

Smart Union

Smart Union Group (Holdings) Limited 合俊集團(控股)有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code : 2700)



07

interim report

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DIRECTORS

Executive Directors:

Mr. Wu Kam Bun (*Chairman*)
Mr. Lai Chiu Tai (*Vice Chairman*)
Mr. Lo Kwok Choi
Mr. Ho Wai Wah
Mr. Wong Wai Chuen

Independent Non-executive Directors:

Dr. Lui Sun Wing
Mr. Li Chak Hung
Mr. Tang Koon Yiu Thomas

QUALIFIED ACCOUNTANT

Mr. Wong Wai Chuen

COMPANY SECRETARY

Mr. Siu Wai Man

SOLICITORS

Sidley Austin

COMPLIANCE ADVISER

Sun Hung Kai International Limited

AUDITORS

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
The Bank of Tokyo-Mitsubishi UFJ, Ltd.
Standard Chartered Bank
(Hong Kong) Limited
BNP Paribas, Hong Kong Branch

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Rooms 217-222
Advanced Technology Centre
2 Choi Fat Street
Sheung Shui
New Territories
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

The board of directors (the “Directors”) of Smart Union Group (Holdings) Limited (the “Company”) is pleased to announce the unaudited consolidated interim results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2007. The interim results are unaudited, and have been reviewed by the audit committee of the Company.

RESULTS AND BUSINESS REVIEW

As a result of success in managing seasonality factor, the turnover of the Group for the six months ended 30 June 2007, increased by approximately 67% to approximately HK\$376 million from approximately HK\$226 million and loss for the period reduced by approximately 68% to approximately HK\$2.8 million from approximately HK\$8.8 million for the same period last year. Excluding the unrealised loss on derivative financial instruments of approximately HK\$3.2 million (2006: approximately HK\$0.2 million) the Group recorded a profit before tax of approximately HK\$0.8 million (2006: loss before tax of approximately HK\$9.0 million).

The manufacturing environment is still challenging due to high material and labour cost, shortage of labour and electricity, appreciation of Renminbi and price reduction pressure from customers. However the Group proactively resolved the challenges by better use of production capacity, especially in slack season, expanded the production capability in Qing Yuan factory to reduce labour cost and production overheads and expands business in original design manufacturing (“ODM”) and original brand manufacturing (“OBM”) business for better margin.

The business of ODM and OBM had significant improvement and our own brand “Dreamcheeky” USB range of products win popularity in the market. The turnover of our subsidiary, Dream Link Limited (“Dreamlink”) for the six months ended 30 June 2007 increases approximately 136% to approximately HK\$20.9 million from approximately HK\$8.85 million. In addition, Dreamlink recorded profit after tax of approximately HK\$1.3



million for the six months ended 30 June 2007 (2006: Loss approximately HK\$0.6 million). The Group is preparing to have another range of “own brand” products later this year to enhance our original design ODM and OBM business.

BUSINESS OUTLOOK AND PROSPECTS

Recent massive recall of toys from North America has a substantive impact to toys manufacturers. Production cost will further increase due to the increase in additional testing procedures and requirements imposed by People’s Republic of China (the “PRC”) government and customers. The products of our group have not been affected by the recent recall and the turnover of the group is still growing. The Group has a stringent internal quality system which guarantees the safety of our products to the satisfaction of our customers.

Based on the stable toys business, the Group actively seized business diversification to strengthen the Group’s bottom line and maximize shareholders’ return. On 16 July 2007, the Group entered into a non-legally binding memorandum of undertaking with Tang Xue Jin (the “Vendor”) in relation the possible acquisition by the Group from the Vendor of not less than 20% and not more than 49% of the issued share capital of China Mining Corporation Limited (the “Target”). The principal asset of the Target is its 95% beneficial interest in Fujian Tiancheng Mining Corporation (福建天成礦業有限公司), which is principally engaged in the exploration of precious metals and mineral resources in the PRC. As the Group needs additional time to perform due diligence to the Target, the Group had agreed with the Vendor to extend the negotiation of formal legal binding agreement to the end of October 2007.

