Smart Union Group (Holdings) Limited

合 俊 集 團 (控 股) 有 限 公 司

(incorporated in the Cayman Islands with limited liability)

(Stock Code : 2700)

ANNUAL REPORT 2011

Smart Union Group (Holdings) Limited
Annual Report 2011

Contents

Corporate Information

EXECUTIVE DIRECTORS

Mr. Yang Wang Jian *(Chairman)*
Mr. Wong Man Keung *(Chief Executive Officer)*
Mr. Zhu Pei Heng
Ms. Yang Jun

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Yeung King Wah, Kenneth
Mr. Wu Hong
Mr. Wong Kwong Chung, James

Audit Committee

Mr. Wong Kwong Chung, James *(Chairman)*
Mr. Yeung King Wah, Kenneth
Mr. Wu Hong

Remuneration Committee

Mr. Wong Kwong Chung, James *(Chairman)*
Mr. Yeung King Wah, Kenneth
Mr. Yang Wang Jian

Nomination Committee

Mr. Yang Wang Jian *(Chairman)*
Mr. Wong Kwong Chung, James
Mr. Yeung King Wah, Kenneth

COMPANY SECRETARY

Ms. Man Ching Yan

REGISTERED OFFICE

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Suite 3007-08, 30/F.
West Tower, Shun Tak Centre
200 Connaught Road Central
Hong Kong

LEGAL ADVISER AS TO HONG KONG LAW

P. C. Woo & Co.
Room 1225, 12/F, Prince's Building,
No. 10 Chater Road,
Central, Hong Kong

FINANCIAL ADVISER

Asian Capital (Corporate Finance) Limited
Suite 1006, Bank of America Tower,
12 Harcourt Road, Central,
Hong Kong

AUDITOR

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

PRINCIPAL BANKERS

Wing Hang Bank, Ltd.
Hang Seng Bank Limited

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Codan Trust Company (Cayman) Limited
Cricket Square
Hutchins Drive
P O Box 2681
Grand Cayman KY1-1111
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

WEBSITE

http://www.irasia.com/listco/hk/smartunion/index.htm

SHARE INFORMATION

Place of listing: Main Board of The Stock Exchange of Hong Kong Limited
Stock code: 02700
Listing date: 29 September 2006
Board lot: 20,000 ordinary shares (the "**Shares**")
Financial year end: 31 December
Share price as at the date of this annual report: HK$0.4
Market capitalisation as at the date of this annual report: Approximately HK$263.2 million

KEY DATES

Date of Annual General Meeting: 1 June 2012

Chairman's Statement

Dear Shareholders:

On behalf of the Board of Directors (the "Board") of Smart Union Group (Holdings) Limited (the "Company"), I am pleased to announce the full-year audited consolidated results of the Company for the financial year ended 31 December 2011.

2011 was an important year. The Company had undergone major management team change and successfully resumed trading on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 11 November 2011. In terms of business growth, the Company has met its target in 2011 and plans to take on new projects to further expand the business operation and capture more market share in 2012 and 2013.

In 2011, the toy industry developed slower than 2010. However, the Company has maintained stable growth in terms of business growth, business revenue and profit. Although the Company foresees a decline in sales revenue due to the economic slowdown in Europe and America, the Company expects an increase in sales from China and other Asian markets will allow a continual growth.

With a new business direction, the Company plans to set up a joint venture company to act as an agent for the Company. The Company also plans to take on new projects to further expand the business operation and capture more market share. The Company expects the sales revenue for year 2012 and 2013 to be focused on the growth in China market.

I am grateful to our shareholders, business partners for their continued support and my fellow directors (the "Directors") and colleagues for their dedication and commitment.

Yang Wang Jian
Chairman of the Board

Hong Kong, 29 March 2012

Business Review and Prospects

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

During the year, the Company and its subsidiaries (the "Group") have completed the group restructuring as detailed in Note 2 to the financial statements, which contemplated, among other things, the following:

(a) Capital restructuring

The capital structure of the Company had been restructured (the "Capital Restructuring") as follows:

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

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

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

(iv) upon the Capital Reduction becoming effective, the entire amount standing to the credit of the share premium account of the Company had been cancelled (the "Share Premium Cancellation"). The credit arising from the Share Premium Cancellation had been applied to set off part of the accumulated losses of the Company as at 31 December 2010; and

(v) any rights arising under the existing convertible securities had been cancelled.

