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

2010

Contents

Corporate Information

PROVISIONAL LIQUIDATORS

Mr. John Robert Lees
Mr. Mat Ng

DIRECTORS

Executive Directors:

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

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
The Bank of East Asia Limited

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 Discussion and Analysis

The board of Directors (the "Board" or "Directors") and provisional liquidators 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 31 December 2010.

RESULTS

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

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

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

SEGMENT INFORMATION

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

LIQUIDITY, FINANCIAL RESOURCES AND FUNDING

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

ASSETS AND LIABILITIES

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

FOREIGN EXCHANGE EXPOSURE

The Group is exposed to foreign exchange risk, with most of the Group's assets and liabilities, revenue and expenditure are denominated in Renminbi, United States dollar and Hong Kong dollar. As at 31 December 2010, the Group had insignificant exposure to foreign exchange risk as substantially all sales and purchases transactions, recognised assets and liabilities were primarily denominated in United States dollar, Hong Kong dollar and Renminbi.

Management Discussion and Analysis

CAPITAL STRUCTURE

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

CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

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

DIVIDENDS

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

BUSINESS REVIEW

Appointment of Provisional Liquidators

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

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

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

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

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

Proposed Restructuring of the Group after the appointment of Provisional Liquidators

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

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

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

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

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

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

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

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

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

EMPLOYEE

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

PROSPECTS

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

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

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

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

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

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

Biographical Details of Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. Wu Kam Bun ("Mr. Wu") (胡錦斌), aged 56, is the Chairmen of the Board and executive Director. 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. Wong Wai Chuen ("Mr. Wong") (黃偉銓), aged 43, 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 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 56, is the operation Director of the Group and an executive Director. 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 also 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).

Provisional Liquidators' Report

PRINCIPAL ACTIVITIES

The Company is an investment holding company incorporated in the Cayman Islands. The principal activities of its subsidiaries (together the "Group") are manufacturing and trading of toys. Particulars of the principal subsidiaries are set out in Note 9 to the consolidated financial statements. The then 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 PRC since October 2008, except that Dream Link, a subsidiary, continued its trading business which was put under liquidation in January 2010.

Sino Front was set up by the Company as a wholly-owned subsidiary in June 2009 to continue the Group's trading and manufacturing of toys business.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2010 and the state of affairs of the Group and the Company at that date are set out in the consolidated financial statements on pages 19 to 75.

CONTINGENT LIABILITIES

The relevant details are set out in Note 35 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 17 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 18 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.

MATERIAL ACQUISITIONS

The Company acquired five production lines in June 2010 in order to enhance its manufacturing capabilities. The Five Production Lines have an aggregate annual production capacity of approximately 3 million units of toy products.

PLEDGE OF ASSETS

Details of pledge of assets are set out in Note 19 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 page 76. 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. Wong Wai Chuen
Mr. Ho Wai Wah

BIOGRAPHICAL DETAILS OF DIRECTORS

Biographical details of the Directors and senior management are set out on page 7.

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

To the best knowledge of the Provisional Liquidators, as at 31 December 2010, 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	3,114,000	0.56%
			182,442,000	33.01%

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 ("Mr. Wu"), 38.5% by Mr. Lai Chiu Tai (deceased) ("Mr. Lai"), 10% by Mr. Ho Wai Wah, 10% by Mr. Lo Kwok Choi, and 3% by Mr. Wong Wai Chuen, all being executive Directors and former executive Directors. Mr. Wu and Mr. Lai are deemed to be interested in the 179,328,000 shares held by Smart Place Investments Limited by virtue of the SFO.

2. The interests in 3,114,000 shares represent 2,814,000 shares held by Mr. Wu and 300,000 shares to be allotted and issued upon the exercise of the share options granted to Mr. Wu 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
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

To the best knowledge of the Provisional Liquidators, 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 31 December 2010.

