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)

ANNUAL REPORT

2008

Contents

Corporate Information

DIRECTORS

Executive Directors:

Mr. Wu Kam Bun *(Chairman)*
Mr Lai Chiu Tai
Mr. Ho Wai Wah
Mr. Wong Wai Chuen
Mr. Lo Kwok Choi (resigned in 24th October 2008)

Independent Non-Executive Directors:

Dr. Lui Sun Wing (resigned on 28th October 2008)
Mr. Li Chak Hung (resigned on 28th October 2008)
Mr. Tang Koon Yiu, Thomas
(resigned on 27th October 2008)

QUALIFIED ACCOUNTANT

Mr. Wong Wai Chuen

FINANCIAL ADVISER

Asian Capital (Corporate Finance) Limited

AUDITOR

PricewaterhouseCoopers

PRINCIPAL BANKERS

DBS Bank (Hong Kong) Limited
Hang Seng Bank Limited
The Hongkong and Shanghai Banking Corporation Limited
Mizuho Corporate Bank, Limited
Nanyang Commercial Bank, Limited
Standard Chartered Bank (Hong Kong) Limited
BNP Paribas, Hong Kong Branch

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

(Address of Provisional Liquidators)
20/F Henley Building
5 Queen's Road Central
Hong Kong

REGISTERED OFFICE

Cricket Square, Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Bank of Bermuda (Cayman) Limited
PO Box 513GT, Strathvale House
North Church Street
George Town
Grand Cayman
Cayman Islands
British West Indies

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
26th Floor, Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

STOCK CODE

2700 (listed on the Main Board of the Stock Exchange of Hong Kong Limited)

WEBSITE

www.smartunion.com.hk

Management Discussions and Analysis

The board of directors (the "Board" or "Directors") of Smart Union Group (Holdings) Limited (Provisional Liquidators Appointed) (the "Company") would like to announce the audited consolidated final results of the Company and its subsidiaries (collectively the "Group") for the year ended 31st December 2008.

RESULTS

For the year ended 31st 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 31st 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 31st December 2008 was approximately HK$5.1 million (2007: HK$101.6 million). As at 31st 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 31st 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 31st 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 31st 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 Hong Kong dollar and US dollar.

CAPITAL STRUCTURE

The share capital of the Company comprises only ordinary shares. As at 31st 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.

Management Discussions and Analysis

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 of the Group do not recommend any dividend for the year ended 31st December 2008 (2007: nil).

BUSINESS REVIEW

Appointment of Provisional Liquidators

2008 was a devastated 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 15th 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 15th October 2008 and remains suspended.

On 16th and 17th 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 16th October 2008 and two other subsidiaries on 17th October 2008.

On 1st 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 15th 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 12th 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 1st 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 17th and 18th 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.

Biographical Details of Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. Wu Kam Bun ("Mr Wu") (胡錦斌), aged 54, is the Chairmen of the Board and executive director. Being the founder of the Group, Mr. Wu is responsible for the overall strategic and corporate planning, and management of the Group. Mr Wu obtained a Higher Diploma in Production and Industrial Engineering from the Hong Kong Polytechnic (currently known as the Hong Kong Polytechnic University) in November 1978, Diploma in Management Studies jointly awarded by Hong Kong Polytechnic and Hong Kong Management Association in August 1983 and a Master Degree of Business Administration from the University of Northern Iowa in May 2003, a Master degree of Advanced Business Practice from University of South Australia in August 2006 and has over 23 years of experience in toys and manufacturing industry. Mr Wu also serves as the Executive Vice-President of The Toys Manufacturers' Association of Hong Kong Limited from 2004 to 2006, and had served as a director of Fourth Board of the Guangdong Chamber of Foreign Investors (廣東外商公會) in 2003 and the vice president of the Fourth Supervisory Committee of Qing Yuan Overseas Friendship Association of Guangdong China (廣東清遠海外友誼協會) in 2004.

Mr. Lai Chiu Tai ("Mr Lai") (賴潮泰), aged 59, is the Vice Chairmen of the Board and an executive director. Mr Lai is responsible for the strategic planning and new development of the Group. He joined the Group in January 1998 and has extensive experience in toys and manufacturing. He also served as a senior consultant of Advanced Occupational Technology Training Academy of Zhan Jiang City of Guangdong Province (廣東省湛江市高級職業技術培訓學院) and a director of the university management committee of the University of Science and Technology Beijing (北京科技大學) in 2002, and the National Supervisor of China Society of Urban Economy (中國城市經濟學會) in 2003. In 2004, he was elected as the Honourable President of The Hong Kong Association for the Advancement of Science and Technology and a member of second executive committee of Chinese People's Political Consultative Conference of Qing Cheng District of Qing Yuan City (中國人民政治協商會議清遠市清城區第二屆委員會常務委員會).

Mr. Wong Wai Chuen ("Mr Wong") (黃偉銓), aged 41, is the financial controller and the qualified accountant of the Group and an executive director. Mr Wong has more than 13 years of experience in financial and accounting management and is responsible for overseeing the financial activities of the Group. Mr Wong is a fellow member of Association of Chartered Certified Accountants in the United Kingdom and an associate of Hong Kong Institute of Certified Public Accountants. Mr Wong obtained a Master Degree of Science in Information Systems in 1998 and a Master Degree of Science in Finance in 2002 from Hong Kong Polytechnic University and City University of Hong Kong respectively. Mr Wong joined the Group in November 2002.

Mr. Ho Wai Wah ("Mr Ho") (何偉華), aged 54, is the operation director of the Group and an executive director. Mr Ho is responsible for the PRC operations of the Group. He joined the Group in July 1998 and has extensive experience in toys and manufacturing. Mr Ho graduated from the National Taiwan University with a Bachelor Degree of Science in Engineering in 1980. He is alo a supervisor of The H.K. Enterprises Association of Dongguan Zhangmutou (東莞市樟木頭港商投資企業協會) and member of Committee of Chinese People's Political Consultative Conference of Fongang County (中國人民政治協商會議佛岡縣委員會).

Mr. Lo Kwok Choi ("Mr Lo") (盧國材), aged 59, is the Chief Executive Office of the Group and an executive director. Mr Lo is responsible for the strategic planning and marketing functions of the Group. He joined the Group in June 2003 and he has extensive experience in toys manufacturing. Mr Lo obtained a Higher Diploma in Production Engineering from the Hong Kong Technical College (currently known as the Hong Kong Polytechnic University) in 1969. He holds a Master Degree of Science in Industrial Engineering and Administration from Cranfield Institute of Technology (currently known as Cranfield University) in 1978 and a Master Degree of Business Administration from University of Hong Kong in 2006. Mr Lo resigned as a director of the Company on 24th October 2008.

Biographical Details of Directors and Senior Management

INDEPENDENT NON-EXECUTIVE DIRECTORS

Dr. Lui Sun Wing ("Dr Lui") (呂新榮), aged 58, is an independent non-executive director. Dr Lui obtained a PhD in Mechanical Engineering from the University of Birmingham of United Kingdom in 1979 and was admitted as a member of the Hong Kong Institution of Engineers in 1985. He worked for the Hong Kong Productivity Council from 1981 to 2000, and was a branch director (Promotional) of the Hong Kong Productivity Council immediately before he left the Hong Kong Productivity Council in June 2000. Dr Lui is the vice president (Partnership Development) of Hong Kong Polytechnic University. Dr Lui is also the chief executive officer of the Institute for Enterprise of the Hong Kong Polytechnic University. PolyU Technology and Consultancy Company Limited, and PolyU Enterprises Limited. Dr Lui was appointed as an independent non-executive director in September 2006. Dr Lui resigned as an independent non-executive director of the Company on 28th October 2008.

Mr. Li Chak Hung ("Mr Li") (李澤雄), aged 44, is an independent non-executive director. Mr Li is a member of the Hong Kong Institute of Certified Public Accountants and a fellow member of The Association of Chartered Certified Accountants in the United Kingdom. He has experience in auditing, accounting and financial management. Mr Li is also an independent non-executive director of Shanghai Allied Cement Limited and Quality Healthcare Asia Limited, both are companies listed on the Stock Exchange. He was an independent non-executive director of Xian Yuen Titanium Resources Holdings Limited (formerly known as Aurora Global Investment Holdings Limited from September 2005 to April 2007 and The Hong Kong Building and Loan Agency Limited from October 2005 to July 2007, both are companies listed on the Stock Exchange. Mr Li was appointed as an independent non-executive director in September 2006 and he resigned on 28th October 2008.

Mr. Tang Koon Yiu Thomas ("Mr Tang") (鄧觀瑤), aged 61, is an independent non-executive director. Mr Tang is an industrialist with profound experience in diverse industries such as computers and computer peripherals, office automation, consumer electronics and metals. Mr Tang was the executive director of Hong Kong Productivity Council, the chairman and executive director of Elec & Eltek International Holdings Limited (previously listed on the Stock Exchange and such listing had been withdrawn since March 2005) and Elec & Eltek International Company Limited (a company listed on the Singapore Exchange Securities Trading Limited). Mr Tang obtained a Master degree of Science in Industrial Engineering and Administration from Cranfield Institute of Technology (currently known as Cranfield University) in 1976. Mr Tang also serves as director of Findearly Investments Limited, Cambrian Mining (HK) Limited and Camberra Holdings Limited. Mr Tang was appointed as an independent non-executive director in September 2006 and he resigned on 27th October 2008.

SENIOR MANAGEMENT

Ms. Law Yuet Yee ("Ms Law") (羅月儀), aged 55, is the general manager of the Group. She has more than 26 years of experience in manufacturing industry and is responsible for supervising the production activities in Zhang Yang Factory. Ms Law Jointed in the Group in July 2000 as factory manager and was promoted to general manager in August 2001. Her employment was terminated on 18th October 2008.

Mr. Michael John Petris ("Mr Petris"), aged 44, is the director and chief executive officer of Dream Link Limited ("Dream Link"), a subsidiary of the Company. He is also currently a director of Current Creation Limited ("Current Creation"). Mr Petris joined Dream Link as director in June 2003 and was employed as the vice president of marketing and product development department of Dream Link in July 2003 and was promoted to chief executive officer in January 2004. Mr Petris was appointed as a director of Current Creation in July 2004. Mr Petris is responsible for the overall strategic planning, product development and sales of Dream Link. Mr Petris has extensive experience in the toys industry, disciplines including design, marketing and sales of toy products and gift items. Dream Link ceased the operation in February 2009 and Mr Petris's role as the director of Dream Link ceased at the same time.

Mr. Ho Chi Kwong, Ivan ("Mr Ho") (何志光), aged 42, is the assistant general manager of the Group. He joined the Group as engineering manager in May 1997 and was promoted to assistant general manager in August 2004. He has about 16 years of experience in engineering and toys manufacturing industry. He holds a higher certificate in manufacturing engineering from Hong Kong Polytechnic (currently known as the Hong Kong Polytechnic University) in 1992 and is responsible for marketing, planning and engineering operations of the Group. His employment was terminated on 18th October 2008.

Ms. Chu Wai Fan ("Ms Chu") (朱慧芬), aged 47, is the senior planning and material control manager of the Group. Ms Chu joined the Group as planning operation manager in February 2003 and was promoted to senior planning and material control manager in January 2006. She has over 16 years of experience in manufacturing industry and is responsible for all production planning and material control. Her employment was terminated on 18th October 2008.

Mr. Lee Sai Man ("Mr Lee") (李世聞), aged 35, is the electronic manager of the Group. He is responsible for managing the engineering operation. He obtained a Bachelor Degree of Engineering in Electronic and Computer Engineering from the University of York. Mr Lee joined the Group in September 2004 as electronic manager. He left the Group during the year 2008.

Directors' Report

PRINCIPAL ACTIVITIES

The Company is an investment holding company incorporated in the Cayman Islands. The principal activity of its subsidiaries (together the "Group") are manufacturing and trading of toys and recreational products on an original equipment manufacturer ("OEM") basis. Particulars of the principal subsidiaries are set out in Note 10 to the consolidated financial statements. The operation of the Group have substantially ceased after the major assets and production facilities of certain subsidiaries had been subject to freezing orders obtained by certain creditors in the People's Republic of China since October 2008, except that Dream Link Limited, a subsidiary, continued its trading business until 28th February 2009.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31st December 2008 and the state of affairs of the Group and the Company as at that date are set out in the consolidated financial statements on pages 21 to 86. The Board do not recommend the payment of a dividend for the year ended 31st December 2008.

CONTINGENT LIABILITIES

The relevant details are set out in Note 40 to the consolidated financial statements.

SHARE CAPITAL AND SHARE OPTIONS

Details of the authorised and issued share capital of the Company, details of share option scheme and movements thereof are set out in Note 19 to the consolidated financial statements.

RESERVES

Details of the movements in the reserves of the Group and the Company during the year are set out in Note 20 to the consolidated financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in the property, plant and equipment of the Group are set out in Note 7 to the consolidated financial statements.