LIQUIDITY, FINANCIAL RESOURCES

The Group primarily used its internally generated cash flow and banking facilities to finance its operations and business development during the period. As at 30 June 2007,

the Group's cash and bank balances were approximately HK\$55.3 million (31 December 2006: approximately HK\$64.9 million, 30 June 2006: approximately HK\$10.2 million). The Group's total borrowings were approximately HK\$209 million (31 December 2006: approximately HK\$133.3 million, 30 June 2006: approximately HK\$147.5 million). The gearing ratio, calculated as the total borrowings less cash and bank balances and divided by shareholders' equity, was approximately 79.0% (31 December 2006: approximately 41.0%, 30 June 2006: approximately 184%).

As at 30 June 2007, the Group had current assets of approximately HK\$561 million (31 December 2006: approximately HK\$429.3 million, 30 June 2006: approximately HK\$347.8 million) and total current liabilities of approximately HK\$437.5 million (31 December 2006: approximately HK\$313.5 million, 30 June 2006: approximately HK\$315.5 million). The current ratio of the Group, calculated by dividing the total current assets by total current liabilities, was approximately 1.28 (31 December 2006: approximately 1.37, 30 June 2006: approximately 1.10). The shareholders' fund of the Group as at 30 June 2007 was approximately HK\$195 million (31 December 2006: approximately HK\$167 million, 30 June 2006: approximately HK\$74.5 million). The increase are mainly from increase in profit after tax and share premium.

SHARE CAPITAL STRUCTURE

As at 30 June 2007, the Company has 272,480,000 ordinary shares of HK\$0.1 per share in issue. Apart from ordinary share in issue, the capital instruments in issue of the Company include options to subscribe for shares in the Group. During the period under review, 10,100,000 share options were granted under the share option scheme adopted by the Group with an exercise price of HK\$0.78 per share. 80,000 shares option were exercised during the period under review and 10,020,000 share options remained outstanding as at 30 June 2007. Subsequent to 30 June 2007 and up to the date of this report, no share options have been exercised by the option holders.



FUND RAISING EXERCISE BY THE COMPANY

The following fund raising activity has been carried out by the Company during the six months ended 30 June 2007:

Date of announcement	Event	Net proceeds	Intended use of proceeds	Actual use of proceeds
12 June 2007	Placing of existing Shares and subscription of new shares	About HK\$41.8 million	For investments in production facilities of toys and recreational products and for general working capital	<p>Approximately HK\$5.4 million has been used for payment of production facilities</p> <p>Approximately HK\$12.5 million has been used for the payment of staff and worker salaries</p> <p>Approximately HK\$12.5 million has been used for the payment of materials and subcontracting expenses</p> <p>Approximately HK\$11.4 million for the repayment of revolving bank facilities borrowing</p>

Save as disclosed above, the Company has not conducted any fund raising exercise during the period under review.

DETAILS OF MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND ASSOCIATED COMPANIES

There was no material acquisitions and disposals of subsidiaries and associated companies during the six months ended 30 June 2007.

CONTINGENT LIABILITIES

As at 30 June 2007, the Group has no material contingent liabilities (31 December 2006: Nil).

CHARGES

Secured bank borrowings are secured by available-for-sales financial assets amounting to approximately HK\$5,325,000 as at 30 June 2007 (31 December 2006: approximately HK\$5,120,000), corporate guarantees executed by the Company and pledged bank deposits amounted to approximately HK\$7,350,000 as at 30 June 2007 (31 December 2006: approximately HK\$5,267,000).

FOREIGN EXCHANGE EXPOSURE

The Group is exposed to foreign currency exposure, most of the Group's assets and liabilities, revenues and expenditures are denominated in Hong Kong dollars, renminbi and US dollars. The Group currently has foreign currency structured forward contracts to hedge against the above mentioned foreign currency exposure.



EMPLOYEES

As at 30 June 2007, the Group had a total of approximately 1,700 (31 December 2006: 1,600) full-time employees based in Hong Kong and the PRC. Remuneration packages of the Group's employees are generally structured by reference to market terms and individual qualifications. Share options have also been granted to certain directors and employees of the Company and its subsidiaries. The Group operates a defined contribution benefits scheme under the Mandatory Provident Fund Schemes Ordinance (Chapter 485 of the Laws of Hong Kong) as well as medical insurance for all its employees in Hong Kong. Also, the Group provides its employees in the PRC with welfare schemes covering various insurance and social benefits.

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2007 (30 June 2006: Nil).