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

The subscription by Gold Bless International Invest Limited (the "Investor") of 432,000,000 Subscription Shares at a subscription price of HK$0.185 per New Share.

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

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

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

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

(e) Scheme and group restructuring (the "Group Restructuring")

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

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

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

(iii) Immediately prior to the Scheme taking effect, all the assets of the Company and its subsidiaries (other than the shareholding in and the assets of Sino Front Limited and its subsidiaries) (the "Excluded Companies") including but not limited to all cash and cash equivalents held by the Company, all intercompany receivables, all causes of actions and claims which the Company has had against any person whether or not known to the Company as at the date when the Scheme took effect and the Excluded Companies had been transferred to a special purpose vehicle (the "Special Purpose Vehicle") controlled by the scheme administrators for the benefit of the Scheme Creditors.

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

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

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

PERFORMANCE FOR THE YEAR

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

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

Business Review and Prospects

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

BUSINESS REVIEW

The business revenue is mainly based on 3 major customers.

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

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

BUSINESS PROSPECTS

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

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

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

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

Nevertheless, management foresees a decline in consumption in the west. As such, the main focus of the Group in long run will be to develop its market share in Asia to offset the possible decrease in revenue from the west. At the same time, the Group still maintains a strong tight connection relationship with the western customers.

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

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

BUSINESS ENVIRONMENT FORECAST

Macro-Economic Environment

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

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

According to data released by U.S. Census Bureau, the total trade between China and USA in 2011 was USD503.2 billion, contributing to over 14% of USA's total international trades. The total trade between China and USA in 2010 was USD456.8 billion. Although the data does not show signs of slowdown, management of the Group sees a high risk in having heavy dependence in USA and European markets. The logical strategy is to diversify the business and develop a strong relationship with the customers of Mainland China. In view of that, the Group intends to devote more resources to expand the business in Mainland China. In particular, the Group plans to focus on acquiring strong business and expand cautiously through co-operation and set up joint venture with established business partners.

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

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

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

Business Review and Prospects

Industry Analysis: Industry Development Challenges

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

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

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

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

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

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

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

Industry Analysis: Industry Future Development Trend

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

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

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

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

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

Business Review and Prospects

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2011, the Group held cash and bank balances of approximately HK$22,265,000 (2010: approximately HK$16,562,000). Net current assets amounted to approximately HK$161,493,000 (2010 (Restated): net current liabilities of approximately HK$317,169,000). Current ratio (defined as total current assets divided by total current liabilities) was 1.51 times (2010: 0.44 times). The gearing ratio of the Group (defined as total liabilities to total assets) was approximately 78.3% (2010: 227.5%). As detailed in Note 4.2 to the financial statements, the gearing ratio of the Group was 28.5% as at 31 December 2011 when it was calculated as net debt divided by total capital. As at 31 December 2011, the Group had outstanding borrowings of approximately HK$64,137,000 (2010: HK$92,936,000).

FOREIGN EXCHANGE EXPOSURE

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

CAPITAL STRUCTURE

The Company has undergone the Group Restructuring during the year with details stated in Note 2 to the financial statements. The movement of the capital structure of the Company during the year is detailed in Note 17 to the financial statements.

CHARGES ON GROUP ASSETS

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

SIGNIFICANT ACQUISITION AND DISPOSAL OF ASSETS

The Company has undergone the Group Restructuring during the year with details stated in Note 2 to the financial statements. The assets and liabilities of the Group transferred to the Special Purpose Vehicle under the Scheme during the year are detailed in Note 25(ii) to the financial statements.

COMMITMENTS AND CONTINGENT LIABILITIES

The Group's commitments as at 31 December 2011 have been detailed in Note 35 to the financial statements. The Group did not have any contingent liabilities as at 31 December 2011.

EMPLOYEES AND REMUNERATION POLICY

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

Profile of Directors and Company Secretary

EXECUTIVE DIRECTORS

Mr. Yang Wang Jian, aged 55, was appointed as an executive Director and Chairman of the Company on 7 November 2011. He is currently the sole director and the ultimate beneficial owner interested in 85% of the issued share capital of the holding company of the Company which subscribed for 432,000,000 shares and took up the Convertible Bonds in the principal amount of HK$63,825,000 which may be converted into 345,000,000 shares of the Company. Mr. Yang is also the chairman of GEV Investments (Hong Kong) Limited, the Hong Kong operating arm of GEV Investments Limited, which is primarily engaged in the provision of advisory services of mergers and acquisitions, strategic planning, valuations, management or leverage buyouts and capital raising. Mr. Yang has over 25 years of experience in international finance and investment. He was the managing director of Corporate Finance International Ltd and a director of Uni Core Holdings Corporation (Stock symbol: UCHC), a company listed on the US OTC Bulletin Board.