PLEDGE OF ASSETS

Details of pledge of assets are set out in Note 21 to the consolidated financial statements.

GROUP FINANCIAL SUMMARY

A summary of published results and assets and liabilities of the Group for the last five financial years, as extracted from the audited consolidated financial statements of the Company, is set out on pages 87 and 88. This summary does not form part of the consolidated financial statements.

DIRECTORS

The Directors of the Company during the year and up to the date of this report were:

Executive Directors:

Mr. Wu Kam Bun	
Mr. Lai Chiu Tai	
Mr. Wong Wai Chuen	
Mr. Ho Wai Wah	
Mr. Lo Kwok Choi	(resigned on 24th October 2008)

Independent Non-Executive Directors:

Dr. Lui Sun Wing	(resigned on 28th October 2008)
Mr. Li Chak Hung	(resigned on 28th October 2008)
Mr. Tang Koon Yiu, Thomas	(resigned on 27th October 2008)

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the Directors and senior management are set out on pages 7 to 9.

DIRECTORS' AND CHIEF EXECUTIVES' INTEREST IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 31st December 2008, the interests of the Directors, the chief executives and their associates, in the Company's shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong) ("SFO")) which were required to be notified to the Company and the Stock Exchange pursuant to 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, as recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transaction by Directors of Listed Companies, were as follows:

Long position in ordinary shares of HK$0.1 each in the Company

Name of director	*Note*	Capacity	Number of issued ordinary shares held	Percentage of the issued share capital of the Company
Wu Kam Bun	*1*	Interest of controlled corporations	179,328,000	32.45%
	2	Beneficial owner	300,000	0.05%
			179,628,000	32.50%
Lai Chiu Tai	*1*	Interest of controlled corporations	179,328,000	32.45%
	3	Beneficial owner	300,000	0.05%
			179,628,000	32.50%

Notes:

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 Kam Bun, 38.5% by Mr. Lai Chiu Tai, 10% by Mr. Ho Wai Wah, 10% by Mr. Lo Kwok Choi, and 3% by Mr. Wong Wai Chuen, all being executive Directors. Mr. Wu and Mr. Lai are deemed to be interested in the 173,328,000 shares held by Smart Place Investments Limited by virtue of the SFO.

2. The interests represent 300,000 shares to be allotted and issued upon the exercise of the share options granted to Mr. Wu Kam Bun under the share option scheme of the Company.

3. The interests represent 300,000 shares to be allotted and issued upon the exercise of the share options granted to Mr. Lai Chiu Tai under the share option scheme of the Company.

Long position in underlying shares of equity derivatives of the Company – interests in share options of the Company (being granted and remained outstanding)

Name of director	Capacity	Number of shares in the option	Exercise period	Price of grant *HK$*	Subscription price per share *HK$*
Wu Kam Bun	Beneficial owner	300,000	14.5.2008 to 26.4.2017	1.00	0.78
Lai Chiu Tai	Beneficial owner	300,000	14.5.2008 to 26.4.2017	1.00	0.78
Ho Wai Wah	Beneficial owner	500,000	14.5.2008 to 26.4.2017	1.00	0.78
Wong Wai Chuen	Beneficial owner	1,000,000	14.5.2008 to 26.4.2017	1.00	0.78

Save as disclosed above, none of the Company's directors, chief executive nor their respective associates had any interests or short positions in the shares and underlying shares of the Company or any of its associated corporations that was required to be recorded pursuant to section 352 of the SFO as at 31st December 2008.

SUBSTANTIAL SHAREHOLDERS

As at 31st December 2008, other than the interests of certain directors as disclosed under the section titled "Directors' and Chief Executives' Interests in Shares and Underlying Shares" above, the interests and short positions of persons in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO or, which is, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group, or substantial shareholders as recorded in the register of substantial shareholder required to be kept by the Company under Section 336 of the SFO were as follows:

Long position in ordinary shares of HK$0.1 each in the Company and underlying shares of equity derivatives of the Company

Name of shareholder	Capacity	Number of issued ordinary shares held/interested	Percentage of the issued share capital of the Company
Ip Chor Wan *(Note 1)*	Interest of spouse	179,628,000	32.51%
Chan Wai Ling *(Note 2)*	Interest of spouse	179,628,000	32.51%
Smart Place Investments Limited	Beneficial owner	179,328,000	32.45%
Tang Xue Jin *(Note 3)*	Beneficial owner	118,000,000	21.35%
Cheng Su Chen *(Note 4)*	Interest of corporation controlled	92,096,000	16.67%
Sky Metro Limited *(Note 4)*	Beneficial owner	92,096,000	16.67%

Notes:

1. Ms. Ip Chor Wan is the wife of Mr. Wu Kam Bun. She is deemed to be interested in all the shares in which Mr. Wu Kam Bun is interested by virtue of the SFO.

2. Ms. Chan Wai Ling is the wife of Mr. Lai Chiu Tai. She is deemed to be interested in all the shares in which Mr. Lai Chiu Tai is interested by virtue of the SFO.

3. On 14th January 2008, 118,000,000 new shares (the "Consideration Shares") were allotted to Mr. Tang Xue Jin, a shareholder of China Mining Corporation Limited ("China Mining"), being part of consideration for the acquisition of certain equity interest in China Mining. Due to the failure in fulfilling its undertakings pursuant to the terms and conditions of the agreement of this acquisition by the vendor, the certificates of the Consideration Shares will not be released to Mr. Tang. Details are set out in Note 15 to the consolidated financial statement.

4. 92,096,000 shares were beneficially held by Sky Metro Limited, a company incorporated in British Virgin Islands, and it is wholly controlled by Cheng Su Chen, accordingly, Cheng Su Chen is deemed to be interested in all 92,096,000 shares.

Other than as disclosed above, the Company has not been notified of any other interests or short position in the issued share capital of the Company as at 31st December 2008.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

To the best knowledge of the Board, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any directors or their respective spouse or minor children, or were such rights exercised by them, or was the Company or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

DIRECTORS' INTEREST IN CONTRACTS OF SIGNIFICANCE

To the best knowledge of the Board, we do not aware of any contract of significance in relation to the business of the Group to which the Company or any of its subsidiaries was a party and in which a Director has or had material interest, either directly or indirectly, subsisted during or at the end of the year.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

To the best knowledge of the Board, as at the date of this report, none of the directors, the shareholders of the Company and their respective associates had any interest in a business which causes or may cause a significant competition with the business of the Group and any other conflicts of interest which any such person has or may have with the Group.

RELATED PARTY TRANSACTIONS

Details of related party transactions are set out in Note 39 to the consolidated financial statements.

DIRECTORS' SERVICE CONTRACTS

Each of the executive directors of the Company has entered into a service contract with the Company for an initial term of three years commencing from 2nd September 2006 and may be terminated by either party by giving not less than three months' written notice at the end of the initial term or at any time thereafter.

On 1st September 2007, each of the independent non-executive directors of the Company has entered into a new service contract with the Company for a term of one year commencing on 1st September 2007 and either the Company or the independent non-executive director may terminate the appointment by giving the other a prior notice of not less than three months in writing before is expiration. Due to the appointment of the Provisional Liquidators by an Order of the High Court in October 2008, one executive director and three independent non-executive directors resigned from the Company with short notice.

None of the directors of the Company has a contract of service with the Company or any of its subsidiaries not determinable by the Company within one year without payment of compensation (other than statutory compensation).

PURCHASE, SALE OR REDEMPTION OF SECURITIES

To the best knowledge of the Board, neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the year ended 31st December 2008.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association although there was no restriction against such rights under the laws of the Cayman Islands, being the jurisdiction in which the Company was incorporated, which would oblige the Company to offer new shares on a pro rata basis to the existing shareholders.

SHARE OPTION SCHEME

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

The movements in share options during the year are as follows:

Name of grantee	Exercise price *HK$*	Exercisable period	As at 1st January 2008	Granted during the year ended 31st December 2008	Exercised/ lapsed during the year ended 31st December 2008	As at 31st December 2008
Wu Kam Bun	0.78	14.5.2008 to 26.4.2017	300,000	–	–	300,000
Lai Chiu Tai	0.78	14.5.2008 to 26.4.2017	300,000	–	–	300,000
Ho Wai Wah	0.78	14.5.2008 to 26.4.2017	500,000	–	–	500,000
Wong Wai Chuen	0.78	10.5.2008 to 26.4.2017	1,000,000	–	–	1,000,000
Li Chak Hung	0.78	23.5.2007 to 26.4.2017	80,000	–	–	80,000
Tang Koon Yiu Thomas	0.78	16.5.2007 to 26.4.2017	80,000	–	–	80,000
Lo Kwok Choi	0.78	14.5.2008 to 26.4.2017	500,000	–	(500,000)	–
Law Yuet Yee	0.78	14.5.2008 to 26.4.2017	1,000,000	–	(1,000,000)	–
Ho Chi Kwong	0.78	14.5.2008 to 26.4.2017	650,000	–	(650,000)	–
Chu Wai Fan	0.78	14.5.2008 to 26.4.2017	200,000	–	(200,000)	–
Other persons	0.78	14.5.2008 to 26.4.2017	5,170,000	–	(1,370,000)	3,800,000
			9,780,000	–	(3,720,000)	6,060,000

The Provisional Liquidators have terminated the employment of all employees of the Company, and accordingly the share options of those employees whose employment was terminated during the year 2008 have lapsed.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the directors of the Company at the date of this annual report, there was a sufficient prescribed public float of the issued shares of the Company under the Listing Rules.

REVIEW BY THE AUDIT COMMITTEE

Following the resignation of the Company's independent non-executive directors in October 2008 up to the date of this report, there have been no replacement and no audit committee is therefore maintained as required by Rule 3.21 of the Listing Rules. As a result, the audited financial statements of the Group for the year ended 31st December 2008 have not been reviewed by the audit committee.

DELAY IN DISPATCH OF ANNUAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2008

The Company and several of its subsidiaries were placed in provisional liquidation in October 2008, and suspension of trading in the Shares on the Stock Exchange followed. In the absence of sufficient books and records and data to compile the consolidated financial statements, the Company has not been able to prepare and dispatch the annual report for the financial year ended 31st December 2008 to its members within the due date as required by the Listing Rules.

The delay in the dispatch of the 2008 annual report constitutes non-compliance of the Rule 13.46(2) of the Listing Rules by the Company.

NON-COMPLIANCE OF APPENDIX 16 "DISCLOSURE OF FINANCIAL INFORMATION" OF THE LISTING RULES

Due to the failure to access the books and records of certain subsidiaries and the resignation of the majority of management personnel responsible for maintaining the books and records, the Provisional Liquidators do not have sufficient data to compile the annual report so as to comply with Appendix 16 "Disclosure of financial information" to the Listing Rules. The following information, among others, has been omitted from this annual report:

1. The information on the Group's major customers and suppliers.

2. Connected transactions and continuing connected transactions with the connected person as defined in Chapter 14A (or Chapter 14 prior to the coming into force of Chapter 14A) of the Listing Rules.

3. A separate Corporate Governance Report contained the information required under Appendix 23 of the Listing Rules.

4. Details of the remuneration of employees, remuneration policies and the retirement benefits scheme.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has adopted the code provision set out in the Code on Corporate Governance Practices (the "Code on Corporate Governance Practices") as set out in Appendix 14 to the Listing Rules. The Directors confirm that the Company has complied with the Code on Corporate Governance Practices from 1st January 2008 to 15th October 2008. Since the Provisional Liquidators were appointed on 16th October 2008 pursuant to an order of the High Court, the Directors and the Provisional Liquidators considered that compliance with the Code on Corporate Governance Practices is no longer practicable.

SIGNIFICANT POST BALANCE SHEET EVENTS

The Group has reactivated its trading of toys business through Sino Front Limited, a newly incorporated wholly owned subsidiary of the Company, since June 2009. On 12th May 2009, the Company entered into the Exclusivity Agreement for the restructuring of the Group. The Company submitted a resumption proposal to the Stock Exchange in September 2009, which embraces the Proposed Restructuring including the restructuring of the share capital, subscription of new ordinary shares and arrangement of the creditors of the Company.

Pursuant to the order of High Court dated 5th January 2009, the hearings of the winding-up petitions against the Company and the relevant subsidiaries were adjourned to 6th April 2009. The High Court then further adjourned the hearings of the winding-up petitions to 1st June 2009 pursuant to the hearings on 6th April 2009. At the hearings on 1st June 2009, the High Court further adjourned the hearings of the winding-up petitions of the Company and the relevant subsidiaries to 30th November 2009 to allow time for the implementation of the proposed restructuring of the Group.

AUDITOR

The financial statements for the year ended 31st December 2008 have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for reappointment.