SUBSTANTIAL SHAREHOLDERS

To the best knowledge of the Provisional Liquidators, as at 31 December 2010, other than the interests of a Director 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	182,442,000	33.01%
Lai Chiu Tai *(Note 2)*	Interest of corporation controlled	179,328,000	32.45%
Chan Wai Ling *(Note 2)*	Interest of spouse	179,328,000	32.45%
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 is interested by virtue of the SFO.

2. The 179,328,000 shares were owned by Smart Place Investments Limited and 38.5% of the entire share capital of which is held by Mr. Lai, who passed away on 1 November 2009. Mr. Lai is deemed to be interested in the 179,328,000 shares held by Smart Place Investments Limited by virtue of the SFO. Ms. Chan Wai Ling is the wife of Mr. Lai. She is deemed to be interested in all the shares in which Mr. Lai is interested by virtue of the SFO.

3. Details are set out in Note 10 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.

To the best knowledge of the Provisional Liquidators, 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 31 December 2010.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

To the best knowledge of the Provisional Liquidators, 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 Provisional Liquidators, we are 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 Provisional Liquidators, 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.

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.

RELATED PARTY TRANSACTIONS

Details of related party transactions are set out in Note 34 to the consolidated financial statements.

DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors of the Company had entered into a service contract with the Company for an initial term of three years 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.

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 Provisional Liquidators, neither the Company nor any of its subsidiaries has purchased sold or redeemed any of the Company's shares during the year ended 31 December 2010.

Provisional Liquidators' Report

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 2 September 2006, a 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 be granted 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 1 January 2010	Granted during the year ended 31 December 2010	Exercised/ lapsed during the year ended 31 December 2010	As at 31 December 2010
Wu Kam Bun	0.78	14.5.2008 to 26.4.2017	300,000	–	–	300,000
Lai Chiu Tai *(Note)*	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
Other persons	0.78	14.5.2008 to 26.4.2017	3,800,000	–	–	3,800,000
			6,060,000	-	(300,000)	5,760,000

Note: The 300,000 shares options granted to Mr. Lai under the share option scheme of the Company were not exercised during the six months period after his death. Pursuant to the terms of the share option scheme, the share options granted to Mr. Lai 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.

CONNECTED TRANSACTION

The Group had no material connected transaction during the year ended 31 December 2010.

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 31 December 2010 have not been reviewed by the audit committee.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group largest customer accounted for 54.3% (2009: 99.4%) of the total sales for the year ended 31 December 2010. Purchases from the Group's largest supplier accounted for approximately 61.3% (2009: 99.1%) of the total purchases for the year 31 December 2010.

None of the Directors or any of their associates or shareholders (which, to the best of the knowledge of the Provisional Liquidators, owns more than 5% of the Company's issued share capital) had any beneficial interest in the Group's largest customer or supplier.

CODE ON CORPORATE GOVERNANCE PRACTICES AND NON-COMPLIANCE OF APPENDIX 16 "DISCLOSURE OF FINANCIAL INFORMATION" OF THE LISTING RULES

Since the Provisional Liquidators were appointed on 16 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. A separate Corporate Governance Report contained the information required under Appendix 23 of the Listing Rules has been omitted from this annual report.

SIGNIFICANT POST BALANCE SHEET EVENTS

On 30 March 2011, 致福（深圳）玩具有限公司, a wholly-owned subsidiary of the Company, entered into a conditional sale and purchase agreement to acquire the entire equity interests in 東莞市金詡玩具有限公司 ("金詡") at a consideration of RMB2 million. 金詡 is principally engaged in the manufacturing of toy products in the PRC. The completion of this acquisition is subject to the finalisation of certain conditions precedent as stipulated in the conditional sale and purchase agreement.

AUDITOR

The financial statements for the year ended 31 December 2010 have been audited by PricewaterhouseCoopers.