Mr. Yang graduated from University of International Business and Economics, formerly known as College of Beijing Economics and Foreign Trade in the PRC, with a bachelor's degree in economics.

Mr. Yang is the father of Ms. Yang Jun who is an executive Director of the Company.

Mr. Wong Man Keung, aged 44, was appointed as an executive Director and Chief Executive Officer of the Company on 7 November 2011. He has over 25 years of experience in direct investment, commercial banking and manufacturing in China. He is currently the director of GEV Investments (Hong Kong) Limited. He has also served as the senior management member of various light and heavy manufacturing companies based in China and oversaw the finance and the production departments.

He was an investment manager in Million Base (China) Ltd from 2008 to 2011. Prior to that, Mr. Wong worked in the commercial banking division of a financial institution for approximately 15 years.

Mr. Zhu Pei Heng, aged 38, was appointed as an executive Director of the Company on 7 November 2011. He has been the product engineer and head of toy mould design in various toy manufacturing companies in Panyu and Dongguan, the PRC. Mr. Zhu has over 12 years of experience in the design of toys and toy moulds.

Mr. Zhu graduated from Guangdong Industry Technical College in the PRC, majoring in design of plastic moulds.

Ms. Yang Jun, aged 28, was appointed as an executive Director on 7 November 2011. She was previously the financial controller of GEV Investments (Hong Kong) Limited, managing the advisory service for valuation and strategic planning. She held various senior positions in financing and banking industry field. She performed as assistance manager in Citibank Singapore and senior financial analyst in Royal Bank of Scotland and in charge of Singapore, international and NRI business.

Ms. Yang holds a bachelor's degree of business (economics and finance) with high distinction awarded by RMIT University, Australia.

Ms. Yang is the daughter of Mr. Yang Wang Jian who is an executive Director and Chairman of the Company.

Profile of Directors and Company Secretary

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Yeung King Wah, Kenneth, aged 53, was appointed as an independent non-executive Director on 7 November 2011. He is the founder of Yeung and Co Chartered Accountants, a firm of registered auditors based in the United Kingdom, and of China Consulting Consortium. He has over 20 years of experience in auditing, taxation, corporate finance, treasury, financial consulting and management gained from working in Europe and the Asia Pacific region. Mr. Yeung is a fellow member of the Institute of Chartered Accountants in England and Wales and a member of the Hong Kong Institute of Certified Public Accountants. He is also a member of the Chartered Institute of Taxation in the United Kingdom and a full member of the Association of Corporate Treasurers in the United Kingdom. He was a director of EC Venture Ltd., Azure Management Consulting Ltd., ILS (Far East) Ltd., ILS (China) Ltd. and Tendpress Ltd. He is currently a director of JP & M Asia Limited, K&M Nominees Ltd. and China Consulting Consortium Ltd.

Mr. Yeung is currently an independent non-executive director of China Electric Power Technology Holdings Limited (formerly known as A & K Educational Software Holdings Limited) (Stock code: 8053), a company listed on the Growth Enterprise Market of the Stock Exchange and was an independent non-executive director of eForce Holdings Limited (Stock code: 943), a company listed on the Main Board of the Stock Exchange from 3 July 2007 to 1 December 2011.

Mr. Wu Hong, aged 52, was appointed as an independent non-executive Director on 7 November 2011. He is currently a professor and dean of College of Design, Shenzhen University in the PRC. He has over 18 years of experience in the field of design, and has worked in both the academic field and in commercial areas in the PRC.

Mr. Wu graduated from Chinese National Academy of Arts with a doctoral degree of art & design.

Mr. Wong Kwong Chung, James, aged 53, was appointed as an independent non-executive Director on 7 November 2011. He founded Polytoy Manufacturing Company Ltd in 1979 which is a plastic doll manufacturer in Hong Kong. He formed three other toy companies since 1988 which are to produce educational construction toys, expert in vacuum plating for clients like Lego, Tomy and Mattel. He is the director of Neu Kreation Limited which is an educational products manufacturer. Mr. Wong has over thirty years of investing experiences in manufacturing field. Mr. Wong is a member of the Plastic Manufacturer Association, secretary of Full Gospel Businessmen Fellowship International, member of Toy Christian Fellowship and president of Happymen Foundation. He was a committee member of the Toy Advisory Committee of Hong Kong Trade Development Council for seven years.