On behalf of the Board
Smart Union Group (Holdings) Limited
(Provisional Liquidators Appointed)

Wu Kam Bun
Executive Director

Hong Kong, 22nd October 2009

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

PricewaterhouseCoopers
22/F 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

Consolidated Balance Sheet

As at 31st December 2008

	Note	2008 HK$'000	2007 HK$'000
ASSETS			
Non-current assets			
Property, plant and equipment	7	**158**	66,408
Land use rights	8	–	4,849
Intangible assets	9	–	2,967
Investments in unconsolidated subsidiaries	10	–	–
Investment in a former subsidiary	10	–	–
Investment in an associated company	11	–	–
Available-for-sale financial assets	12	–	2,342
Prepayments, deposits and other receivables	15	–	11,261
Deferred income tax assets	23	–	749
		158	88,576
Current assets			
Inventories	13	–	379,440
Trade receivables	14	**3,786**	165,438
Amounts due from unconsolidated subsidiaries	39 (b)	–	–
Amount due from a former subsidiary	39 (b)	–	–
Prepayments, deposits and other receivables	15	**976**	19,022
Derivative financial instruments	26	–	213
Convertible bonds	16	–	40,000
Current income tax recoverable		**706**	1,046
Pledged bank deposits	17	–	5,234
Cash and cash equivalents	18	**5,124**	101,584
		10,592	711,977
Total assets		**10,750**	800,553

The notes on pages 27 to 86 are an integral part of these consolidated financial statements.

Consolidated Balance Sheet

As at 31st December 2008

	Note	2008 HK$'000	2007 HK$'000
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	19	**55,259**	34,248
Share premium	20	**368,381**	177,137
Other reserves	20	**30,553**	29,293
(Accumulated losses)/retained earnings	20	**(769,787)**	76,112
		(315,594)	316,790
Minority interest		**–**	1,370
Total equity		**(315,594)**	318,160
LIABILITIES			
Non-current liabilities			
Borrowings	21	**–**	201
Provision for long service payment	22	**–**	1,104
		–	1,305
Current liabilities			
Trade payables	24	**5,487**	195,631
Other payables and accruals	25	**170,176**	43,333
Amounts due to unconsolidated subsidiaries	39 (b)	**112,362**	–
Borrowings	21	**38,303**	239,768
Derivative financial instruments	26	**–**	2,356
Deferred tax liabilities	23	**16**	–
		326,344	481,088
Total liabilities		**326,344**	482,393
Total equity and liabilities		**10,750**	800,553
Net current (liabilities)/assets		**(315,752)**	230,889
Total assets less current liabilities		**(315,594)**	319,465

On behalf of the Board

Director *Director*

The notes on pages 27 to 86 are an integral part of these consolidated financial statements.

Balance Sheet

As at 31st December 2008

	Note	2008 HK$'000	2007 HK$'000
ASSETS			
Non-current assets			
Investments in subsidiaries	10	–	80,422
Current assets			
Prepayments	15	12	13
Amounts due from subsidiaries	39 (c)	–	170,673
Cash and cash equivalents	18	–	42,605
		12	213,291
Total assets		12	293,713
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	19	55,259	34,248
Share premium	20	368,381	177,137
Other reserves	20	80,368	80,443
(Accumulated losses)/retained earnings	20	(704,920)	575
Total equity		(200,912)	292,403
LIABILITIES			
Current liabilities			
Other payables and accruals	25	164,411	75
Borrowings	21	36,513	–
Amount due to a subsidiary	39 (c)	–	1,235
		200,924	1,310
Total liabilities		200,924	1,310
Total equity and liabilities		12	293,713
Net current (liabilities)/assets		(200,912)	211,981
Total assets less current liabilities		(200,912)	292,403

On behalf of the Board

Director *Director*

The notes on pages 27 to 86 are an integral part of these financial statements.

Consolidated Income Statement

As at 31st December 2008

	Notes	2008 HK$'000	2007 HK$'000
Sales	27	**37,550**	953,623
Cost of sales	29	**(32,954)**	(839,734)
Gross profit		**4,596**	113,889
Other income	28	**10,171**	12,320
Other gains/(losses), net	28	**4,904**	(1,893)
Administrative expenses	29	**(38,251)**	(96,704)
Loss on deconsolidation of unconsolidated subsidiaries	3.2 & 30	**(63,393)**	–
Impairment loss on investments in unconsolidated subsidiaries	3.2 & 30	**(3,600)**	–
Gain on deconsolidation of a former subsidiary	3.2 & 30	**506**	–
Impairment loss on investment in a former subsidiary	3.2 & 30	**(30,000)**	–
Impairment loss on amounts due from unconsolidated subsidiaries	3.2 & 39	**(231,939)**	–
Impairment loss on amount due from a former subsidiary	3.2 & 39	**(43,307)**	–
Provision for financial guarantees to an unconsolidated subsidiary	25	**(154,537)**	–
Provision for legal claims	25	**(5,572)**	–
Impairment loss on interest in an associated company	11 & 15	**(257,555)**	–
Impairment loss of convertible bonds	15 & 16	**(40,000)**	–
Operating (loss)/profit		**(847,977)**	27,612
Finance costs	31	**(173)**	(19,035)
(Loss)/profit before tax		**(848,150)**	8,577
Income tax expense	32	**(6)**	(3,134)
(Loss)/profit for the year		**(848,156)**	5,443
Attributable to:			
Equity holders of the Company	34	**(846,786)**	4,680
Minority interest		**(1,370)**	763
		(848,156)	5,443
(Loss) /earnings per share for (loss)/profit attributable to the equity holders of the Company during the year			
– basic *(HK$)*	35	**(1.74)**	0.02
– diluted *(HK$)*	35	**(1.74)**	0.02
Dividends	36	**–**	14,400

The notes on pages 27 to 86 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31st December 2008

	Attributable to the equity holders of the Company						
	Share capital HK$'000	Share premium HK$'000	Other reserves HK$'000	Retained earnings/ (accumulated losses) HK$'000	Total HK$'000	Minority interest HK$'000	Total equity HK$'000
Balance at 1st January 2007	24,000	30,742	25,830	85,832	166,404	607	167,011
Revaluation of available-for-sale financial assets	–	–	191	–	191	–	191
Disposal of available-for-sale financial assets	–	–	30	–	30	–	30
Currency translation differences	–	–	1,721	–	1,721	–	1,721
Profit for the year	–	–	–	4,680	4,680	763	5,443
Total recognised income for 2007	–	–	1,942	4,680	6,622	763	7,385
Net proceeds from issuance of new shares	10,240	146,314	–	–	156,554	–	156,554
Share-based compensation	–	–	1,547	–	1,547	–	1,547
Issue of shares upon exercise of share options	8	81	(26)	–	63	–	63
Dividends relating to 2006	–	–	–	(14,400)	(14,400)	–	(14,400)
	10,248	146,395	1,521	(14,400)	143,764	–	143,764
Balance at 31st December 2007	34,248	177,137	29,293	76,112	316,790	1,370	318,160
Balance at 1st January 2008	**34,248**	**177,137**	**29,293**	**76,112**	**316,790**	**1,370**	**318,160**
Reversal upon deconsolidation of certain unconsolidated subsidiaries	**–**	**–**	**3,245**	**–**	**3,245**	**–**	**3,245**
Deemed disposal of a former subsidiary	**–**	**–**	**(1,910)**	**–**	**(1,910)**	**–**	**(1,910)**
Loss for the year	**–**	**–**	**–**	**(846,786)**	**(846,786)**	**(1,370)**	**(848,156)**
Total recognised income for 2008	**–**	**–**	**1,335**	**(846,786)**	**(845,451)**	**(1,370)**	**(846,821)**
Net proceeds from issuance of new shares	**9,210**	**17,774**	**–**	**–**	**26,984**	**–**	**26,984**
Issue of shares upon acquisition of an associated company	**11,800**	**173,460**	**–**	**–**	**185,260**	**–**	**185,260**
Share-based compensation	**–**	**–**	**815**	**–**	**815**	**–**	**815**
Issue of shares upon exercise of share options	**1**	**10**	**(3)**	**–**	**8**	**–**	**8**
Lapse of share options	**–**	**–**	**(887)**	**887**	**–**	**–**	**–**
	21,011	**191,244**	**(75)**	**887**	**213,067**	**–**	**213,067**
Balance at 31st December 2008	**55,259**	**368,381**	**30,553**	**(769,787)**	**(315,594)**	**–**	**(315,594)**

The notes on pages 27 to 86 are an integral part of these consolidated financial statements.

Consolidated Cash Flow Statement

For the year ended 31st December 2008

	Note	2008 HK$'000	2007 HK$'000
Cash flows from operating activities			
Cash used in operations	37	**(37,722)**	(108,626)
Interest paid		**(173)**	(19,035)
Profits tax paid		**(544)**	(4,617)
Profits tax refund		**–**	561
Net cash used in operating activities		**(38,439)**	(131,717)
Cash flows from investing activities			
Payment for acquisition of an associated company		**(64,295)**	–
Purchase and construction of property, plant and equipment		**(113)**	(29,105)
Increase in intangible assets		**(2,371)**	(3,396)
Proceeds from disposal of available-for-sale financial assets		**–**	2,999
Investments in convertible bonds		**–**	(40,000)
Acquisition deposit of a company and related expenses		**–**	(10,755)
Decrease in pledged deposits		**–**	33
Interest received		**1**	1,345
Net cash used in investing activities		**(66,778)**	(78,879)
Cash flows from financing activities			
Proceeds from new borrowings		**37,535**	1,129,131
Repayment of borrowings		**–**	(1,022,152)
Dividends paid		**–**	(14,400)
Issue of shares		**26,992**	160,055
Payment of share issuance expenses		**–**	(3,438)
Net cash generated from financing activities		**64,527**	249,196
Net (decrease)/increase in cash and cash equivalents		**(40,690)**	38,600
Cash and cash equivalents at 1st January		**93,753**	56,738
Elimination upon de-consolidation of certain subsidiaries	30	**(48,595)**	–
Elimination upon deconsolidation of a former subsidiary	30	**(112)**	–
Exchange losses on cash and cash equivalents		**–**	(1,585)
Cash and cash equivalents at 31st December	18	**4,356**	93,753

The notes on pages 27 to 86 are an integral part of these consolidated financial statements.

1 GENERAL INFORMATION

Smart Union Group (Holdings) Limited (Provisional Liquidators Appointed) (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") on 29th September 2006. The shares of the Company have been suspended for trading on the Stock Exchange since 15th October 2008. On 1st 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 of Hong Kong Limited (the "Listing Rules") have been applied to the Company and the first stage of delisting procedures commenced on 15th October 2008.

The Company and its subsidiaries (together the "Group") were principally engaged in manufacturing and trading of recreational and educational toys and equipment. Details of the subsidiaries of the Group are set out in Note 10 to the consolidated financial statements. The 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, a subsidiary, continued its trading business until 28th February 2009. The Group has reactivated its trading of toys business through Sino Front Limited, a newly incorporated wholly owned subsidiary of the Company, since June 2009.

The directors regard Smart Place Investments Limited, a company incorporated in the British Virgin Islands, as being the ultimate holding company of the Company.

These consolidated financial statements are presented in Hong Kong dollars, unless otherwise stated. These consolidated financial statements have been approved for issue by the directors on 22nd October 2009.

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 of Hong Kong Special Administrative Region ("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 have been appointed as the joint and several provisional liquidators of the Company ("Provisional Liquidators") and certain 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.

2 WINDING-UP PETITIONS, APPOINTMENT OF PROVISIONAL LIQUIDATORS AND GROUP RESTRUCTURING *(Continued)*

Pursuant to the order of High Court dated 5th January 2009, the hearings of the winding-up petitions against the Company and the relevant subsidiaries were adjourned to 6th April 2009. The High Court then further adjourned the hearings of the winding-up petitions to 1st June 2009 pursuant to the hearings on 6th April 2009. At the hearings on 1st June 2009, the High Court further adjourned the hearings of the winding-up petitions of the Company and the relevant subsidiaries to 30th November 2009 to allow time for the implementation of the proposed restructuring of the Group.

On 12th May 2009, an exclusivity agreement was entered into among the Company, Gold Bless International Invest Limited (the "Investor"), Mr. Yang Wang Jian, Mr. Ting Wai-Min, 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 1st 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 will be issued and allotted as fully paid to the Creditors.

The directors 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 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 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") 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 as explained in Note 11. The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, and financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.

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.

The Group sustained a loss attributable to equity holders of the Company of approximately HK$846,786,000 for the year ended 31st December 2008. As at 31st December 2008, the Group had net current liabilities of approximately HK$315,752,000 and net liabilities of approximately HK$315,594,000. 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 during the year and various balances of SU Industrial as at 31st December 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 1st January 2008. 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 31st December 2008, 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. Details of these unconsolidated subsidiaries are set out in Note 10 to the consolidated financial statements.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.2 Subsidiaries not consolidated *(Continued)*

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 consolidated financial statements 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 is included in the consolidated income statement for the year ended 31st December 2008. Moreover, as at 31st December 2008, 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. Details of this former subsidiary are set out in Note 10 to 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 of the Group as at 31st December 2008 and the results of the Group for the year then ended.