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES AND UNDERLYING SHARES

As at 30 June 2007, the interests and short positions of the Directors and the chief executives of the Company and their respective associates in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), which were required to be (a) notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Director is taken or deemed to have under such provisions

of the SFO, (b) notified to Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers or (c) entered into the register pursuant to section 352 of the SFO were as follows:

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

Name	Capacity		Number of	Approximate
			issued ordinary	percentage
			shares held	of the issued
				share capital
				of the Company
Wu Kam Bun	(Note)	Interest of controlled corporations	168,000,000	61.66%
			Beneficial owner	2,854,000
			<hr/>	<hr/>
			170,854,000	62.70%
Lai Chiu Tai	(Note)	Interest of controlled corporations	168,000,000	61.66%
Lui Sun Wing		Beneficial owner	80,000	0.03%

Note: These shares were owned by Smart Place Investments Limited, a Company incorporated in the British Virgin Islands, the entire issued 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 168,000,000 shares held by Smart Place Investments Limited by virtue of the SFO.



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

Name	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
Lo Kwok Choi	Beneficial owner	500,000	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	10.5.2008 to 26.4.2017	1.00	0.78
Tang Koon Yiu Thomas	Beneficial owner	80,000	16.5.2007 to 26.4.2017	1.00	0.78
Li Chak Hung	Beneficial owner	80,000	23.5.2007 to 26.4.2017	1.00	0.78
Law Yuet Yee	Beneficial owner	1,000,000	14.5.2008 to 26.4.2017	1.00	0.78
Ho Chi Kwong	Beneficial owner	650,000	14.5.2008 to 26.4.2017	1.00	0.78
Chu Wai Fan	Beneficial owner	200,000	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 30 June 2007.

SHARE OPTION SCHEME

On 2 September 2006, the share option scheme (the "Share Option Scheme") was approved and adopted by the shareholders of the Company, under which, the options 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 movement of share options during the period are as follow:

Name of grantee	Exercise price HK\$	Exercisable period	Granted during		Exercised/ Lapsed during	As at 30 June 2007
			As at 1 January 2007	the 6 months period ended 30 June 2007	the 6 months period ended 30 June 2007	
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
Lo Kwok Choi	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
Lui Sun Wing	0.78	14.5.2007 to 26.4.2017	—	80,000	(80,000)	—
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
Law Yuet Yee	0.78	14.5.2008 to 26.4.2017	—	1,000,000	—	1,000,000



Name of grantee	Exercise price HK\$	Exercisable period	Granted during		Exercised/ Lapsed during	
			As at 1 January 2007	the 6 months period ended 30 June 2007	the 6 months period ended 30 June 2007	As at 30 June 2007
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	—	5,410,000	—	5,410,000
			—	10,100,000	(80,000)	10,020,000

The fair value of the options determined at the date of grant using the Black-Scholes option pricing model (the “Model”) was HK\$0.33 per share.

The Company has used the Model to value the share option granted during the review period. The model is one of the commonly used models to estimate the fair value of an option. The value of an option varies with different variables of certain subjective assumptions as show below. Expected volatility is based on annualised historical volatility of the closing price of the shares of the Company from 29 September 2006 to date of grant. Any change in the variables so adopted may materially affect the estimation of the fair value of an option.

Date of grant	27 April 2007
Share price at grant date	HK\$ 0.78
Exercise price	HK\$ 0.78
Risk free interest rate	4.318%
Expected life (in years)	5
Volatility	0.67
Expected dividend yield	4.87%

Interest of Substantial Shareholders

As at 30 June 2007, the following interests of 5% or more of the issued share capital of the Company were recorded in the register of interest maintained by the Company pursuant to Section 336 of the SFO.

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

Name	Capacity	Number of Issued ordinary shares held	Approximate percentage of the issued share capital of the Company
Ip Chor Wan (<i>note 1</i>)	Interest of spouse	171,154,000	62.81%
Chan Wai Ling (<i>note 2</i>)	Interest of spouse	168,300,000	61.77%
Smart Place Investments Limited	Beneficial owner	168,000,000	61.66%

Notes:

- 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.
- Ms. Chan Wai Ling is the wife to 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 SFO.

Other than as disclosed above, to the best knowledge of the Directors, there was no person, other than the Directors whose interests are disclosed under the heading "Directors' and Chief Executive's Interests in Shares and Underlying Shares" above, had any interests or short position in the issued share capital of the Company that was required to be recorded in the register pursuant to Section 336 of the SFO as at 30 June 2007.



PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the six months ended 30 June 2007, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

CORPORATE GOVERNANCE

The Company is committed to maintain a high standard of corporate governance with a view to enhancing the management of the Company as well as preserving the interests of the shareholders as a whole. The Board is of the view that the Company has complied with all the code provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the period under review.

MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS

The Company had adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Securities Dealing Code") set out in Appendix 10 of the Listing Rules as its own code of conduct regarding Directors' securities transactions.

Having made specific enquiry of all Directors, the Directors have confirmed that they have complied with the Securities Dealing Code during the period under review.

AUDIT COMMITTEE

The audit committee has reviewed the Group's unaudited interim results for the six months ended 30 June 2007. The audit committee comprises all of the three independent non-executive Directors, namely, Dr. Lui Sun Wing, Mr. Li Chak Hung and Mr. Tang Koon Yiu Thomas.

On behalf of the Board

Wu Kam Bun

Chairman

Hong Kong, 17 September 2007

Condensed Consolidated Income Statement

For the six months ended 30 June 2007

	Note	Six months ended 30 June	
		2007 HK\$'000 (Unaudited)	2006 HK\$'000 (Audited)
Sales	4	375,793	225,645
Cost of sales	7	(325,397)	(198,517)
Gross profit		50,396	27,128
Other income, net	8	586	1,348
Administrative expenses	7	(46,484)	(34,096)
Operating profit/(loss)		4,498	(5,620)
Finance costs	9	(6,956)	(3,570)
Loss before tax		(2,458)	(9,190)
Income tax (expense)/credit	10	(345)	434
Loss for the period		(2,803)	(8,756)
Attributable to:			
Equity holders of the Company		(3,157)	(8,756)
Minority interest		354	—
		(2,803)	(8,756)
Loss per share for loss attributable to the equity holders of the Company during the period (HK\$ per share)			
- basic	12	(0.01)	(0.05)
- diluted	12	(0.01)	(0.05)
Dividend	11	—	—

Condensed Consolidated Balance Sheet

At 30 June 2007



	Notes	30 June 2007 HK\$'000 (Unaudited)	31 December 2006 HK\$'000 (Audited)
ASSETS			
Non-current assets			
Property, plant and equipment	6	57,286	43,245
Land use rights		4,626	4,516
Intangible assets		4,728	632
Available-for-sale financial assets		5,325	5,120
Deposits and other receivables		318	276
Deferred income tax assets		134	134
		72,417	53,923
Current assets			
Inventories		367,457	240,322
Trade receivables	13	108,542	104,029
Prepayments, deposits and other receivables		19,790	12,857
Derivative financial instruments		—	1,247
Current income tax recoverable		2,202	737
Pledged bank deposits		7,350	5,267
Bank balances and cash		55,329	64,882
		560,670	429,341
Total assets		633,087	483,264
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	16	27,248	24,000
Share premium		70,675	30,742
Other reserves		27,467	25,830
Retained earnings		68,275	85,832
		193,665	166,404
Minority interest		961	607
Total equity		194,626	167,011

Condensed Consolidated Balance Sheet

At 30 June 2007

	<i>Note</i>	30 June 2007 HK\$'000 (Unaudited)	31 December 2006 HK\$'000 (Audited)
LIABILITIES			
Non-current liabilities			
Borrowings	15	965	2,749
Current liabilities			
Trade payables	14	174,274	158,837
Other payables and accruals		55,056	24,113
Borrowings	15	208,166	130,554
		437,496	313,504
Total liabilities		438,461	316,253
Total equity and liabilities		633,087	483,264
Net current assets		123,174	115,837
Total assets less current liabilities		195,591	169,760