By order of the Board
Smart Union Group (Holdings) Limited
(Provisional Liquidators Appointed)

Wu Kam Bun
Executive Director

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

John Robert Lees
Mat Ng
Joint and Several Provisional Liquidators
acting as agents for and on behalf of the Company
without personal liability

Hong Kong, 31 March 2011

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 19 to 75, which comprise the consolidated and company balance sheets as at 31 December 2010, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

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

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

BASIS FOR DISCLAIMER OF OPINION

Investments in unconsolidated subsidiaries

As further explained in Note 3.2 to the consolidated financial statements, the directors are unable to get access to certain books and records of Smart Union Industrial Limited (Provisional Liquidators Appointed) ("SU Industrial"), a subsidiary of the Company, for the year ended 31 December 2010. Due to the insufficiency in accounting information of SU Industrial, the financial statements of SU Industrial and its subsidiary, Perfect Design and Product Development Limited ("Perfect Design"), have not been consolidated in the Group's consolidated financial statements for the year ended 31 December 2010.

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

Due to the lack of complete books and records of SU Industrial, we have not been able to obtain sufficient appropriate audit evidence and explanations to assess the carrying values of the investment in SU Industrial and its subsidiary. Any adjustment that would be required may have a consequential significant effect on net liabilities of the Group as at 31 December 2010 and the profit attributable to the equity holders for the year then ended.

Investment in a former subsidiary

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

Due to the lack of complete books and records of SU Qingyuan, we have not been able to obtain sufficient appropriate audit evidence to assess the carrying value of the investment in SU Qingyuan at 31 December 2010. Any adjustment that would be required may have a consequential significant effect on the net liabilities of the Group as at 31 December 2010 and the profit attributable to the equity holders for the year then ended.

Balances with unconsolidated subsidiaries and a former subsidiary

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

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

Lack of complete books and records of a subsidiary

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

Investment in an associated company

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

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

Convertible bonds from an associated company

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

Going concern basis of accounting

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

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

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

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

Other secured borrowings and provision for financial guarantees to a subsidiary

As further explained in Notes 19 and 22 to the consolidated financial statements, as at 31 December 2010, the Group had other secured borrowings and provision for financial guarantees to an unconsolidated subsidiary, including related accrued interest and other charges, of approximately HK$41,418,000 and HK$185,827,000 respectively. Since confirmations of such balances have not been received from the respective creditors, we have not been able to assess the accuracy and completeness of the above liabilities. There are no other satisfactory alternative procedures that we could perform to satisfy ourselves that these balances and the related disclosures have been properly recorded and reflected in the consolidated financial statements as at 31 December 2010.

Contingent liabilities

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

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

DISCLAIMER OF OPINION

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

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 31 March 2011

Consolidated Balance Sheet

As at 31 December 2010

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

The notes on pages 26 to 75 are an integral part of these consolidated financial statements.

Consolidated Balance Sheet

As at 31 December 2010

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

On behalf of the Board

Director *Director* *Provisional Liquidators*

The notes on pages 26 to 75 are an integral part of these consolidated financial statements.

Balance Sheet

As at 31 December 2010

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

On behalf of the Board

Director *Director* *Provisional Liquidators*

The notes on pages 26 to 75 are an integral part of these consolidated financial statements.

Consolidated Income Statement

For the year ended 31 December 2010

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

The notes on pages 26 to 75 are an integral part of these consolidated financial statements.

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

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2010

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

The notes on pages 26 to 75 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2010

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

The notes on pages 26 to 75 are an integral part of these consolidated financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2010

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

The notes on pages 26 to 75 are an integral part of these consolidated financial statements.

Notes to the Financial Statements

1 GENERAL INFORMATION

Smart Union Group (Holdings) Limited (Provisional Liquidators Appointed) (the "Company") was incorporated in the Cayman Islands on 8 March 2006 as an exempted company with limited liability. The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. The shares of the Company were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") in 2006. The shares of the Company have been suspended for trading on the Stock Exchange since 15 October 2008. On 1 December 2008, the Stock Exchange informed the Company that in view of the prolonged suspension of trading in the shares of the Company, the delisting procedures set out in Practice Note 17 to the Rules Governing the Listing of Securities on the Stock Exchange have been applied to the Company and the first stage of delisting procedures commenced on 15 October 2008.