In the opinion of the directors, the consolidated financial statements as at and for the year ended 31st December 2008 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, and the non-consolidation of the results of SU Qingyuan from the beginning of the year 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 Application of new/revised standards, amendments and interpretations

(a) The following amendments to standards and interpretations are mandatory for financial year beginning 1st January 2008.

HKAS 39 and HKFRS 7 (Amendments)	Reclassification of Financial Assets
HK(IFRIC)-Int 11	HKFRS 2 – Group and Treasury Share Transactions
HK(IFRIC)-Int 12	Service Concession Arrangements
HK(IFRIC)-Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

The adoption of the above amendments to standards and interpretations did not have any significant financial impact to the Group.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.3 Application of new/revised standards, amendments and interpretations *(Continued)*

(b) The following new standards, amendments to standards and interpretations have been issued but are not effective for the period and have not been early adopted:

HKAS 1 (Revised)	Presentation of Financial Statements[1]
HKAS 23 (Revised)	Borrowing Costs[1]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[2]
HKAS 32 and HKAS 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation[1]
HKAS 39 (Amendment)	Eligible Hedged Items[2]
HKFRS 1 (Revised)	First-time Adoption of Hong Kong Financial Reporting Standards[2]
HKFRS 1 and HKAS 27 (Amendments)	Cost of Investments in a Subsidiary, Jointly Controlled Entities or Associates[2]
HKFRS 1 (Amendment)	Additional Exemptions for First-time Adopters[7]
HKFRS 2 (Amendment)	Share-based Payment Vesting Conditions and Cancellations[1]
HKFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions[7]
HKFRS 3 (Revised)	Business Combinations[2]
HKFRS 7 (Amendment)	Financial Instruments: Disclosures – Improving Disclosures about Financial Instruments[1]
HKFRS 8	Operating Segments[1]
HK(IFRIC)-Int 9 and HKAS 39	Embedded Derivatives[5]
HK(IFRIC)-Int 13	Customer Loyalty Programmes[3]
HK(IFRIC)-Int 15	Agreements for the Construction of Real Estate[1]
HK(IFRIC)-Int 16	Hedges of a Net Investment in a Foreign Operation[4]
HK(IFRIC)-Int 17	Distributions of Non-cash Assets to Owners[2]
HK(IFRIC)-Int 18	Transfers of Assets from Customers[6]

1 Effective for annual periods beginning on or after 1st January 2009
2 Effective for annual periods beginning on or after 1st July 2009
3 Effective for annual periods beginning on or after 1st July 2008
4 Effective for annual periods beginning on or after 1st October 2008
5 Effective for annual periods ending on or after 30th June 2009
6 Effective for transfer of assets from customers received on or after 1st July 2009

The effect that the adoption of HKFRS 3 (Revised), HKAS 27 (Revised) and HK(IFRIC) – Int 17 on the results and financial position of the Group will depend on the incidence and timing of transactions within the scope of these standards and interpretations occurring on or after 1st January 2010.

The directors anticipate that the adoption of other new standards, amendments to standards and interpretations in future periods will have no significant financial impact to the Group.

In addition, Hong Kong Institute of Certified Public Accountants ("HKICPA") also published a number of amendments for the existing standards under its annual improvement project. These amendments are also not expected to have a significant financial impact to the Group.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.4 Consolidation

The consolidated financial statements include the financial statements of the Company and all of its subsidiaries made up to 31st 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. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured at the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the consolidated income statement.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred in the consolidated financial statements. 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 3.10). The results of subsidiaries are accounted by the Company on the basis of dividend received and receivable.

(b) Transactions with minority interests

The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group. Disposals to minority interests result in gains and losses for the Group that are recorded in the consolidated income statement. Purchases from minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary.

(c) 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. The Group's investment in an associated company includes goodwill identified on acquisition, net of any accumulated impairment loss.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.4 Consolidation *(Continued)*

(c) Associated company (Continued)

The Group's share of its associated company's post-acquisition profits or losses is recognised in the consolidated income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investments. 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 consolidated income statement.

3.5 Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

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 consolidated income statement.

Changes in the fair value of monetary securities denominated in foreign currency classified as available-for-sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in the amortised cost are recognised in profit or loss, and other changes in the carrying amount are recognised in equity.

Notes to the Financial Statements

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.6 Foreign currency translation *(Continued)*

(b) Transactions and balances (Continued)

Translation differences on non-monetary financial assets and liabilities are reported as part of the fair value gain or loss. Translation difference on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified as available-for-sale are included in the available-for-sale reserve in equity.

(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 dates of the transactions); and

- all resulting exchange differences are recognised as a separate component of equity.

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 shareholders' equity. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognised in the consolidated 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 in the consolidated income statement during the financial period in which they are incurred.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.7 Property, plant and equipment *(Continued)*

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:

Buildings	25 years
Leasehold improvements	5 years or the lease period, whichever is shorter
Plant and machinery	5-10 years
Office equipment, furniture and fixtures	5 years
Motor vehicles	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 3.10).

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

3.8 Construction in progress

Construction in progress represents buildings, various plant and machinery under construction and pending installation, and is stated at cost less accumulated impairment losses, if any. Cost comprises direct costs of construction as well as capitalised borrowing costs, and foreign exchange differences on related borrowed funds to the extent that they are regarded as an adjustment to interest charges during the construction period.

Construction in progress is transferred to property, plant and equipment when the asset is substantially ready for its intended use.

No depreciation is provided in respect of construction in progress.

3.9 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 are expensed as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Development costs with a finite useful life that have been capitalised are amortised from the commencement of the commercial production of the product based on the number of units sold over the total units expected to be sold.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.10 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.

3.11 Financial assets

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables and available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(a) *Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are classified as held for trading unless they are designated as hedges. Assets in this category are classified as current assets.

(b) *Loans and receivables*

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. Loans and receivables are classified as trade and other receivables and cash and cash equivalents in the balance sheet. (Notes 3.14 and 3.15)

(c) *Available-for-sale financial assets*

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Regular 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 carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the consolidated income statement. 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. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.11 Financial assets *(Continued)*

Gains or losses arising from changes in the fair value of the "financial assets at fair value through profit or loss" category are presented in the consolidated income statement within "other gains/ (losses)", in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the consolidated income statement as part of other income when the Group's right to receive payments is established.

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale are analysed between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security. The translation differences on monetary securities are recognised in profit or loss; translation differences on non-monetary securities are recognised in equity. Changes in the fair value of monetary and non-monetary securities classified as available-for-sale are recognised in equity.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the consolidated income statement as gains and losses from investment securities.

Interest on available-for-sale securities calculated using the effective interest method is recognised in the consolidated income statement as part of other income. Dividends on available-for-sale equity instruments are recognised in the consolidated income statement as part of other income when the Group's right to receive payments is established.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group established fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

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. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the consolidated income statement. Impairment losses recognised in the consolidated income statement on equity instruments are not reversed through the consolidated income statement. Impairment testing of trade receivables is described in Note 3.14.

3.12 Derivative financial instruments and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as hedging instrument, and if so, the nature of the item being hedged.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.12 Derivative financial instruments and hedging activities *(Continued)*

The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedge item is more than 12 months. Trading derivatives are classified as a current asset or liability.

Derivative instruments which do not qualify for hedge accounting are accounted for at fair value through profit or loss. Changes in the fair value of these derivative instruments are recognised immediately in the consolidated income statement within "other gains/(losses)".

3.13 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 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.

3.14 Trade and other receivables

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 consolidated 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 consolidated income statement.

3.15 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

3.16 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.

3.17 Trade payable

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.18 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 consolidated 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.

3.19 Current and deferred income tax

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 and its subsidiaries 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 and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the 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 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, except 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.

3.20 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.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.20 Employee benefits *(Continued)*

(a) Pension obligations (Continued)

(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. The Group's contributions to the defined contribution retirement scheme are expensed as incurred. The Group has no further obligation in connection with other retirement benefits.

(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

The Group operates an equity-settled, share-based compensation plan. 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, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. At each balance sheet date, the entity revises its estimates of the number of options that are expected to vest. 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.

3.21 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.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.21 Provisions *(Continued)*

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.

3.22 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 and not designated as fair value through profit or loss is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract.

3.23 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 consolidated 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.

3.24 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group.

(a) *Sales of goods and scrap materials*

Sales of goods and scrap materials 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 on a time-proportion basis using the effective interest method.

(c) *Compensation income from a customer*

Compensation income is recognised based on the terms agreed with a customer.

(d) *Management fee income*

Management fee income is recognised when the related management services are rendered.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.25 Borrowing costs

Borrowing costs incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use. Other borrowing costs are expensed.

3.26 Lease

(a) *Operating lease*

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 consolidated income statement on a straight-line basis over the period of the lease.

Land use rights represent prepaid lease payments for the use of land in the PRC and is amortised over the unexpired terms of the leases on a straight-line basis. Amortisation of land use rights are expensed in the consolidated income statement.

(b) *Finance lease*

The Group leases certain property, plant and equipment. Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased assets and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in current and non-current borrowings. The interest element of the finance cost is charged in the consolidated income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the useful life of the asset and the lease term.

3.27 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group'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. The Group uses derivative financial instruments to hedge certain risk exposures.

4 FINANCIAL RISK MANAGEMENT *(Continued)*

4.1 Financial risk factors *(Continued)*

(i) Foreign exchange risk

The Group mainly operates in Hong Kong and the PRC. Sales are mainly made to overseas customers while purchases are mainly from suppliers in Hong Kong, the PRC and overseas. The Group is therefore exposed to foreign exchange risk arising from various currency exposures such as United States Dollar ("US$") and Renminbi ("RMB"), primarily with respect to Hong Kong dollars 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.

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

RMB is not freely convertible into other foreign currencies and conversion of RMB into foreign currencies is subject to rules and regulations of foreign exchange control promulgated by the PRC government.

As at 31st 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 Hong Kong dollars and US$.

At 31st December 2007, if Hong Kong dollars had strengthened/weakened by 5% against RMB with all other variables held constant, profit for the year would have been HK$1,078,000 higher/lower, mainly as a result of foreign exchange gains/losses on translation of RMB-denominated prepayments, deposits and other receivables, cash and cash equivalents, trade payables and other payables and accruals. The net assets at the year end would have been HK$2,128,000 higher/lower, mainly as a result of foreign exchange gains/losses on translation of foreign operations.

To manage their foreign exchange risk arising from future commercial transactions and recognised assets and liabilities, the Group uses certain foreign exchange derivative contracts to manage their foreign exchange risk.

(ii) Credit risk

The credit risk of the Group mainly arises from cash and cash equivalents with banks and financial institutions, as well as credit exposures to customers such as trade receivables. The carrying amount of cash and cash equivalents and trade receivables, prepayments, deposits and other receivables in the balance sheet represents the Group's maximum exposure to credit risk in relation to its financial assets. The maximum exposure to credit risk of cash and cash equivalents is disclosed in Note 18.

The credit quality of the customers is assessed based on its financial position, past experience and other factors. The Group has policies in place to ensure that sales of products are made to customers with an appropriate credit history. Although sales to large or long-established customers with good repayment history comprise a significant proportion of the Group's sales, the Group has policies on granting different settlement methods to different customers.

4 FINANCIAL RISK MANAGEMENT *(Continued)*

4.1 Financial risk factors *(Continued)*

(ii) Credit risk (Continued)

As at 31st December 2008, counterparties for cash and cash equivalents are limited to financial institutions with high credit ratings. In the opinion of the directors, the credit risk is minimal.

(iii) Liquidity risk

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.

	2008	2007
	HK$'000	*HK$'000*
Less than 1 year:		
– Trade payables *(Note 24)*	**5,487**	195,631
– Other payables and accruals *(Note 25)*	**170,176**	43,333
– Amounts due to unconsolidated subsidiaries *(Note 39)*	**112,362**	–
– Borrowings *(Note 21)*	**38,303**	239,768
	326,328	478,732
Between 1 and 5 years:		
– Borrowings *(Note 21)*	**–**	201

(iv) Cash flow and fair value interest rate risk

Except as disclosed below, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

The Group's interest-rate risk mainly arises from pledged bank deposits, cash and cash equivalents and borrowings. The Group regularly seeks out the most favourable interest rates available for its bank deposits, bank balances and borrowings. Bank deposits, bank balances and borrowings issued at variable rates expose the Group to cash flow interest rate risk. Information relating to the interest rates and terms of the Group's pledged bank deposits, cash and cash equivalents and borrowings are disclosed in Notes 17, 18 and 21. As at 31st December 2008, if the market interest rates had been 50 basis points higher/lower with all other variables held constant, profit for the year would have been HK$15,000 (2007: HK$404,000) lower/higher, mainly as a result of higher/lower interest income on pledged bank deposits, cash and cash equivalents and interest expense on floating rate borrowings.