Mr. Wong graduated from Hong Kong Polytechnic with a higher diploma in business management.

COMPANY SECRETARY

Ms. Man Ching Yan, aged 31, has been appointed as the company secretary of the Company with effect from 7 November 2011. She holds a bachelor's degree in economics and finance from the University of Hong Kong. She is the member of the Hong Kong Institute of Chartered Secretaries (HKICS) and the Institute of Chartered Secretaries and Administrators (ICSA). Ms. Man is a CFA Charterholder and a member of CFA Institute and the Hong Kong Society of Financial Analysts Ltd.

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICE

Since the Provisional Liquidators' appointment were only released and discharged upon completion of the Group Restructuring on 7 November 2011, the Board considered that compliance with the code on corporate governance practices (the "CG Code") was not practicable before completion of the Group Restructuring. Based on this background, this corporate governance report will focus on the corporate governance practices of the Company on the post Group Restructuring period.

The Board believes that good governance is essential to the maintenance of the Group's competitiveness and to its healthy growth. The Company has adopted practices which meet the CG Code as set out in Appendix 14 to the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange upon the completion of the Group Restructuring.

The Company periodically reviews its corporate governance practices to ensure its continuous compliance with the CG Code. This report describes the Group's corporate governance practices and explains the applications of the principles of the CG Code and deviations, if any. The Company has been in compliance with all code provisions set out in the CG Code since the completion of the Group Restructuring, the dismissal of the winding up petition and the discharge of the provisional liquidators of the Company on 7 November 2011.

THE BOARD OF DIRECTORS

Responsibilities

The Board is responsible for the leadership and control of the Company and collectively responsible for promoting success of the Company by directing and supervising the Company's affairs. The Board also formulates objectives, overall corporate strategies and business plans, and oversees the financial and management performance of the Group. The senior management was delegated the authority and responsibilities by the Board of the day-to-day management and operations of the Group, which include the implementation of objectives, strategies and plans adopted by the Board and the day-to-day management of the Group's business. Approval has to be obtained from the Board prior to any significant transactions entered into by the senior management on behalf of the Company.

All Directors have full and timely access to all relevant information in relation to the Company as well as the advice and services of the company secretary, if and when required, with a view ensuring that the Board procedures and all applicable rules and regulations are followed.

There are established procedures for Directors upon reasonable request, to seek independent advice in appropriate circumstances for them to discharge their duties and responsibilities, at the Company's expenses.

The Company has arranged appropriate liability insurance for the Directors and the senior management of the Group to indemnify their liabilities arising out of corporate activities. The insurance coverage is reviewed on an annual basis.

Composition

The Board currently comprises four executive Directors and three independent non-executive Directors from different business and professional fields. The Directors, including independent non-executive Directors, have brought a balance of valuable and diversified business and professional expertise, experiences and independent judgment to the Board for its efficient and effective management of the Company's business.

The Board of the Company comprises the following Directors:

Executive Directors

Mr. Yang Wang Jian *(Chairman)**
Mr. Wong Man Keung *(Chief Executive Officer)**
Mr. Zhu Pei Heng*
Ms. Yang Jun*
Mr. Wu Kam Bun#
Mr. Ho Wai Wah#
Mr. Wong Wai Chuen#

Independent Non-executive Directors

Mr. Yeung King Wah, Kenneth*
Mr. Wu Hong*
Mr. Wong Kwong Chung, James*

* *appointed on 7 November 2011*
\# *resigned on 7 November 2011*

The profiles of each Director are set out in the "Profile of Directors and Company Secretary" section in this annual report.

Chairman and Chief Executive Officer

The key role of the Chairman is to provide leadership to the Board. In performing his duties, the Chairman shall ensure that the Board functions effectively in the discharge of its responsibilities. The Chairman also has the responsibility of taking the lead to ensure that the Board acts in the best interests of the Company and the Group.

The key role of the CEO is to be responsible for the day-to-day management and operations of the Company and business of the Group. The duties of the CEO mainly include:

- providing leadership and supervising the effective management of the Company;
- monitoring and controlling the financial and operational performance of various divisions; and
- implementing the strategy and policies adopted by the Company, setting and implementing objectives and development plans.