The Company and its subsidiaries (together the "Group") were principally engaged in manufacturing and trading of recreational and educational toys and equipment. The then operations of the Group have substantially ceased after the major assets and production facilities of certain subsidiaries have been subject to freezing orders obtained by certain creditors in the People's Republic of China (the "PRC") since October 2008, except that Dream Link Limited (In Liquidation) ("Dream Link"), a subsidiary, continued its trading business until 28 February 2009. The Group has reactivated its trading and manufacturing of toys business through Sino Front Limited ("Sino Front"), a newly incorporated wholly-owned subsidiary of the Company, and its subsidiaries. Details of the subsidiaries of the Group are set out in Note 9 to the consolidated financial statements.

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

These consolidated financial statements are presented in Hong Kong dollars (HK$), unless otherwise stated. These consolidated financial statements have been approved for issue by the joint and several provisional liquidators (the "Provisional Liquidators") and the directors (the "Directors") of the Company on 31 March 2011.

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

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

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

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

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

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

On 12 May 2009, an exclusivity agreement (the "Exclusivity Agreement") was entered into among the Company, Gold Bless International Invest Limited (the "Investor"), Mr. Yang Wang Jian ("Mr. Yang"), Mr. Ting Wai-min (Mr. Ting"), and the Provisional Liquidators to grant the Investor a six-month exclusivity period to prepare a resumption proposal and to negotiate in good faith and enter into a legally binding agreement for the implementation of restructuring proposal in connection with the restructuring of the Company (the "Proposed Restructuring"). On 1 September 2009, the Company submitted a resumption proposal (the "Resumption Proposal") to the Stock Exchange which embraces the Proposed Restructuring and contemplates for the resumption of trading in the shares of the Company.

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

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

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

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

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

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

The Directors and the Provisional Liquidators have prepared the consolidated financial statements on the assumption that the restructuring of the Company will be implemented in accordance with its terms and the Group will be able to improve its financial position and business upon completion of the Proposed Restructuring. As at the date of approval of the consolidated financial statements, the Directors and the Provisional Liquidators are not aware of any circumstances or reasons that would likely affect the implementation of the Proposed Restructuring. In light of the foregoing, the Directors and the Provisional Liquidators considered that it is appropriate to prepare the consolidated financial statements on a going concern basis. The consolidated financial statements do not incorporate any adjustments for possible failure of the Proposed Restructuring and the continuance of the Group as a going concern. Should the Group be unable to continue as a going concern, adjustments would have to be made to restate the value of assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets as current assets. The effects of these adjustments have not been reflected in these consolidated financial statements.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

3.1 Basis of preparation

The consolidated financial statements of the Company have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") except for the non-consolidation of certain subsidiaries of the Group as explained in Note 3.2 and an associated company, which has not been properly equity accounted for as explained in Note 10. The consolidated financial statements have been prepared under the historical cost convention.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 5.

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.2 Subsidiaries not consolidated

The consolidated financial statements have been prepared based on the books and records maintained by the Company and its subsidiaries. However, due to the major assets and production facilities of a subsidiary of the Company, Smart Union Industrial Limited (Provisional Liquidators Appointed) ("SU Industrial"), have been subject to freezing orders obtained by its creditors in the PRC since October 2008, the Directors have not been able to get access to certain books and records of this subsidiary or to obtain sufficient documentary information to satisfy themselves regarding the treatment of the transactions since 2008. As such, the results, assets and liabilities of SU Industrial and its subsidiary, Perfect Design and Product Development Limited, have not been included into the consolidated financial statements of the Group since 1 January 2008. The resulting de-consolidation loss, which is determined based on the net asset value of these subsidiaries as at 1 January 2008, and the impairment loss of the investment in SU Industrial of approximately HK$63,393,000 and HK$3,600,000 respectively have been recognised in the consolidated income statement during the year ended 31 December 2008. Moreover, as at 31 December 2010 and 2009, the total amounts due from SU Industrial and its subsidiary to the Group and the Company of approximately HK$231,939,000 and HK$188,373,000 respectively are considered to be impaired and, accordingly, full impairment losses have been recognised in the consolidated financial statements. In addition, there was a total amount due to SU Industrial and Perfect Design and Product Development Limited of approximately HK$112,362,000 as at 31 December 2010 and 2009. Details of these unconsolidated subsidiaries are set out in Note 9 to the consolidated financial statements.