The Group has not entered into any interest rate swaps to hedge its exposure to interest rate risks.

4 FINANCIAL RISK MANAGEMENT *(Continued)*

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.

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 fair value of available-for-sale financial assets is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group is the current bid price.

The fair value of foreign exchange derivative contracts is determined by using valuation techniques. The Group makes assumptions that are based on certain financial principles and market conditions existing at each balance sheet date.

The carrying amounts of the Group's financial assets and financial liabilities under current assets and liabilities approximate their fair values due to their short maturities. The nominal values less any estimated credit adjustments for financial assets and liabilities with a maturity of less than one year are assumed to approximate their fair values.

The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate available to the Group for similar financial instruments.

5 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements 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.

5 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

(b) Useful lives of property, plant and equipment

The Group's management determines the estimated useful lives, residual values and related depreciation charges for its property, plant and equipment. This estimate is based on historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to industry cycles. Management will increase the depreciation charge where useful lives are less than previously estimated lives, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

(c) Impairment of non-financial assets

Non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The recoverable amounts have been determined based on value-in-use calculations or fair values less cost to sell. These calculations require the use of judgements and estimates.

Management judgement 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 or 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 adverse change in the projected performance and resulting future cash flow projections, it may be necessary to take an impairment charge to the consolidated income statement.

(d) Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. These estimates are based on the current market condition and the historical experience of manufacturing and selling products of similar nature. It could change significantly as a result of changes in customer taste and competitor actions in response to industry cycles. Management reassesses the estimates at each balance sheet date.

(e) Provision for impairment of trade and other receivables

The Group's management determines the provision for impairment of trade and other receivables 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.

5 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

(f) Estimated fair values of foreign exchange derivative contracts

The Group determines the fair values of foreign exchange derivative contracts with a range of reasonable fair value estimates. Estimating the values associated with the foreign exchange derivative contracts requires a process that involves forecasting future foreign exchange rates. Any changes in assumptions and estimates can affect the fair values of these foreign exchange derivative contracts.

(g) Contingent liabilities

Management judgement is required in the area of contingent liabilities particularly in assessing the outcome of possible obligations arising from the transactions as detailed in Note 40. 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 reassess the likelihood of the outcome of these possible obligations at each balance sheet date.

(h) 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.

(i) Provision for financial guarantees

The Group makes provision for financial guarantees in respect of banking facilities granted to an unconsolidated subsidiary, SU Industrial. The determination of the provision for guarantees requires the use of judgement 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.

(j) 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

Primary reporting format – business segments

The products and services provided by the Group are all related to the manufacturing and trading of recreational and educational toys and equipment and subject to similar business risk. No business segment information has been prepared by the Group for the year ended 31st December 2008.

Secondary reporting format – geographical segments

The Group primarily operates in Hong Kong and the PRC.

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

	2008	2007
	HK$'000	*HK$'000*
America	**34,101**	638,708
Europe	**–**	208,916
Others	**3,449**	105,999
	37,550	953,623

Sales are allocated based on the places/countries in which goods are delivered.

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

	2008	2007
	HK$'000	*HK$'000*
Hong Kong	**10,750**	264,356
The PRC	**–**	536,197
	10,750	800,553

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

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

	2008	2007
	HK$'000	*HK$'000*
Hong Kong	**113**	952
The PRC	**–**	28,153
	113	29,105

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

7 PROPERTY, PLANT AND EQUIPMENT

	Group						
	Construction in progress	Buildings	Leasehold improve-ments	Plant and machinery	Office equipment, furniture and fixtures	Motor vehicles	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1st January 2007							
Cost	5,452	20,242	6,333	34,484	13,156	1,229	80,896
Accumulated depreciation	–	(202)	(5,099)	(22,540)	(8,788)	(1,022)	(37,651)
Net book amount	5,452	20,040	1,234	11,944	4,368	207	43,245
Year ended 31st December 2007							
Opening net book amount	5,452	20,040	1,234	11,944	4,368	207	43,245
Additions	21,474	562	540	4,451	1,544	534	29,105
Disposals	–	–	–	(53)	(37)	–	(90)
Transfers	(22,734)	21,106	1,628	–	–	–	–
Depreciation	–	(1,099)	(1,404)	(4,994)	(1,075)	(212)	(8,784)
Exchange differences	335	2,333	7	245	12	–	2,932
Closing net book amount	4,527	42,942	2,005	11,593	4,812	529	66,408
At 31st December 2007							
Cost	4,527	44,291	8,510	37,586	14,567	1,762	111,243
Accumulated depreciation	–	(1,349)	(6,505)	(25,993)	(9,755)	(1,233)	(44,835)
Net book amount	4,527	42,942	2,005	11,593	4,812	529	66,408
Year ended 31st December 2008							
Opening net book amount	**4,527**	**42,942**	**2,005**	**11,593**	**4,812**	**529**	**66,408**
Additions	**–**	**–**	**24**	**–**	**89**	**–**	**113**
Impairment	**–**	**–**	**(278)**	**–**	**(383)**	**–**	**(661)**
Depreciation	**–**	**–**	**(67)**	**–**	**(192)**	**–**	**(259)**
Deconsolidation of a former subsidiary	**(2,095)**	**(42,942)**	**(198)**	**(3,493)**	**(203)**	**–**	**(48,931)**
Deconsolidation of certain unconsolidated subsidiaries	**(2,432)**	**–**	**(1,431)**	**(8,100)**	**(4,020)**	**(529)**	**(16,512)**
Closing net book amount	**–**	**–**	**55**	**–**	**103**	**–**	**158**
At 31st December 2008							
Cost	**–**	**–**	**158**	**–**	**1,077**	**–**	**1,235**
Accumulated depreciation	**–**	**–**	**(103)**	**–**	**(974)**	**–**	**(1,077)**
Net book amount	**–**	**–**	**55**	**–**	**103**	**–**	**158**

Depreciation expense for the year ended 31st December 2008 of approximately HK$259,000 has been charged in administrative expense. Depreciation expense of approximately HK$7,400,000 has been charged in cost of sales and approximately HK$1,384,000 in administrative expenses for the year ended 31st December 2007.

7 PROPERTY, PLANT AND EQUIPMENT *(Continued)*

Motor vehicles include the following amounts where the Group is a lessee under finance leases:

	2008	2007
	HK$'000	*HK$'000*
Cost – capitalised finance leases	**–**	850
Accumulated depreciation	**–**	(504)
Net book amount	**–**	346

8 LAND USE RIGHTS

The Group's interests in land use rights represent prepaid operating lease payments and their net book values are analysed as follows:

	Group	
	2008	2007
	HK$'000	*HK$'000*
At 1st January	**4,849**	4,516
Deconsolidation of a former subsidiary	**(4,849)**	–
Amortisation of prepaid operating lease payments	**–**	(69)
Exchange differences	**–**	402
At 31st December	**–**	4,849
Analysed as:		
Land use rights in the PRC of between 10 to 50 years	**–**	4,849

9 INTANGIBLE ASSETS

	Group	
	2008	2007
	HK$'000	*HK$'000*
At 1st January		
Cost	**4,138**	886
Accumulated amortisation and impairment	**(1,171)**	(254)
Net book amount	**2,967**	632
Year ended 31st December		
Opening net book amount	**2,967**	632
Additions	**2,371**	3,396
Disposals	**–**	(144)
Amortisation expense	**(1,440)**	(567)
Impairment	**(3,898)**	(350)
Closing net book amount	**–**	2,967
At 31st December		
Cost	**–**	4,138
Accumulated amortisation and impairment	**–**	(1,171)
Net book amount	**–**	2,967

Intangibles represent capitalised toys development costs.

Amortisation and impairment of intangible assets are charged to cost of sales.

10 INVESTMENTS IN SUBSIDIARIES

(a) Investments in subsidiaries – Company

	2008	2007
	HK$'000	*HK$'000*
Investments, at cost:		
Unlisted shares	**80,422**	80,422
Less: Impairment losses	**(80,422)**	–
	–	80,422

10 INVESTMENTS IN SUBSIDIARIES *(Continued)*

(a) Investments in subsidiaries – Company *(Continued)*

The following is a list of the subsidiaries at 31st December 2008 which have been included in these consolidated financial statements:

Company name	Place of incorporation/ establishment	Issued/ registered and fully paid up share capital/ paid-in capital	Attributable equity interests		Principal activities and place of operation
			Direct	Indirect	
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	Hong Kong	HK$1,000,000	–	69%	Trading of gifts in Hong Kong
Smart Union China Investments Limited (Provisional Liquidators Appointed)	Hong Kong	HK$10,000	–	100%	Investment holding in Hong Kong
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%	Provision of management services in Hong Kong

10 INVESTMENTS IN SUBSIDIARIES *(Continued)*

(a) Investments in subsidiaries – Company *(Continued)*

Company name	Place of incorporation/ establishment	Issued/ registered and fully paid up share capital/ paid-in capital	Attributable equity interests Direct	Indirect	Principal activities and place of operation
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%	Trading of toys in Hong Kong
Worldtrade Promotions Limited	Hong Kong	HK$10,000	–	100%	Trading of promotional products in Hong Kong

Dream Link Limited is a subsidiary of the Company. All accounting personnel of Dream Link Limited left the Group subsequent to 31st December 2008 and, accordingly, the directors have 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 year ended 31st December 2008 have been properly reflected in the consolidated financial statements.

Dream Link Limited accounts for a substantial portion of the Group's operations after the deemed disposal of SU Qingyuan and the deconsolidation of SU Industrial and its subsidiary. Any adjustments arising from the matter described above would have a significant consequential effect on the Group's assets and liabilities as at 31st December 2008 and its loss and cash flows for the year then ended.

An analysis of the financial position of Dream Link Limited which has been included in the Group's consolidated financial statements as at 31st December 2008 is as follows:

	2008 *HK$'000*
Trade receivables	**3,786**
Prepayment, deposits and other receivables	**896**
Current income tax recoverable	**579**
Cash and cash equivalents	**1,915**
Trade payables	**(5,487)**
Other payables and accruals	**(2,996)**
Amounts due to unconsolidated subsidiaries	**(2,563)**
Borrowings	**(1,790)**
Deferred tax liabilities	**(16)**
Net current liabilities and net liabilities	**(5,676)**

10 INVESTMENTS IN SUBSIDIARIES *(Continued)*

(a) Investments in subsidiaries – Company *(Continued)*

An analysis of the financial results of Dream Link Limited for the year ended 31st December 2008 is as follows:

	2008
	HK$'000
Sales	**37,550**
Costs of sales	**(32,954)**
Gross profit	**4,596**
Other income	**109**
Other losses	**(132)**
Administrative expenses	**(14,506)**
Operating loss	**(9,933)**
Finance costs	**(163)**
Loss for the year	**(10,096)**

(b) Investments in unconsolidated subsidiaries – Group

	2008	2007
	HK$'000	*HK$'000*
Investment, at cost:		
Unlisted shares	**3,600**	–
Less: Impairment losses	**(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 HKICPA.

Details of the unconsolidated subsidiaries as at 31st December 2008 are as follows:

Company name	**Place of incorporation/ establishment**	**Issued/ registered and fully paid up share capital/ paid-in capital**	**Attributable equity interests Direct**	**Indirect**	**Principal activities and place of operation**
Smart Union Industrial Limited (Provisional Liquidators Appointed)	Hong Kong	HK$10,000	–	100%	Manufacturing and trading of toys in the PRC and Hong Kong
Perfect Design and Product Development Limited	Hong Kong	HK$10,000	–	100%	Manufacturing and design of toy moulds in the PRC

10 INVESTMENTS IN SUBSIDIARIES *(Continued)*

(c) Investment in a former subsidiary – Group

	2008 **HK$'000**	2007 HK$'000
Investment, at cost:		
Unlisted shares	**30,000**	–
Less: Impairment losses	**(30,000)**	–
	–	–

As explained in Note 3.2, the directors have not been able to get access to certain books and records of a former subsidiary, SU Qingyuan. 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 which is not in accordance with the requirements of Hong Kong Accounting Standard 27 "Consolidated and Separate Financial Statements" issued by HKICPA.

Details of the former subsidiary as at 31st December 2008 are as follows:

Company name	**Place 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 place of operation**
Smart Union (Qinyuan) Industrial Limited	The PRC	Registered capital of HK$30,000,000 with total paid up capital of HK$30,000,000	–	100%	Manufacturing of toys in the PRC

11 INVESTMENT IN AN ASSOCIATED COMPANY

	Group **2008** **HK$'000**	**Group** 2007 HK$'000
Unlisted investments, at cost	**257,555**	–
Less: Impairment losses	**(257,555)**	–
	–	–

11 INVESTMENT IN AN ASSOCIATED COMPANY *(Continued)*

The following are the details of the associated company as at 31st December 2008:

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

The directors believe that the investment in this associated company is impaired. As such, a full impairment provision of approximately HK$257,555,000 has been made in respect of this associated company. Further details of this associated company 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".