Independent Non-executive Directors

Pursuant to Rules 3.10(1) and 3.10(2) of the Listing Rules, the Company has appointed three independent non-executive Directors, of whom Mr. Yeung King Wah, Kenneth has appropriate professional qualifications and related experiences in financial matters.

The Company has received written annual confirmation from each independent non-executive Director of their independence pursuant to the requirements of Rules 3.13 of the Listing Rules. The Company considers all independent non-executive Directors to be independent in accordance with the independence guidelines set out in the Listing Rules.

Appointment and Re-election of Directors

The Board retains the functions for the selection and approval of candidates to become Board members. Directors who are appointed by the Board are subject to retirement by rotation in accordance with the Company's articles of association.

In accordance with the articles of association of the Company, any director appointed to fill a casual vacancy or as an addition to the Board shall hold office only until the next following general meeting of the Company and shall then be eligible for re-election.

At each annual general meeting, one-third of the directors for the time being, or, if their number is not three or a multiple of three, then the number nearest to but not less than one-third, shall retire from office by rotation but shall be eligible for re-election, provided that every director shall be subject to retirement at least once every three years. The directors (including those appointed for a special term) to retire in every year shall be those who have been longest in office since their last election but as between persons who became directors on the same day those to retire shall (unless they otherwise agree between themselves) be determined by lot.

Induction for Directors

Each newly appointed director will receive comprehensive, formal and tailored induction on the first occasion of his/her appointment, so as to ensure that he/she has proper understanding of the business and operations of the Group and that he/she is fully aware of his/her responsibilities and obligations under the Listing Rules and relevant regulatory requirements.

There are also arrangements in place for providing continuing briefing and professional development to Directors whenever necessary. The Directors are continually updated with legal and regulatory developments, and business and market changes to facilitate the discharge of the responsibilities.

Responsibilities in Respect of the Financial Statements

The Directors acknowledge their responsibility for preparing the Company's financial statements. The financial statements for the year ended 31 December 2011 have been prepared in accordance with Hong Kong Financial Reporting Standards, including Hong Kong Accounting Standards and applicable Interpretations issued by the Hong Kong Institute of Certified Public Accountants and the applicable disclosure requirements of the Listing Rules and other applicable regulatory requirements.

The Directors confirm that, to the best of their knowledge, information and belief, having made all reasonable enquires, they are not aware of any material uncertainty relating to events of conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

The responsibilities of the external auditor, PricewaterhouseCoopers, is set out in the Independent Auditor's Report on pages 27 to 30.

BOARD AND COMMITTEE MEETINGS

Number of Meetings and Directors' Attendance

Regular Board meetings are held at least four times a year at approximately quarterly intervals for reviewing and approving the financial and operating performance, and considering and approving the overall strategies and policies of the Company.

Notices of regular Board meetings are served to all Directors at least 14 days before the meetings while reasonable notice is generally given for other Board meetings.

For committee meetings, notices are served in accordance with the required notice period stated in the relevant terms of reference.

Agenda and Board papers together with all appropriate, complete and reliable information are normally sent to all Directors before each Board meeting to keep the Directors appraised of the latest developments and financial position of the Company and to enable them to make informed decisions. All Directors are given the opportunity to include matters in the agenda for regular Board meetings. The Board and each Director also have separate and independent access to senior management whenever necessary.

Apart from the regular board meetings, the Board met on other occasions from time to time when a board-level decision on a particular matter was required.

Minutes of all Board meetings, recording sufficient details of matters considered and decisions reached, are kept by the secretary of the meetings, and are open for inspection by the Directors.

During the year, 16 board meetings were held and the individual attendance of each Director is set out below:

Director Name	Attendance
Executive Directors	
Mr. Yang Wang Jian *(Chairman)**	11/11
Mr. Wong Man Keung *(Chief Executive Officer)**	11/11
Mr. Zhu Pei Heng*	8/11
Ms. Yang Jun*	8/11
Mr. Wu Kam Bun#	5/5
Mr. Ho Wai Wah#	5/5
Mr. Wong Wai Chuen#	2/5
Independent Non-executive Directors	
Mr. Yeung King Wah, Kenneth*	8/11
Mr. Wu Hong*	9/11
Mr. Wong Kwong Chung, James*	9/11

* *appointed on 7 November 2011*
\# *resigned on 7 November 2011*

Board Committees

The Board has established 2 committees during the year, namely the audit committee (the "Audit Committee") and the remuneration committee (the "Remuneration Committee") for overseeing particular aspects of the Company's affairs. The Company also established the nomination committee (the "Nomination Committee") subsequently on 13 March 2012. All Board committees of the Company are established with defined written terms of reference.