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

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

Moreover, as at 31 December 2010, the investment in SU Qingyuan and the amount due from SU Qingyuan of approximately HK$30,000,000 (2009: HK$30,000,000) and HK$32,241,000 (2009: HK$43,307,000) respectively are considered not recoverable and, accordingly, full impairment losses have been recognised in the consolidated financial statements. Details of this former subsidiary are set out in Note 9 to the consolidated financial statements.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.2 Subsidiaries not consolidated *(Continued)*

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

In the opinion of the Directors the consolidated financial statements as at and for the years ended 31 December 2010 and 2009 prepared on the aforementioned basis present more fairly the results and state of affairs of the Group as a whole in light of the aforesaid freezing orders against SU Industrial and SU Qingyuan. However, the non-consolidation of SU Industrial and Perfect Design and Product Development Limited is not in compliance with the requirements of Hong Kong Accounting Standard 27 "Consolidated and Separate Financial Statements".

3.3 Application of new standards, amendments and interpretations

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

The following amendments and interpretations to existing standards are mandatory for financial periods beginning on or after 1 January 2010:

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

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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

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

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

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

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

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

3 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 31 December.

(a) *Subsidiaries*

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

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

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

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

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

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.4 Consolidation *(Continued)*

(b) Associated company

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

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

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

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

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

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

3.5 Segment reporting

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.6 Foreign currency translation

(a) *Functional and presentation currency*

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

(b) *Transactions and balances*

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

(c) *Group companies*

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

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

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

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

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

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.7 Property, plant and equipment

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

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

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

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

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

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

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

3.8 Intangible assets

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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

3.10 Financial assets

(a) *Classification*

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

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

(b) *Recognition and measurement*

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

(c) *Offsetting financial instruments*

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.10 Financial assets *(Continued)*

(d) Impairment of financial assets

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

The Group first assesses whether objective evidence of impairment exists.

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

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

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

3.11 Inventories

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.12 Trade and other receivables

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

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

3.13 Cash and cash equivalents

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

3.14 Share capital

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

3.15 Trade payables

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

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.16 Borrowings

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

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

3.17 Current and deferred income tax

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

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

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

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

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

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.18 Employee benefits

(a) Pension obligations

(i) Hong Kong

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

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

(ii) The People's Republic of China

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

(b) Employee leave entitlements

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

(c) Share-based compensation plan

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

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.18 Employee benefits *(Continued)*

(c) Share-based compensation plan (Continued)

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

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

(d) Bonus plan

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

3.19 Provisions

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

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

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

3.20 Financial guarantees

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.21 Contingent liability

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

3.22 Revenue recognition

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

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

(a) *Sales of goods*

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

(b) *Interest income*

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

3.23 Borrowing costs

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

3.24 Leases

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

3.25 Dividend distribution

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

4 FINANCIAL RISK MANAGEMENT

4.1 Financial risk factors

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

(i) Foreign exchange risk

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

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

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

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

(ii) Credit risk

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

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

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

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

4 FINANCIAL RISK MANAGEMENT *(Continued)*

4.1 Financial risk factors *(Continued)*

(iii) *Liquidity risk*

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

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

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

(iv) *Cash flow and fair value interest rate risk*

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

4 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.