12 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Group	
	2008	2007
	HK$'000	*HK$'000*
At 1st January	**2,342**	5,120
Reversal upon deconsolidation of certain unconsolidated subsidiaries	**(2,342)**	–
Disposal	**–**	(2,969)
Revaluation *(Note 20)*	**–**	191
At 31st December	**–**	2,342

Available-for-sale financial assets at 31st December 2007 were denominated in Hong Kong dollars and represented unlisted investment funds in Hong Kong, which had been pledged for certain bank borrowings of the Group (Note 21).

The carrying amounts of available-for-sale financial assets at 31st December 2007 approximated their fair values.

The maximum exposure to credit risk at the reporting date is the fair value of unlisted investment funds classified as available-for-sale financial assets.

13 INVENTORIES

	Group	
	2008	2007
	HK$'000	*HK$'000*
Raw materials	**–**	167,025
Work in progress	**–**	175,764
Finished goods	**3,129**	50,634
Subtotal	**3,129**	393,423
Less: provision	**(3,129)**	(13,983)
	–	379,440

The carrying amounts of inventories that were carried at fair value less costs to sell as at 31st December 2007 amounted to approximately HK$4,699,000.

The cost of inventories recognised as expenses and included in cost of sales during the year ended 31st December 2008 amounted to HK$23,429,000 (2007: HK$835,953,000).

14 TRADE RECEIVABLES

	Group	
	2008	2007
	HK$'000	*HK$'000*
Trade receivables	**5,619**	166,445
Less: provision for impairment of receivables	**(1,833)**	(1,007)
Trade receivables – net	**3,786**	165,438

The Group's trade receivables from its customers are generally with credit periods of less than 75 days. The sales to large or long-established 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.

14 TRADE RECEIVABLES *(Continued)*

The ageing analysis of trade receivables as at 31st December 2008 and 2007 are as follows:

	Group	
	2008	2007
	HK$'000	*HK$'000*
0 – 30 days	**481**	112,063
31 – 60 days	**1,439**	19,890
61 – 90 days	**3,067**	15,201
91 days – 1 year	**359**	17,226
Over 1 year	**273**	2,065
	5,619	166,445

As at 31st December 2008, trade receivables of HK$1,833,000 (2007: HK$1,007,000) were impaired. The amount of the provision was HK$1,833,000 (2007: HK$1,007,000) as at 31st December 2008. The individually impaired receivables mainly relate to customers which are in unexpected difficult economic situations. The ageing of these receivables is as follows:

	Group	
	2008	2007
	HK$'000	*HK$'000*
Current	**327**	–
Past due by up to 6 months	**1,283**	498
Past due over 6 months	**223**	509
	1,833	1,007

The details of provision for impairment of receivables are as follows:

	Group	
	2008	2007
	HK$'000	*HK$'000*
At 1st January	**1,007**	672
Additional provision	**1,618**	558
Reversal of provision	**–**	(223)
Reversal upon deconsolidation of certain unconsolidated subsidiaries	**(792)**	–
At 31st December	**1,833**	1,007

The creation and release of provision for impaired receivables have been included in "administrative expenses" in the consolidated income statement (Note 29). The amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

14 TRADE RECEIVABLES *(Continued)*

As at 31st December 2008, no trade receivables (2007: trade receivables of HK$97,371,000) were past due but not impaired. These relate to a number of customers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

	Group	
	2008	2007
	HK$'000	*HK$'000*
Past due by:		
0 – 30 days	**–**	43,996
31 – 60 days	**–**	19,890
61 – 90 days	**–**	14,739
Over 90 days	**–**	18,746
	–	97,371

Trade receivables are denominated in the following currencies:

	Group	
	2008	2007
	HK$'000	*HK$'000*
Hong Kong dollars	**337**	112,737
US$	**5,282**	53,708
	5,619	166,445

15 PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2008	2007	**2008**	2007
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Prepayments	**73**	9,211	**12**	13
Deposits	**820**	13,642	**–**	–
Other receivables	**83**	7,430	**–**	–
	976	30,283	**12**	13
Less: non-current portion	**–**	(11,261)	**–**	–
Current portion	**976**	19,022	**12**	13

15 PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES *(Continued)*

On 17th 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 (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 16). 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.

As at 31st December 2007, the related acquisition deposit and expenses paid by the Group and included in deposits account amounted to approximately HK$10,755,000. The acquisition was completed on 14th January 2008 and since then China Mining has become an associated company of the Group. Further details of China Mining are disclosed in Note 11.

Pursuant to the terms and conditions of the Acquisition Agreement, 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 30th April 2008 (further extended to 31st 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 30th April 2008 (further extended to 31st 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 30th April 2008 (further extended to 31st 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 sets of 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.

15 PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES *(Continued)*

Prepayments, deposits and other receivables are denominated in the following currencies:

	Group		Company	
	2008	2007	**2008**	2007
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Hong Kong dollars	**976**	18,395	**12**	13
RMB	**–**	11,888	**–**	–
	976	30,283	**12**	13

16 CONVERTIBLE BONDS

	Group	
	2008	2007
	HK$'000	*HK$'000*
Zero coupon convertible bonds	**40,000**	40,000
Less: impairment loss	**(40,000)**	–
	–	40,000

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

As disclosed in Note 15, as the China Mining Undertakings could not be fulfilled, the Group has requested the 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.

17 PLEDGED BANK DEPOSITS

The effective interest rate on the Group's pledged bank deposits as at 31st December 2007 was 3.8% per annum. These pledged deposits for bank borrowings were denominated in Hong Kong dollars and had an average maturity of 60 days (Note 21).

18 CASH AND CASH EQUIVALENTS

	Group		Company	
	2008	2007	**2008**	2007
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Cash at banks and on hand	**5,124**	101,584	**–**	42,605
Maximum exposure to credit risk	**5,124**	101,388	**–**	42,605

Cash and cash equivalents are denominated in the following currencies:

	Group		Company	
	2008	2007	**2008**	2007
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Hong Kong dollars	**4,108**	63,588	**–**	42,605
US$	**911**	22,153	**–**	–
RMB	**105**	15,843	**–**	–
	5,124	101,584	**–**	42,605

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 statements are as follows:

	2008	2007
	HK$'000	*HK$'000*
Bank balances and cash	**5,124**	101,584
Less: bank overdrafts *(Note 21)*	**(768)**	(7,831)
Cash and cash equivalents	**4,356**	93,753

19 SHARE CAPITAL

(a) Authorised and issue capital

	Number of shares	Nominal value *HK$'000*
Authorised – ordinary shares of HK$0.1 each		
As at 31st December 2008 and 2007	2,000,000,000	200,000
Issued and fully paid – ordinary shares of HK$0.1 each		
As at 1st January 2007	240,000,000	24,000
Issue of shares upon exercise of share options *(Note 19(b))*	80,000	8
Issue of shares *(Note (i))*	32,400,000	3,240
Issue of shares *(Note (ii))*	70,000,000	7,000
As at 31st December 2007	342,480,000	34,248
As at 1st January 2008	342,480,000	34,248
Issue of shares upon exercise of share options *(Note 19(b))*	10,000	1
Issue of shares *(Note (iii))*	118,000,000	11,800
Issue of shares *(Note (iv))*	92,096,000	9,210
As at 31st December 2008	552,586,000	55,259

Notes:

(i) On 12th June 2007, Smart Place Investments Limited ("SPI") entered into a placing agreement and a subscription agreement with Sun Hung Kai International Limited and the Company respectively. Pursuant to the subscription agreement, SPI conditionally agreed to subscribe for an aggregate of 32,400,000 shares at a price of HK$1.33 per share. The placing of 32,400,000 existing shares by SPI was completed on 15th June 2007 and 32,400,000 new shares were issued and allotted to SPI on 25th June 2007.

(ii) On 17th July 2007, the Company entered into a conditional placing agreement with China Everbright Securities (HK) Limited for the placing of up to an aggregate of 70,000,000 new shares to the placees at the placing price of HK$1.67 per placing share. A total of 70,000,000 new shares were fully placed and completion of the placing took place on 19th November 2007.

(iii) On 14th January 2008, 118,000,000 new shares were allotted to a shareholder of China Mining, an associated company, as part of consideration for the acquisition of certain equity interest in China Mining, as referred to in Note 15.

(iv) On 29th July 2008, Sky Metro Limited ("SML") entered into a subscription agreement with the Company. Pursuant to the subscription agreement, SML conditionally agreed to subscribe for an aggregate of 92,096,000 shares at a price of HK$0.293 per share. The placing of 92,096,000 existing shares by SML was completed on 1st September 2008 and 92,096,000 new shares were issued and allotted to SML on 1st September 2008.

19 SHARE CAPITAL *(Continued)*

(b) Share option scheme

On 2nd 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 27th 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 26th April 2017.

(ii) During the year ended 31st December 2008, 3,710,000 share options had been lapsed due to the termination of employment for certain employees of the Company.

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

	2008		2007	
	Average exercise price in HK$ per share	**Number of share options**	Average exercise price in HK$ per share	Number of share options
At 1st January	**0.78**	**9,780,000**	–	–
Granted	**–**	**–**	0.78	10,100,000
Exercised	**0.78**	**(10,000)**	0.78	(80,000)
Lapsed	**0.78**	**(3,710,000)**	0.78	(240,000)
At 31st December	**0.78**	**6,060,000**	0.78	9,780,000

Out of the 6,060,000 (2007: 9,780,000) outstanding options as at 31st December 2008, 6,060,000 (2007: 160,000) options were exercisable. Options exercised in 2008 resulted in 10,000 shares (2007: 80,000 shares) being issued at a weighted average exercise price of HK$0.78 each (2007: HK$0.78 each). The related weighted average share price at the time of exercise was HK$1.15 (2007: HK$1.67) per share.

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.

20 RESERVES

(a) Group

	Share premium HK$'000	Share-based equity reserves HK$'000	Available-for-sale financial assets reserves HK$'000	Exchange reserve HK$'000	Merger reserve HK$'000 Note (i)	Retained earnings/ (accumulated losses) HK$'000	Total HK$'000
At 1st January 2007	30,742	–	121	189	25,520	85,832	142,404
Revaluation *(Note 12)*	–	–	191	–	–	–	191
Disposal of available-for-sale financial assets	–	–	30	–	–	–	30
Currency translation differences	–	–	–	1,721	–	–	1,721
Profit for the year attributable to equity holders of the Company	–	–	–	–	–	4,680	4,680
Net proceeds from issuance of new shares	146,314	–	–	–	–	–	146,314
Share-based compensation	–	1,547	–	–	–	–	1,547
Issue of shares upon exercise of share options	81	(26)	–	–	–	–	55
Dividends relating to 2006	–	–	–	–	–	(14,400)	(14,400)
At 31st December 2007	177,137	1,521	342	1,910	25,520	76,112	282,542
At 1st January 2008	**177,137**	**1,521**	**342**	**1,910**	**25,520**	**76,112**	**282,542**
Reversal upon deconsolidation of certain unconsolidated subsidiaries	**–**	**–**	**(342)**	**–**	**3,587**	**–**	**3,245**
Deemed disposal of a former subsidiary	**–**	**–**	**–**	**(1,910)**	**–**	**–**	**(1,910)**
Loss for the year attributable to equity holders of the Company	**–**	**–**	**–**	**–**	**–**	**(846,786)**	**(846,786)**
Net proceeds from issuance of new shares	**17,774**	**–**	**–**	**–**	**–**	**–**	**17,774**
Issue of shares upon acquisition of an associated company	**173,460**	**–**	**–**	**–**	**–**	**–**	**173,460**
Share-based compensation	**–**	**815**	**–**	**–**	**–**	**–**	**815**
Issue of shares upon exercise of share options	**10**	**(3)**	**–**	**–**	**–**	**–**	**7**
Lapse of share options	**–**	**(887)**	**–**	**–**	**–**	**887**	**–**
At 31st December 2008	**368,381**	**1,446**	**–**	**–**	**29,107**	**(769,787)**	**(370,853)**

20 RESERVES *(Continued)*

(b) Company

	Share premium HK$'000	Share-based equity reserves HK$'000	Merger reserve HK$'000 Note (ii)	Retained earnings/ (accumulated Losses) HK$'000	Total HK$'000
At 1st January 2007	30,742	–	78,922	344	110,008
Profit for the year attributable to equity holders of the Company	–	–	–	14,631	14,631
Net proceeds from issuance of new shares	146,314	–	–	–	146,314
Share-based compensation	–	1,547	–	–	1,547
Issue of shares upon exercise of share options	81	(26)	–	–	55
Dividends relating to 2006	–	–	–	(14,400)	(14,400)
At 31st December 2007	177,137	1,521	78,922	575	258,155
At 1st January 2008	**177,137**	**1,521**	**78,922**	**575**	**258,155**
Loss for the year attributable to equity holders of the Company	**–**	**–**	**–**	**(706,382)**	**(706,382)**
Net proceeds from issuance of new shares	**17,774**	**–**	**–**	**–**	**17,774**
Issue of shares upon acquisition of an associated company	**173,460**	**–**	**–**	**–**	**173,460**
Share-based compensation	**–**	**815**	**–**	**–**	**815**
Issue of shares upon exercise of share options	**10**	**(3)**	**–**	**–**	**7**
Lapse of share options	**–**	**(887)**	**–**	**887**	**–**
At 31st December 2008	**368,381**	**1,446**	**78,922**	**(704,920)**	**(256,171)**

Notes:

(i) On 30th 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 1st 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 30th 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 1st 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.