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2007



Attributable to the equity holders of the Company

	Share based					Total	Minority interest	Total equity
	Share capital	Share premium	equity reserves	Other reserves	Retained earnings			
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Balance at 1 January 2006	1,500	—	—	25,767	65,807	93,074	—	93,074
Revaluation of available-for-sale financial assets	—	—	—	(138)	—	(138)	—	(138)
Currency translation differences	—	—	—	356	—	356	—	356
Loss for the period	—	—	—	—	(8,756)	(8,756)	—	(8,756)
Total recognised income/(loss) for the period	—	—	—	218	(8,756)	(8,538)	—	(8,538)
Dividend relating to 2005	—	—	—	—	(10,000)	(10,000)	—	(10,000)
Balance at 30 June 2006	1,500	—	—	25,985	47,051	74,536	—	74,536
Balance at 1 January 2007	24,000	30,742	—	25,830	85,832	166,404	607	167,011
Currency translation differences	—	—	—	1,161	—	1,161	—	1,161
Revaluation of available-for-sale financial assets	—	—	—	205	—	205	—	205
Loss for the period	—	—	—	—	(3,157)	(3,157)	354	(2,803)
Total recognised income/(loss) for the period	—	—	—	1,366	(3,157)	(1,791)	354	(1,437)
Issue of shares	3,240	39,852	—	—	—	43,092	—	43,092
Granting of share option	—	—	297	—	—	297	—	297
Issue of shares upon exercise of shares option	8	81	(26)	—	—	63	—	63
Dividends relating to 2006	—	—	—	—	(14,400)	(14,400)	—	(14,400)
Balance at 30 June 2007	27,248	70,675	271	27,196	68,275	193,665	961	194,626

Condensed Consolidated Cash Flow Statement

For the six months ended 30 June 2007

	Six months ended 30 June	
	2007 HK\$'000 (Unaudited)	2006 HK\$'000 (Audited)
Net cash flows from operating activities	(128,474)	(49,614)
Net cash flows from investing activities	(23,492)	(20,982)
Net cash flows from financing activities	140,623	60,286
Net decrease in cash and cash equivalents	(11,343)	(10,310)
Cash and cash equivalents at beginning of the period	56,738	9,110
Exchange gains on cash and cash equivalents	106	111
Cash and cash equivalents at the end of the period	45,501	(1,089)
Analysis of the balances of cash and cash equivalents		
Bank balances and cash	55,329	10,214
Bank overdrafts	(9,828)	(11,303)
	45,501	(1,089)



1. GENERAL INFORMATION

The Company was incorporated in the Cayman Islands on 8 March 2006 as an exempt 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 have been listed on the Main Board of the Stock Exchange since 29 September 2006.

2. BASIS OF PREPARATION

These unaudited condensed consolidated financial statements for the period ended 30 June 2007 have been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

These condensed consolidated interim financial statements should be read in conjunction with the audited financial statements for the year ended 31 December 2006. The comparative figures should be referred to the Accountants’ Report on the Group in Appendix I of the Company’s prospectus dated 19 September 2006.

3. PRINCIPAL ACCOUNTING POLICIES

The accounting policies adopted in preparing these condensed consolidated financial statements are consistent with those adopted in preparing the Group’s annual financial statements for the year ended 31 December 2006.

The following new standards, amendments to standards and interpretations are mandatory for financial year ending 31 December 2007:

HKAS 1 (Amendment)	Presentation of Financial Statements: Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC) – Int 7	Apply the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economics

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

HK(IFRIC) – Int 8	Scope of HKFRS 2
HK(IFRIC) – Int 9	Reassessment of Embedded Derivatives
HK(IFRIC) – Int 10	Interim Financial Reporting and Impairment

The adoption of the above new standards, amendments to standards and interpretations did not result in material impact on the financial statements of the Group.

The HKICPA has issued a number of new standards, amendments to standards and interpretations, which are not effective for 2007. The Group has not early adopted these new standards, amendments to standards and interpretations. The Directors anticipate that the adoption of these new standards, amendments to standards or interpretations in future periods will have no material impact on the financial statements of the Group.

HKAS 23 (Revised)	Borrowing Cost
HKFRS 8	Operating Segments
HK(IFRIC) – Int 11	HKFRS 2 – Group and Treasury Share Transactions
HK(IFRIC) – Int 12	Service Concession Arrangements

4. SALES

	Six months ended 30 June	
	2007	2006
	HK\$'000	HK\$'000
	(Unaudited)	(Audited)
Sales of goods	375,793	225,645



5. 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 period ended 30 June 2007.

Secondary reporting format – geographical segments

The Group primarily operates in Hong Kong and the People's Republic of China ("PRC"). Sales are mainly made to customers in America and Europe.

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

	Six months ended 30 June	
	2007	2006
	HK\$'000	HK\$'000
	(Unaudited)	(Audited)
America	276,570	164,196
Europe	72,852	39,070
Others	26,371	22,379
	375,793	225,645

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

5. SEGMENT INFORMATION *(Continued)*

Secondary reporting format – geographical segments *(Continued)*

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

	30 June 2007 HK\$'000 (Unaudited)	31 December 2006 HK\$'000 (Audited)
Hong Kong	178,761	177,027
The PRC	454,326	306,237
	633,087	483,264

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

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

	Six months ended 30 June	
	2007 HK\$'000 (Unaudited)	2006 HK\$'000 (Audited)
Hong Kong	57	98
The PRC	17,241	11,260
	17,298	11,358

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



6. PROPERTY PLANT AND EQUIPMENT

During the period, the Group acquired property, plant and equipment at a cost of approximately HK\$17,298,000 (2006: HK\$ 11,358,000). There was no disposal during the period 2006: (HK\$1,000).