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

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

4.3 Fair value estimation

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

5 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

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

(a) Going concern

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

(b) Impairment of non-financial assets

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

5 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS *(Continued)*

(b) Impairment of non-financial assets *(Continued)*

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

(c) Impairment of trade and other receivables

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

(d) Contingent liabilities

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

(e) Provision for financial guarantees

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

(f) Estimated fair values of convertible bonds

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

5 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS *(Continued)*

(g) Income taxes

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

6 SEGMENT INFORMATION

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

The Group primarily operates in Hong Kong and the PRC.

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

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

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

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

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

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

6 SEGMENT INFORMATION *(Continued)*

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

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

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

7 PROPERTY, PLANT AND EQUIPMENT – GROUP

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

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

8 INTANGIBLE ASSETS

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

Intangible assets represent capitalised toys development costs.

9 INVESTMENTS IN SUBSIDIARIES

(a) Investments in subsidiaries – Company

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

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

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

9 INVESTMENTS IN SUBSIDIARIES *(Continued)*

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

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

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

9 INVESTMENTS IN SUBSIDIARIES *(Continued)*

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

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

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

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

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

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

9 INVESTMENTS IN SUBSIDIARIES *(Continued)*

(b) Investments in unconsolidated subsidiaries – Group

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

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

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

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

(c) Investment in a former subsidiary – Group

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

9 INVESTMENTS IN SUBSIDIARIES *(Continued)*

(c) Investment in a former subsidiary – Group *(Continued)*

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

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

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

10 INVESTMENT IN AN ASSOCIATED COMPANY

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

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

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

10 INVESTMENT IN AN ASSOCIATED COMPANY *(Continued)*

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

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

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

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

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

11 INVENTORIES

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

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

12 FINANCIAL INSTRUMENTS BY CATEGORY – GROUP AND COMPANY

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

12 FINANCIAL INSTRUMENTS BY CATEGORY – GROUP AND COMPANY *(Continued)*

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

13 TRADE RECEIVABLES

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

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

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

The carrying amounts of trade receivables approximate their fair values.

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

13 TRADE RECEIVABLES *(Continued)*

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

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

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

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

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

Trade receivables are denominated in the following currencies:

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

14 PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

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

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

15 CONVERTIBLE BONDS

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

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

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

16 CASH AND CASH EQUIVALENTS

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

16 CASH AND CASH EQUIVALENTS *(Continued)*

Cash and cash equivalents are denominated in the following currencies:

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

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

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

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

17 SHARE CAPITAL

(a) Authorised and issue capital

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

17 SHARE CAPITAL *(Continued)*

(b) Share option scheme

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

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

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

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

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

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

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

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

18 RESERVES

(a) Group

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

Notes to the Financial Statements

18 RESERVES *(Continued)*

(b) Company

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

Notes:

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

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

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

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

19 BORROWINGS

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

Notes:

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

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

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

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

19 BORROWINGS *(Continued)*

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

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

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

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

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

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

20 DEFERRED INCOME TAX

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

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

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

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

21 TRADE PAYABLES

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

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

Trade payables are denominated in the following currencies:

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

The carrying amounts of trade payables approximate their fair values.

Notes to the Financial Statements

22 OTHER PAYABLES AND ACCRUALS

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

Notes:

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

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

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

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

22 OTHER PAYABLES AND ACCRUALS *(Continued)*

Other payables and accruals are denominated in the following currencies:

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

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

23 REVENUE

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

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

24 OTHER INCOME AND OTHER GAINS/(LOSSES)

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

Note:

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

The restructuring costs are non-refundable under all circumstances.