21 BORROWINGS

	Group		Company	
	2008	2007	**2008**	2007
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Non-current				
Finance lease liabilities	**–**	201	**–**	–
	–	201	**–**	–
Current				
Bank overdrafts, secured *(Note 18)*	**768**	7,831	**–**	–
Short-term bank loans, secured	**–**	35,000	**–**	–
Trust receipt bank loans, secured	**–**	136,197	**–**	–
Current portion of non-current bank borrowings, secured	**–**	2,650	**–**	–
Factoring facilities utilised	**1,022**	57,929	**–**	–
Finance lease liabilities	**–**	161	**–**	–
Other borrowings, secured	**36,513**	–	**36,513**	–
	38,303	239,768	**36,513**	–
Total borrowings	**38,303**	239,969	**36,513**	–

Secured bank borrowings at 31st December 2008 were secured by corporate guarantees executed by the Company. Secured bank borrowings at 31st December 2007 were secured by available-for-sale financial assets amounting to approximately HK$2,342,000 (Note 12), corporate guarantees executed by the Company and pledged bank deposits amounted to approximately HK$5,234,000 (Note 17).

As at 31st December 2008, other secured borrowings comprised loans from two independent third parties amounting to approximately HK$36,513,000. An amount of HK$18,913,000 (2007: Nil) bears interest at 7% per annum and repayable on demand, whilst the remaining balance of HK$17,600,000 bears interest at 3% per annum above the Hong Kong Interbank Offer Rate and repayable on demand.

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.

21 BORROWINGS *(Continued)*

The maturities of the Group's borrowings as at 31st December 2008 and 2007 are as follows:

	2008	2007
	HK$'000	*HK$'000*
Within 1 year	**38,303**	239,768
Between 1 and 2 years	**–**	201
	38,303	239,969

Finance lease liabilities – minimum lease payments:

	Group	
	2008	2007
	HK$'000	*HK$'000*
Within 1 year	**–**	185
Between 1 and 2 years	**–**	217
		402
Future finance charges on finance leases	**–**	(40)
Present value of finance lease liabilities	**–**	362

The present value of finance lease liabilities is as follows:

	Group	
	2008	2007
	HK$'000	*HK$'000*
Within 1 year	**–**	161
Between 1 and 2 years	**–**	201
	–	362

The effective interest rates of the Group's borrowings as at 31st December 2008 and 2007 are as follows:

	2008	2007
Bank overdrafts	**5.8%**	7.4%
Other bank borrowings	**6.3%**	5.9%
Finance lease liabilities	**–**	2.7%
Other borrowings, secured	**5.2%**	–

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.

22 PROVISION FOR LONG SERVICE PAYMENT

	Group	
	2008	2007
	HK$'000	*HK$'000*
At 1st January	**1,104**	–
Additional provisions	**–**	621
Reversal upon deconsolidation of certain unconsolidated subsidiaries	**(697)**	–
Transfer (to)/from other payables and accruals	**(407)**	483
At 31st December	**–**	1,104

The amount represents provision for long service payment for the eligible employees of the Group in Hong Kong.

The carrying amount of provision for long service payment approximates its fair value.

23 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	
	2008	2007
	HK$'000	*HK$'000*
Deferred income tax (liabilities)/assets to be recovered after more than 12 months	**(16)**	749

The gross movement on the deferred income tax assets/(liabilities) of the Group is as follows:

	2008	2007
	HK$'000	*HK$'000*
At 1st January	**749**	134
Reversal upon deconsolidation of certain unconsolidated subsidiaries	**(765)**	–
Recognised in the consolidated income statement *(Note 32)*	**–**	615
At 31st December	**(16)**	749

23 DEFERRED INCOME TAX *(Continued)*

The movements in deferred income tax assets and liabilities of the Group during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, are as follows:

Deferred income tax assets:

	Provision for impairment of assets	
	2008	2007
	HK$'000	*HK$'000*
At 1st January	**1,211**	134
Reversal upon deconsolidation of certain unconsolidated subsidiaries	**(1,211)**	–
Recognised in the consolidated income statement	**–**	1,077
At 31st December	**–**	1,211

Deferred income tax liabilities:

	Accelerated depreciation allowances	
	2008	2007
	HK$'000	*HK$'000*
At 1st January	**(462)**	–
Reversal upon deconsolidation of certain unconsolidated subsidiaries	**446**	
Recognised in the consolidated income statement	**–**	(462)
At 31st December	**(16)**	(462)

Deferred income tax assets are recognised for tax losses carry-forwards to the extent that the realisation of the related tax benefits through the future taxable profits is probable. As at 31st December 2008, the Group did not recognise deferred income tax assets of HK$2,984,000 (2007: HK$1,176,000) in respect of losses amounting to HK$18,085,000 (2007: HK$7,126,000) that can be carried forward against future taxable income.

24 TRADE PAYABLES

The ageing analysis of trade payables as at 31st December 2008 and 2007 are as follows:

	Group	
	2008	2007
	HK$'000	*HK$'000*
0 – 30 days	**4,430**	79,381
31 – 60 days	**541**	39,323
61 – 90 days	**324**	40,624
91 days – 1 year	**141**	28,420
1 – 2 years	**26**	4,186
Over 2 years	**25**	3,697
	5,487	195,631

Trade payables are denominated in the following currencies:

	Group	
	2008	2007
	HK$'000	*HK$'000*
Hong Kong dollars	**5,196**	123,897
US$	**109**	4,561
RMB	**182**	67,173
	5,487	195,631

The carrying amounts of trade payables approximate their fair values.

25 OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2008	2007	**2008**	2007
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Accruals	**8,685**	41,066	**2,832**	75
Receipts in advance	**216**	2,267	**–**	–
Other payables	**1,166**	–	**–**	–
Provision for financial guarantees to a subsidiary *(Note (i))*	**–**	–	**1,470**	–
Provision for financial guarantees to an unconsolidated subsidiary *(Note (ii))*	**154,537**	–	**154,537**	–
Provision for legal claims *(Note (iii))*	**5,572**	–	**5,572**	–
	170,176	43,333	**164,411**	75

Notes:

(i) During the year ended 31st December 2008, Dream Link Limited, 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 31st December 2008.

(ii) During the year ended 31st December 2008, SU Industrial, an unconsolidated subsidiary, defaulted on the repayment for loans from certain banks and a finance-lease provider with total outstanding principal and interest thereon of approximately HK$152,748,000 and HK$1,789,000, 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 31st December 2008.

(iii) On 22nd 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 13th 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. This amount has 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 of the assets in the factories of SU Industrial held in 2009 of RMB10,020,000. The remaining amount of the legal claims of approximately RMB4,905,000 (equivalent to approximately HK$5,572,000) may be further reduced by the disposal of the remaining assets in the factories of SU Industrial. However, as there is a major uncertainty as to the amount to be recovered from the auction of the remaining assets, the Group and the Company have made full provision for the unsettled amount of the legal claims of approximately HK$5,572,000 as at 31st December 2008.

Other payables and accruals are denominated in the following currencies:

	Group		Company	
	2008	2007	**2008**	2007
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Hong Kong dollars	**164,604**	16,291	**158,839**	75
RMB	**5,572**	27,042	**5,572**	–
	170,176	43,333	**164,411**	75

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

26 DERIVATIVE FINANCIAL INSTRUMENTS

	Group			
	2008		2007	
	Asset	**Liability**	Asset	Liability
	HK$'000	***HK$'000***	*HK$'000*	*HK$'000*
Foreign exchange derivative contracts – not qualified for hedge accounting at fair value	**–**	**–**	213	2,356

The maximum total notional principal amounts of the outstanding foreign exchange derivative contracts at 31st December 2007 were approximately HK$202,243,000.

27 TURNOVER

	2008	2007
	HK$'000	*HK$'000*
Sales of goods	**37,550**	953,623

28 OTHER INCOME AND OTHER GAINS/(LOSSES), NET

	2008	2007
	HK$'000	*HK$'000*
Other income:		
– Management fee income from an unconsolidated subsidiary	**9,153**	–
– Sales of scrap materials	**–**	7,294
– Interest income on bank deposits	**1**	1,345
– Compensation income from a customer	**–**	3,600
– Sundry income	**1,017**	81
	10,171	12,320
Other gains/(losses), net:		
– Unrealised losses on derivative financial instruments	**–**	(3,390)
– Realised gains on derivative financial instruments	**–**	1,497
– Exchange gain, net	**4,904**	–
	4,904	(1,893)

29 EXPENSES BY NATURE

	2008 *HK$'000*	2007 *HK$'000*
Auditor's remuneration	**790**	1,500
Depreciation of property, plant and equipment *(Note 7)*	**259**	8,784
Impairment of property, plant and equipment *(Note 7)*	**661**	–
Amortisation of land use rights *(Note 8)*	**–**	69
Amortisation of intangible assets *(Note 9)*	**1,440**	567
Impairment of intangible assets *(Note 9)*	**3,898**	350
Raw materials used	**–**	597,359
Changes in inventories of finished goods and work in progress	**23,429**	(81,431)
Employee benefit expenses *(Note 33)*	**17,331**	233,283
Operating lease rentals for land and buildings	**2,189**	11,024
Exchange losses, net	**–**	5,511
Impairment of trade receivables *(Note 14)*	**1,618**	335
Inventory write-down	**3,129**	3,781
Others	**16,461**	155,306
Total cost of sales and administrative expenses	**71,205**	936,438

30 LOSS ON DECONSOLIDATION OF UNCONSOLIDATED SUBSIDIARIES, GAIN ON DECONSOLIDATION OF A FORMER SUBSIDIARY AND IMPAIRMENT LOSSES ON INVESTMENTS IN UNCONSOLIDATED SUBSIDIARIES AND A FORMER SUBSIDIARY

(a) Deconsolidation of unconsolidated subsidiaries

	2008 *HK$'000*
Net assets deconsolidated as at 1st January 2008	
Property, plant and equipment	**16,512**
Available-for-sale financial assets	**2,342**
Deferred income tax assets	**765**
Inventories	**376,368**
Trade receivables	**163,993**
Prepayments, deposits and other receivables	**15,951**
Amounts due from fellow subsidiaries	**80,217**
Current income tax recoverable	**878**
Pledged bank deposits	**5,234**
Cash and cash equivalents	**56,363**
Trade payables	**(192,027)**
Other payables and accruals	**(29,408)**
Borrowings (including bank overdrafts of HK$7,768,000)	**(239,906)**
Derivative financial instruments	**(2,143)**
Provision for long service payment	**(697)**
Amounts due to intermediate holding companies	**(166,364)**
Amount due to immediate holding company	**(15,942)**
Amounts due to fellow subsidiaries	**(8,388)**
	63,748
Release of available-for-sale financial assets reserves	**(342)**
Release of merger reserve	**3,587**
	66,993
Loss on deconsolidation of unconsolidated subsidiaries	**63,393**
Impairment loss on investments in unconsolidated subsidiaries	**3,600**
	66,993

30 LOSS ON DECONSOLIDATION OF UNCONSOLIDATED SUBSIDIARIES, GAIN ON DECONSOLIDATION OF A FORMER SUBSIDIARY AND IMPAIRMENT LOSSES ON INVESTMENTS IN UNCONSOLIDATED SUBSIDIARIES AND A FORMER SUBSIDIARY

(Continued)

(a) Deconsolidation of unconsolidated subsidiaries *(Continued)*

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

	HK$'000
Bank balances and cash of unconsolidated subsidiaries	56,363
Less: bank overdrafts of unconsolidated subsidiaries	(7,768)
Cash and cash equivalents of unconsolidated subsidiaries	48,595

As disclosed in Note 3.2 to the consolidated financial statements, the directors have not been able to access certain books and records of a subsidiary, SU Industrial. Accordingly, the Group has not consolidated SU Industrial and its subsidiary in the consolidated financial statements of the Group and they are recorded as investments in unconsolidated subsidiaries.