7. OPERATING PROFIT/(LOSS)

The following items have been charged to the operating profit/(loss) during the interim period:

	Six months ended 30 June	
	2007 HK\$'000 (Unaudited)	2006 HK\$'000 (Audited)
Cost of inventories sold	321,299	197,946
Depreciation of property, plant and equipment	4,219	3,473
Impairment of trade receivables	—	35
Amortisation of land use rights	48	32
Amortisation of intangible assets	346	6
	346	6

8. OTHER INCOME, NET

	Six months ended 30 June	
	2007	2006
	HK\$'000	HK\$'000
	(Unaudited)	(Audited)
Sales of scrap materials	2,570	867
Unrealised losses on derivative financial instruments	(3,225)	(196)
Realised gain on derivative financial instruments	710	—
Interest income	333	677
Other handling income	198	—
	<u>586</u>	<u>1,348</u>

9. FINANCE COSTS

	Six months ended 30 June	
	2007	2006
	HK\$'000	HK\$'000
	(Unaudited)	(Audited)
Interest expense		
- Bank borrowings and overdrafts	4,795	2,695
- Factoring facilities	2,107	866
- Finance lease liabilities	54	9
	<u>6,956</u>	<u>3,570</u>



10. INCOME TAX (EXPENSE)/CREDIT

	Six months ended 30 June	
	2007	2006
	HK\$'000	HK\$'000
	(Unaudited)	(Audited)
Current taxation		
- Hong Kong profits tax	(23)	(54)
- PRC enterprise income tax	(277)	(273)
- Under provision in prior years	(45)	—
Deferred income tax	—	761
	<hr/>	<hr/>
Income tax (expense)/credit	(345)	434
	<hr/> <hr/>	<hr/> <hr/>

Hong Kong profits tax has been provided at the rate of 17.5% (2006: 17.5%) on the estimated assessable profit during the period. Taxation on overseas profits has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the countries in which the Group operates.

11. DIVIDEND

The Board does not recommend the payment of interim dividend for the six months ended 30 June 2007 (2006: Nil).

12. LOSS PER SHARE

Basic loss per share is calculated by dividing the loss attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the period.

Diluted loss per share is calculated 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 share: share option. 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 done attached to outstanding share options. The number of shares calculated above is compared with the number of shares that would have been issued assuming the exercise of the share options.

	Six months ended 30 June	
	2007 (Unaudited)	2006 (Audited)
Loss attributable to equity holder of the Company (HK\$'000)	3,157	8,756
Weighted average number of ordinary shares in issue for the purpose of basic loss per share (thousands)	241,083	180,000



12. LOSS PER SHARE (Continued)

	Six months ended 30 June	
	2007 (Unaudited)	2006 (Audited)
Weighted average number of ordinary shares in issue for the purpose of diluted loss per share (thousands)	242,635	180,000
Basic loss per share (HK\$ per share)	0.01	0.05
Diluted loss per share (HK\$ per share)	0.01	0.05

13. TRADE RECEIVABLES

	30 June 2007 HK\$'000 (Unaudited)	31 December 2006 HK\$'000 (Audited)
	Trade receivables	109,240
Less: provision for impairment of receivables	(698)	(672)
	108,542	104,029

The Group's trade receivables from its customers are generally with credit periods of less than 75 days.

13. TRADE RECEIVABLES (Continued)

The carrying amounts of trade receivables approximate their fair values due to the short-term maturity.

The aging analysis of trade receivables as at 30 June 2007 and 31 December 2006 were as follows:

	30 June 2007 HK\$'000 (Unaudited)	31 December 2006 HK\$'000 (Audited)
0 - 30 days	79,260	78,737
31 - 60 days	9,528	5,670
61 - 90 days	13,914	11,394
91 days - 1 year	5,844	8,633
1 - 2 year	694	267
	<hr/> 109,240 <hr/>	<hr/> 104,701 <hr/>

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.