The majority of the members of each Board committees are independent non-executive Directors. The Board committees are provided with sufficient resources to discharge their duties and, upon reasonable request, are able to seek independent professional advice in appropriate circumstances, at the Company's expenses.

Audit Committee

The Audit Committee comprises three independent non-executive Directors of the Company, namely

Mr. Wong Kwong Chung, James *(Chairman)**
Mr. Yeung King Wah, Kenneth*
Mr. Wu Hong*

* *appointed on 7 November 2011*

None of the members of the Audit Committee is a former partner of the Company's existing external auditors.

The main duties of the Audit Committee include the followings:

(a) To review the financial statements and reports and consider any significant or unusual items raised by the Group's staff responsible for the accounting and financial reporting function, compliance officer or auditors;

(b) To review the adequacy and effectiveness of the Company's financial reporting system, internal control system and risk management system and associated procedures;

(c) To review and monitor the external auditors' independence and objectively and the effectiveness of the audit; and

(d) To review the relationship with the external auditors by reference to the work performed by the auditors, their fees and terms of management, and make recommendation to the Board on the appointment, reappointment and removal of external auditors.

The Audit Committee performed the work during the year includes the following:

- reviewed the effectiveness of the internal control system of the Group and approved the internal control review manual of the Group; and

- reviewed the Group's accounting principles and practices, financial reporting and statutory compliance matters.

In 2011, the Audit Committee convened 1 meeting. Members and their attendance are as follows:

Director Name	**Attendance**
Mr. Wong Kwong Chung, James *(Chairman)*	1/1
Mr. Yeung King Wah, Kenneth	1/1
Mr. Wu Hong	1/1

Remuneration Committee

The Remuneration Committee comprises the Chairman and two independent non-executive Directors of the Company, namely

Mr. Yang Wang Jian *(Chairman)**#
Mr. Wong Kwong Chung, James*#
Mr. Yeung King Wah, Kenneth*

* *appointed on 7 November 2011*
\# *On 13 March 2012, Mr. Wong Kwong Chung, James was appointed as the Chairman and Mr. Yang Wang Jian was re-designated as a member of the Remuneration Committee.*

The main duties of the Remuneration Committee include the followings:

(a) To review, recommend and approve the remuneration policy and structure and remuneration packages of the executive Directors and the senior management;

(b) To review, recommend and approve performance-based remuneration by reference to corporate goals and objectives resolved by the Board from time to time;

(c) To review, recommend and approve the compensation payable to executive Directors and senior management in connection with any loss or termination of their office or appointment; and

(d) To establish transparent procedures for developing such remuneration policy and structure to ensure that no Director or any of his/her associates will participate in deciding his/her own remuneration, which remuneration will be determined by reference to the performance of the individual and the Company as well as market practice and conditions.

The Remuneration Committee performed the work during the year includes the following:

- reviewed the remuneration policy for the Directors and senior management;
- reviewed and approved the remuneration package of each Director and the company secretary including bonus payment, pension right and compensation payable; and
- approved the forms of the service agreement for each executive Director and the appointment letter for each independent non-executive Director.

In 2011, the Remuneration Committee convened 1 meeting. Members and their attendance are as follows:

Director Name	**Attendance**
Mr. Yang Wang Jian *(Chairman)*	1/1
Mr. Wong Kwong Chung, James	1/1
Mr. Yeung King Wah, Kenneth	1/1

Nomination Committee

The Nomination Committee was established on 13 March 2012 which comprises the Chairman and two independent non-executive Directors of the Company, namely

Mr. Yang Wang Jian *(Chairman)*
Mr. Yeung King Wah, Kenneth
Mr. Wong Kwong Chung, James

The main duties of the Nomination Committee include the followings:

(a) To review the criteria and procedures of selection of directors and senior management members, and provide suggestions;

(b) To conduct extensive search for qualified candidates of directors and senior management members; and

(c) To access the candidates for directors and senior management members and provide the relevant recommendations.