25 EXPENSES BY NATURE

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

26 FINANCE COSTS, NET

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

27 INCOME TAX EXPENSE

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

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

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

27 INCOME TAX EXPENSE *(Continued)*

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

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

28 EMPLOYEE BENEFIT EXPENSES

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

(a) Directors' and senior management's emoluments

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

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

28 EMPLOYEE BENEFIT EXPENSES *(Continued)*

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

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

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

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

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

(b) 5 highest paid individuals

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

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

The emoluments fee within the following bands:

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

29 LOSS ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

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

30 EARNINGS/(LOSS) PER SHARE

Basic

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

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

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

31 DIVIDENDS

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

32 CASH USED IN OPERATIONS

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

33 COMMITMENTS

(a) Capital commitments

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

(b) Commitments under operating leases

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

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

34 SIGNIFICANT RELATED PARTY TRANSACTIONS

In addition to the provision for financial guarantees to an unconsolidated subsidiary (Note 22) as disclosed above, the Group had the following significant transactions carried out with related parties during the year.

(a) Key management compensation

	Group	
	2010	2009
	HK$'000	*HK$'000*
Salaries and other short-term employee benefits	**–**	–
Pension costs – defined contribution plans	**–**	–
Share-based compensation	**–**	–
	–	–

34 SIGNIFICANT RELATED PARTY TRANSACTIONS *(Continued)*

(b) Balances with unconsolidated subsidiaries and a former subsidiary

	Group	
	2010	2009
	HK$'000	*HK$'000*
Amounts due from unconsolidated subsidiaries		
– SU Industrial	**231,937**	231,937
– Perfect Design and Product Development Limited	**2**	2
	231,939	231,939
Less: Accumulated impairment losses	**(231,939)**	(231,939)
	–	–
Amount due from a former subsidiary		
– SU Qingyuan	**32,241**	43,307
Less: Accumulated impairment losses	**(32,241)**	(43,307)
	–	–
Amounts due to unconsolidated subsidiaries:		
– SU Industrial	**(111,051)**	(111,051)
– Perfect Design and Product Development Limited	**(1,311)**	(1,311)
	(112,362)	(112,362)

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

Due to the freezing orders on certain major assets and production facilities of SU Industrial as discussed in Note 3.2, the Group has not been able to recover the amounts due from SU Industrial and its subsidiary, Perfect Design and Product Development Limited. Accordingly, full provisions have been made in respect of the above balances.

As discussed in Note 3.2, SU Qingyuan was also subject to similar freezing orders. During the year ended 31 December 2010, the assets of SU Qingyuan was realised by the local authorities at approximately HK$35,075,000 for the settlement of liabilities and an excess amounting to approximately HK$11,066,000 was refunded to SU Qingyuan, resulting in a write-back of previously recognised impairment losses. The remaining amount of approximately HK$32,231,000 due from SU Qingyuan is considered irrecoverable and full provision has been made.

34 SIGNIFICANT RELATED PARTY TRANSACTIONS *(Continued)*

(c) Balances with subsidiaries

	Company	
	2010	2009
	HK$'000	*HK$'000*
Amounts due from subsidiaries:		
– Smart Union (Hong Kong) Limited	**545**	545
– SU Industrial	**188,373**	188,373
– SU Investments	**16,400**	16,400
– SU China	**27,630**	27,630
– Smart Union Mining Investments Limited	**227,208**	227,208
– Smart Union Group Limited	**160**	160
	460,316	460,316
Less: Accumulated impairment losses	**(460,316)**	(460,316)
	–	–

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

35 CONTINGENT LIABILITIES

(a) Transaction with Top Bright Investments Limited

Pursuant to an agreement (the "Disposal Agreement") entered into between SU Qingyuan, a former subsidiary (as vendor), Top Bright Investments Limited ("Top Bright"), an independent third party (as purchaser), and SU China and the Company (as guarantors) on 29 July 2008, a property of SU Qingyuan in the PRC (the "Property") was sold to Top Bright for HK$27,000,000. The consideration was to be settled partially by cash of HK$17,000,000 and the remaining balance of HK$10,000,000 was to be satisfied by the transfer to SU Investments all the equity interests in a company, Goldbush Design Limited, which was engaged in holding of patents of two interactive electronic toys (the "Goldbush Shares") and wholly owned by Top Pride Limited, another independent third party, and all debts owing or incurred by Goldbush Design Limited to Top Pride Limited upon the completion of the transaction.