14. TRADE PAYABLES

The ageing analysis of trade payables as at 30 June 2007 and 31 December 2006 were as follows:

	30 June 2007 HK\$'000 (Unaudited)	31 December 2006 HK\$'000 (Audited)
0 - 30 days	108,940	83,478
31 - 60 days	29,809	35,128
61 - 90 days	12,957	17,913
91 days - 1 year	19,282	18,862
1 - 2 year	1,547	2,405
Over 2 years	1,739	1,051
	<hr/> 174,274 <hr/>	<hr/> 158,837 <hr/>

The carrying amounts of trade payables approximate their fair values.

15. BORROWINGS

	30 June 2007 HK\$'000 (Unaudited)	31 December 2006 HK\$'000 (Audited)
Non-current		
Bank borrowings, secured	965	2,650
Finance lease liabilities	—	99
	965	2,749
Current		
Bank overdrafts	9,828	8,144
Short-term bank loans, secured	29,000	16,000
Trust receipt bank loans, secured	136,866	90,416
Current portion of non-current bank borrowings, secured	3,385	3,200
Factoring facilities utilised	27,161	12,730
Finance lease liabilities	1,926	64
	208,166	130,554
	209,131	133,303

The carrying amounts of borrowings approximate their fair values.

The Group's borrowings are all denominated in HK\$ and subject to floating interest rate within 6 months.

16. SHARE CAPITAL

	Number of shares	Nominal value HK\$'000
Authorised – ordinary shares of HK\$0.1 each		
As at 30 June 2007 and 31 December 2006	2,000,000,000	200,000
Issued and fully paid – ordinary shares of HK\$0.1 each		
As at 1 January 2007	240,000,000	24,000
Issue of shares upon exercise of shares option (a)	80,000	8
Issue of shares (b)	32,400,000	3,240
As at 30 June 2007	272,480,000	27,248

Notes:

- (a) On 25 May 2007, the Company has granted 10,100,000 share options with an exercise price of HK\$0.78 to selected persons under the Company's share option scheme. 80,000 share options have been exercised during the period.
- (b) On 12 June 2007, Smart Place Investments Limited ("SPI") entered into a placing agreement and a subscription agreement with Sun Hung Kai International Limited (Placing Agent) 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 shares. The placing of 32,400,000 existing shares by SPI was completed on 15 June 2007 and 32,400,000 new shares were issued and allotted to SPI on 25 June 2007.

17. COMMITMENTS

(a) Capital commitments

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

	30 June 2007 HK\$'000 (Unaudited)	31 December 2006 HK\$'000 (Audited)
Property, plant and equipment – contracted but not provided for	1,703	10,754

(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:

	30 June 2007 HK\$'000 (Unaudited)	31 December 2006 HK\$'000 (Audited)
Not later than one year	1,683	1,253
Later than 1 year and not later than 5 years	1,049	968
	2,732	2,221



18. RELATED PARTY TRANSACTIONS

Key management compensation

	Six months ended 30 June	
	2007	2006
	HK\$'000	HK\$'000
	(Unaudited)	(Audited)
Salaris and other short-term employee benefits	3,434	3,384
Pension costs – defined contribution plans	30	30
	3,464	3,414
	3,464	3,414

19. SEASONALITY

The Group's sales are subject to seasonal fluctuations of traditional toy industry, with peak demand in the third and fourth quarters of the year. This is due to the holiday periods. The Group has changed the landscape of seasonality factor in traditional toy industry by offering value-added sports and spring items during low season which can maximise production capacity via utilising idle capacity during low season.

20. SUBSEQUENT EVENTS

On 16 July 2007, the Company entered into a non-legally binding memorandum of undertaking (the “MOU”) with Tang Xue Jin (the “Vendor”) in relation the possible acquisition (the “Possible Acquisition”) by the Company from the Vendor of not less than 20% and not more than 49% of the issued share capital of China Mining Corporation Limited (the “Target”). The principal asset of the Target is its 95% beneficial interest in Fujian Tiancheng Mining Corporation (福建天成礦業有限公司), which is principally engaged in the exploration of precious metals and mineral resources in the PRC.

On 17 July 2007, the Company entered into the conditional placing agreement with China Everbright Securities(HK) Limited, the placing agent, 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. It is expected that the net proceeds of the placing will be applied towards as part of the consideration of the Possible Acquisition and as working capital for further development of the silver mine as referred to in the above MOU.