Investments Limited (Provisional Liquidators Appointed); Smart Union (Qingyuan) Industrial Limited; Current Creation Limited; Topmark Industrial Limited; Smart Union Industrial Limited (Provisional Liquidators Appointed); Worldtrade Promotions Limited; Perfect Design and Product Development Limited; Dream Link Limited (In Liquidation); China Mining Corporation Limited; New Galaxy Investment Limited; 福建天成礦業有限公司 (Fujian Tiancheng Mining Corporation).

"Restructured Subsidiaries" means the subsidiaries of the Company other than the Excluded Companies."

WHITEWASH WAIVER

5. "**THAT**, the waiver (the "**Whitewash Waiver**") granted or to be granted by the Executive Director of the Corporate Finance Division of the Securities and Futures Commission (or any delegate of such Executive Director) pursuant to Note 1 on dispensations from Rule 26 of the Hong Kong Code on Takeovers and Mergers waiving any obligation on the part of the Investor (as defined in resolution number 3(a) of the notice convening this meeting) and parties acting in concert with it, to make a general offer for all the issued shares of the Company not already owned by them or agreed to be acquired by them upon completion of the Restructuring Agreement (as defined in resolution number 3(a) of the notice convening this meeting), and any conditions that may be imposed thereon, be and are hereby approved and the Provisional Liquidators (as defined in resolution number 1(h) of the notice convening this meeting) and the directors of the Company be and are hereby 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 they consider may be necessary or desirable for the purpose of or in connection with the implementation of and giving effect to any matters relating to, or incidental to, the Whitewash Waiver."

GENERAL AUTHORISATION

6. "**THAT** in connection with the actions contemplated by the foregoing resolutions, each of the Directors, the Provisional Liquidator(s) (as defined in resolution number 1(h) of the notice convening this meeting), officers, and any attorney or authorised signatories be, and such other persons as are authorised by any of them be, and each hereby is, authorised, in the name and on behalf of the Company, to do such further acts and things as any Director, Provisional Liquidator(s) or officer or such duly authorised other person shall deem necessary or appropriate in connection with, or to carry out the actions contemplated by, the foregoing resolutions, including to do and perform (or cause to be done and performed), in the name and on behalf of the Company, all such acts and to make, execute, deliver, issue or file (or cause to be made, executed, delivered or filed) with any person including any governmental authority or agency, all such agreements, documents, instruments, certificates, consents and waivers, and all amendments to any such agreements, documents, instruments or certificates, and to pay, or cause to be paid, all such payments, as any of them may deem necessary or advisable to carry out the intent of the foregoing resolutions, the authority for the taking of any such action and the execution and delivery of such of the foregoing to be conclusively evidenced thereby."

RATIFICATION OF PRIOR ACTIONS

7. "**THAT** any and all actions of the Company, or of any Director, Provisional Liquidator(s) (as defined in resolution number 1(h) of the notice convening this meeting) or officer or any attorney or authorised signatory, taken in connection with the actions contemplated by the foregoing resolutions prior to the execution hereof be and hereby are ratified, confirmed, approved and adopted in all respects as fully as if such action(s) had been presented to for approval, and approved by, the Company prior to such action being taken."

For and on behalf of
Smart Union Group (Holdings) Limited
(Provisional Liquidators Appointed)
John Robert Lees
Mat Ng
Joint and Several Provisional Liquidators
acting as agents for and on behalf of the Company
without personal liability

Hong Kong, 24 August 2011

Notes:

1. Any member of the Company entitled to attend and vote at the EGM is entitled to appoint another person as his proxy to attend and vote instead of him. A proxy need not be a member of the Company. A member who is the holder of two or more shares of the Company may appoint more than one proxy to represent him to attend and vote on his behalf. In case of a recognised clearing house (or its nominees(s) and in each case, being a corporation), it may authorise such persons as it thinks fit to act as its representatives at the meeting and vote in its stead.

2. A form of proxy for use in connection with the EGM is enclosed with this circular. To be valid, the form of proxy, and (if required by the Board) the power of attorney or other authority (if any) under which it is signed or a certified copy of that power of attorney or authority must be deposited at the branch share registrars of the Company, Tricor Investor Services Limited at 26/F, Tesbury Centre, 28 Queen's Road East, Hong Kong not less than 48 hours before the time appointed for holding the EGM or any adjournment thereof.