The cash consideration of HK$17,000,000 was received by SU Industrial, an unconsolidated subsidiary, in August 2008. However, the transfer of the Property and the transfer of Goldbush Shares have not been completed and, as a result, Top Bright has requested SU Qingyuan, SU China and the Company to recover the cash consideration of HK$17,000,000 and the interest thereon. No repayment has been made by these companies so far. The Directors, based on legal advice obtained, are of the opinion that the Disposal Agreement is not enforceable on the Company or SU China and the obligation for the repayment of cash consideration of HK$17,000,000 to Top Bright should only be attributable to SU Industrial which had received the cash consideration.

35 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 31 December 2010 and 2009.

(b) Deeds of novation

Pursuant to the deeds of novation dated 10 July 2008 and 1 October 2008 (the "Deeds of Novation") entered into between the Company and certain debtors of SU Industrial, an unconsolidated subsidiary, the Company has agreed to assume certain debts of SU Industrial of HK$15,400,000 and HK$15,353,000 respectively. Moreover, SU China and SU Investments have also agreed to provide certain charges and guarantees to such debtors in respect of the debts of SU Industrial.

The Directors, based on legal advice obtained, are of the opinion that the Deeds of Novation are invalid because there was no commercial benefit passing to the Company to assume such debt obligations of SU Industrial, nor to SU China and SU Investments to provide securities in relation to the debts of SU Industrial. Accordingly, no provision has been made in respect of any liability that may result from the Deeds of Novation.

Should the above Disposal Agreement or Deeds of Novation be enforceable and the resolution of the above transactions turns out to be unfavourable to the Group, the Group may need to record additional losses in respect of the above contingent liabilities.

36. EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE

On 30 March 2011, 致福（深圳）玩具有限公司, a wholly-owned subsidiary of the Company, entered into a conditional sale and purchase agreement to acquire the entire equity interests in 東莞市金詡玩具有限公司（"金詡"）at a consideration of RMB2 million. 金詡 is principally engaged in the manufacturing of toy products in the PRC. This completion is subject to the finalisation of certain conditions precedent as stipulated in the conditional sale and purchase agreement. The Group expects to complete this acquisition in 2011, and is in the process of assessing the fair values of assets, liabilities, contingent liabilities and identified intangible assets, if any, of 金詡. It is impracticable to disclose their respective amounts together with the goodwill so arising at the current stage.

Group Financial Summary

CONSOLIDATED INCOME STATEMENT

	Year ended 31 December				
	2010	2009	2008	2007	2006
	HK'$000	*HK'$000*	*HK'$000*	*HK'$000*	*HK'$000*
Sales	**362,026**	98,140	37,550	953,623	727,225
Cost of sales	**(324,333)**	93,384	(32,954)	(839,734)	(604,952)
Gross Profit	**37,693**	4,756	4,596	113,889	122,273
Profit/(loss) before income tax	**27,306**	(16,765)	(848,150)	8,577	35,768
Profit/(loss) for the year	**21,933**	(17,365)	(848,156)	5,443	30,632
Attributable to:					
Equity holders of the Company	**21,933**	(17,365)	(846,786)	4,680	30,025
Non-controlling interest	**–**	–	(1,370)	763	607
	21,933	(17,365)	(848,156)	5,443	30,632
Dividends	**–**	–	–	–	14,400

CONSOLIDATED BALANCE SHEET

	As at 31 December				
	2010	2009	2008	2007	2006
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Non-current assets	**3,165**	10	158	88,576	53,923
Current assets	**246,636**	50,973	10,592	711,977	429,341
Current liabilities	**(560,811)**	(378,942)	(326,344)	(481,088)	(313,504)
Non-current liabilities	**(16)**	(5,000)	–	(1,305)	(2,749)
Non-controlling interest	**–**	–	–	(1,370)	(607)
Capital and reserves attributable to the Company's equity holders	**(311,026)**	(332,959)	(315,594)	316,790	166,404