(b) Deconsolidation of a former subsidiary

	2008 ***HK$'000***
Net assets deconsolidated as at 1st January 2008	
Property, plant and equipment	**48,931**
Land use rights	**4,849**
Inventories	**243**
Prepayment, deposits and other receivables	**1,048**
Cash and cash equivalents	**112**
Amount due from a fellow subsidiary	**1,292**
Trade payables	**(1,711)**
Other payables and accruals	**(8,532)**
Amount due to immediate holding company	**(14,828)**
	31,404
Release of exchange reserves	**(1,910)**
	29,494
Gain on deconsolidation of a former subsidiary	**(506)**
Impairment loss on investment in a former subsidiary	**30,000**
	29,494

As disclosed in Note 3.2 to the consolidated financial statements, the Group lost its control in a former subsidiary, SU Qingyuan, during the year. As such, the financial results, assets and liabilities and cash flows of the subsidiary were deconsolidated from the consolidated financial statements of the Group.

31 FINANCE COSTS

	2008 HK$'000	2007 HK$'000
Interest expense:		
– Bank borrowings and overdrafts	**148**	14,678
– Factoring facilities	**25**	4,664
– Finance lease liabilities	**–**	110
	173	19,452
Less: interest capitalised	**–**	(417)
	173	19,035

Borrowing costs of approximately HK$417,000 arising on financing specifically entered into for the construction of new factories were capitalised during the year ended 31st December 2007 and were included in the additions of property, plant and equipment. A capitalisation rate of 8% was used for the year ended 31st December 2007, representing the borrowing costs of the loans used to finance the project.

32 INCOME TAX EXPENSE

Hong Kong profits tax has been provided at the rate of 16.5% (2007: 17.5%) on the estimated assessable profit during the year.

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

	2008 HK$'000	2007 HK$'000
Current taxation:		
– Hong Kong profits tax	**24**	2,315
– PRC enterprise income tax	**–**	1,497
– Over-provision in prior years	**(18)**	(63)
Deferred income tax relating to the origination and reversal of temporary differences *(Note 23)*	**–**	(615)
	6	3,134

32 INCOME TAX EXPENSE *(Continued)*

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

	2008	2007
	HK$'000	*HK$'000*
(Loss)/profit before tax	**(848,150)**	8,577
Calculated at a tax rate of 16.5% (2007: 17.5%)	**(139,945)**	1,501
Effect of different taxation rates in other countries	**–**	1,497
Income not subject to taxation	**(998)**	(435)
Expenses not deductible for taxation purposes	**137,983**	375
Unrecognised tax losses	**2,984**	341
Utilisation of previously unrecognised tax losses	**–**	(82)
Over-provision in prior years	**(18)**	(63)
Income tax expense	**6**	3,134

33 EMPLOYEE BENEFIT EXPENSES

	2008	2007
	HK$'000	*HK$'000*
Wages, salaries and other short-term employee benefits	**16,188**	230,794
Pension costs – defined contribution plans	**328**	942
Share-based compensation	**815**	1,547
	17,331	233,283

33 EMPLOYEE BENEFIT EXPENSES *(Continued)*

(a) Directors' and senior management's emoluments

The remuneration of each director of the Company for the year ended 31st December 2008 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	**1,134**	**12**	**1,146**
LAI, Chiu Tai	**1,134**	**12**	**1,146**
HO, Wai Wah	**661**	**12**	**673**
LO, Kwok Choi	**1,134**	**12**	**1,146**
WONG, Wai Chuen	**661**	**12**	**673**
LUI, Sun Wing	**50**	**–**	**50**
LI, Chak Hung	**50**	**–**	**50**
TANG, Koon Yiu Thomas	**50**	**–**	**50**
	4,874	**60**	**4,934**

The remuneration of each director of the Company for the year ended 31st December 2007 is set out below:

Name of director	Basic salaries, housing allowances, share-based compensation, other allowances and benefits in kind	Discretionary bonus	Employer's contribution to pension scheme	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
WU, Kam Bun	1,697	138	12	1,847
LAI, Chiu Tai	1,697	138	12	1,847
HO, Wai Wah	1,029	80	12	1,121
LO, Kwok Choi	1,725	138	12	1,875
WONG, Wai Chuen	1,088	80	12	1,180
LUI, Sun Wing	100	–	–	100
LI, Chak Hung	127	–	–	127
TANG, Koon Yiu Thomas	127	–	–	127
	7,590	574	60	8,224

33 EMPLOYEE BENEFIT EXPENSES *(Continued)*

(a) Directors' and senior management's emoluments *(Continued)*

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 (2007: Nil).

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group include 5 (2007: 5) directors whose emoluments are reflected in the analysis presented in Note (a) above.

34 (LOSS)/PROFIT 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$706,382,000 (2007: profit of HK$14,631,000).

35 (LOSSES)/EARNINGS PER SHARE

Basic

The calculation of basic (losses)/earnings per share is based on the consolidated loss attributable to equity holders of the Company of approximately HK$846,786,000 (2007: profit of HK$4,680,000) and on the weighted average number of 486,057,000 (2007: 265,157,000) ordinary shares in issue during the year.

	2008	2007
(Loss)/profit attributable to equity holders of the Company *(HK$'000)*	**(846,786)**	4,680
Weighted average number of ordinary shares in issue *(thousands)*	**486,057**	265,157
Basic (losses)/earnings per share *(HK$)* per share	**(1.74)**	0.02

35 (LOSSES)/EARNINGS PER SHARE *(Continued)*

Diluted

Diluted (losses)/earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has one category of dilutive potential ordinary shares: share options. For the share options, a calculation is made in order to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

	2008	2007
(Loss)/profit attributable to equity holders of the Company *(HK$'000)*	**(846,786)**	4,680
Weighted average number of ordinary shares in issue *(thousands)*	**486,057**	265,157
Adjustments for share options *(thousands)*	**–**	3,564
Weighted average number of ordinary shares for diluted (losses)/earnings per share *(thousands)*	**486,057**	268,721
Diluted (losses)/earnings per share *(HK$)* per share	**(1.74)**	0.02

Diluted losses per share for the year ended 31st December 2008 equal to the basic losses per share as the potential ordinary shares outstanding during the year have an anti-dilutive effect for the year.

36 DIVIDENDS

The dividends paid in 2007 were HK$14,400,000 (HK$0.06 per share). No dividend in respect of the year ended 31st December 2008 is to be proposed at the forthcoming Annual General Meeting.

37 CASH GENERATED FROM OPERATIONS

	2008	2007
	HK$'000	HK$'000
(Loss)/profit before tax	**(848,150)**	8,577
Adjustment for:		
– Depreciation on property, plant and equipment	**259**	8,784
– Loss on disposal of property, plant and equipment	**–**	90
– Impairment of property, plant and equipment	**661**	–
– Amortisation of land use rights	**–**	69
– Amortisation of intangible assets	**1,440**	567
– Impairment of intangible assets	**3,898**	350
– Loss on disposal of intangible assets	**–**	144
– Loss on deconsolidation of unconsolidated subsidiaries	**63,393**	–
– Impairment loss on investments in unconsolidated subsidiaries	**3,600**	
– Gain on deconsolidation of a former subsidiary	**(506)**	–
– Impairment loss on investment in a former subsidiary	**30,000**	–
– Impairment loss on amounts due from unconsolidated subsidiaries	**231,939**	–
– Impairment loss on amount due from a former subsidiary	**43,307**	–
– Provision for financial guarantees to an unconsolidated subsidiary	**154,537**	–
– Provision for legal claims	**5,572**	–
– Impairment loss on interest in an associated company	**257,555**	–
– Impairment loss of convertible bonds	**40,000**	–
– Gain on disposal of available-for-sales financial assets	**–**	(30)
– Unrealised losses on derivative financial instruments	**–**	3,390
– Interest income	**(1)**	(1,345)
– Interest expense	**173**	19,035
– Share-based compensation expense	**815**	1,547
– Provision for long service payment	**–**	621
	(11,508)	41,799
Changes in working capital:		
– Inventories	**2,829**	(139,118)
– Trade receivables	**(2,341)**	(61,409)
– Prepayments, deposits and other receivables	**4,308**	(6,395)
– Amounts due from unconsolidated subsidiaries	**(43,829)**	–
– Amount due from a former subsidiary	**(27,187)**	–
– Trade payables	**3,187**	36,794
– Other payables and accruals	**4,674**	19,703
– Amount due to an unconsolidated subsidiary	**32,145**	–
Cash used in operations	**(37,722)**	(108,626)

38 COMMITMENTS

(a) Capital commitments

Capital expenditures of the Group at the balance sheet date but not yet incurred are as follows:

	2008 HK$'000	2007 HK$'000
Property, plant and equipment – contracted but not provided for	–	1,780
Investment in an associated company – contracted but not provided for	–	261,355

(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:

	2008 HK$'000	2007 HK$'000
Not later than one year	–	1,911
Later than 1 year and not later than 5 years	–	1,463
	–	3,374

39 SIGNIFICANT RELATED PARTY TRANSACTIONS

In addition to the management fee income from an unconsolidated subsidiary (Note 28) and the provision for financial guarantees to an unconsolidated subsidiary (Note 25) as disclosed above, the Group had the following significant transactions carried out with related parties during the year.

(a) Key management compensation

	Group	
	2008 HK$'000	2007 HK$'000
Salaries and other short-term employee benefits	4,726	7,452
Pension costs – defined contribution plans	60	60
Share-based compensation	329	358
	5,115	7,870

39 SIGNIFICANT RELATED PARTY TRANSACTIONS *(Continued)*

(b) Balances with unconsolidated subsidiaries and a former subsidiary

	Group	
	2008	2007
	HK$'000	*HK$'000*
Amounts due from unconsolidated subsidiaries		
– SU Industrial	**231,937**	–
– Perfect Design and Product Development Limited	**2**	–
	231,939	–
Less: Impairment losses	**(231,939)**	–
	–	–
Amount due from a former subsidiary		
– SU Qingyuan	**43,307**	–
Less: Impairment losses	**(43,307)**	–
	–	–
Amounts due to unconsolidated subsidiaries:		
– SU Industrial	**(111,051)**	–
– Perfect Design and Product Development Limited	**(1,311)**	–
	(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 and SU Qingyuan 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, and SU Qingyuan. As a result, full provisions of HK$231,939,000 and HK$43,307,000 have been made in respect of the outstanding balances due from the unconsolidated subsidiaries and a former subsidiary respectively.

39 SIGNIFICANT RELATED PARTY TRANSACTIONS *(Continued)*

(c) Balances with subsidiaries

	Company	
	2008	2007
	HK$'000	*HK$'000*
Amounts due from subsidiaries:		
– Smart Union (Hong Kong) Limited	**545**	–
– SU Industrial	**188,373**	140,263
– SU Investments	**16,400**	16,400
– SU China	**27,630**	12,000
– Smart Union Mining Investments Limited	**227,208**	2,010
– Smart Union Group Limited	**160**	–
	460,316	170,673
Less: Impairment losses	**(460,316)**	–
	–	170,673
Amount due to a subsidiary:		
– Smart Union (Hong Kong) Limited	**–**	(1,235)

The amounts due from/(to) subsidiaries are denominated in Hong Kong dollars, unsecured, interest-free and repayable on demand.

40 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 29th 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, 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.

40 CONTINGENT LIABILITIES *(Continued)*

(a) Transaction with Top Bright Investments Limited *(Continued)*

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 31st December 2008.

(b) Deeds of novation

Pursuant to the deeds of novation dated 10th July 2008 and 1st 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.

CONSOLIDATED INCOME STATEMENT

	Year ended 31st December				
	2008	2007	2006	2005	2004
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Sales	**37,550**	953,623	727,225	709,566	550,696
Cost of sales	**(32,954)**	(839,734)	(604,952)	(603,444)	(471,278)
Gross Profit	**4,596**	113,889	122,273	106,122	79,418
(Loss)/profit before tax	**(848,150)**	8,577	35,768	42,042	22,114
(Loss)/profit for the year	**(848,156)**	5,443	30,632	36,672	19,039
Attributable to:					
Equity holders of the Company	**(846,786)**	4,680	30,025	36,672	19,167
Minority interest	**(1,370)**	763	607	–	(128)
	(848,156)	5,443	30,632	36,672	19,039
Dividends	**–**	–	14,400	23,000	5,200

Group Financial Summary

CONSOLIDATED BALANCE SHEET

	As at 31st December				
	2008	2007	2006	2005	2004
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Non-current assets	**158**	88,576	53,923	36,456	17,994
Current assets	**10,592**	711,977	429,341	264,771	242,437
Current liability	**(326,344)**	(481,088)	(313,504)	(202,140)	(186,942)
Non-current liability	**–**	(1,305)	(2,749)	(6,013)	(4,334)
Minority interest	**–**	(1,370)	(607)	–	–
Capital and reserves attributable to the Company's equity holders	**(315,594)**	316,790	166,404	93,074	69,155