Nomination procedures and the process and criteria adopted by the Nomination Committee include the followings:

- in considering the nomination of new directors, the Nomination Committee will take into account the qualification, ability, still, knowledge, working experience, leadership and professional ethics of the individual;

- identify individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of, individuals nominated for directorships; and

- where the Board proposes a resolution to elect an individual as an independent non-executive director at the general meeting, it should set out in the circular to shareholders and/or explanatory statement accompanying the notice of the relevant general meeting why the Nomination Committee believes the individual should be elected and the reasons why the Nomination Committee considers the individual to be independent.

No Nomination Committee was established during the year ended 31 December 2011 and no committee meeting had been convened during the year of 2011.

MODEL CODE ON SECURITIES TRANSACTION BY DIRECTORS

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

AUDITOR'S REMUNERATION

PricewaterhouseCoopers has been appointed as the Company's external auditor since 2006.

There have been no other changes of auditors of the Company in the past three years.

The Audit Committee has been notified of the nature and service charges of the non-audit services to be performed by PricewaterhouseCoopers and considered that such services have no adverse effect on the independence of their audit works.

A summary of audit and non-audit services provided by the external auditor for the year ended 31 December 2011 and their corresponding remunerations is as follows:

Nature of services	*Note*	**Amount**
		HK$'000
Audit services for the year ended 31 December 2011	*26*	1,100

INTERNAL CONTROL

The Board, recognizing its overall responsibility in ensuring the system of internal controls of the Company and in reviewing its effectiveness, is committed to implementing an effective and sound internal control system to safeguard the interests of shareholders and the assets of the Group. Procedures have been designed to safeguard assets against unauthorized used or disposition, ensure the maintenance of proper accounting records for the provision of reliable financial information for internal use or for publication, and ensure compliance with applicable law, rules and regulations. The procedures provide a reasonable, but not absolute, assurance that material untrue statements or losses are prevented, potential interruption of the Group's management system is detected, and risks existing in the course of arriving at the Group's objectives are properly managed.

During the year, the Board, through the Audit Committee, has been assessing and improving the effectiveness of the Group's internal control system continuously, which covers financial, operational, and compliance controls as well as risk management function, in order to cope with the changing business environment.

COMMUNICATIONS WITH SHAREHOLDERS

The Board recognizes the importance of continuing communications with the Company's shareholders and investors, and maintains ongoing dialogues with them through various channels. The primary communication channel between the Company and its shareholders is through the publication of its interim and annual reports.

The Company's registrars serve the shareholders with respect to all share registration matters.

The Company's annual general meeting provides a useful forum for shareholders to exchange views with the Board. The Board members and management of the Company are available to answer shareholders' questions and explain the procedures for demanding and conducting a poll, if necessary. Any relevant information and documents on proposed resolutions are normally sent to all shareholders at least 20 clear business days before the annual general meeting.

All shareholders' communications, including interim and annual reports, announcements and press releases are available on the Company's website at www.irasia.com/listco/hk/smartunion/. The latest business developments and core strategies of the Company can also be found on the website, keeping the communications with investors open and transparent.

INVESTOR RELATIONS

The Company keeps on promoting investor relations and enhancing communication with the existing shareholders and potential investors. It welcomes suggestions from investors, stakeholders and the public who may contact the Company by phone on (852) 2169 0813 during normal business hours, by fax at (852) 2169 0663 or by e-mail at ir@smartuniongroup.com.

Report of the Directors

The Directors present their report together with the audited consolidated financial statements for the year ended 31 December 2011.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The activities and other particulars of its principal subsidiaries are set out in Note 9 to the financial statements.

The analysis of the principal activities and geographical locations of the operations of the Group during the year are set out in Note 6 to the financial statements.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2011 and the state of affairs of the Group and the Company at that date are set out on pages 31 to 100. The Directors do not recommend the payment of any dividend in respect of the year.

SHARE CAPITAL

Details of the movements in share capital of the Company during the year are set out in Note 17 to the financial statements.

RESERVES

Details of the movements in the reserves of the Group and of the Company during the year are set out in consolidated statement of changes in equity on page 36 of this annual report and Note 18 to the financial statements.

DISTRIBUTABLE RESERVES

At 31 December 2011, the Company had the following distributable reserves which may be applied to pay up unissued shares to be issued to members of the Company as fully paid bonus shares subject to relevant laws and regulations:

	HK$'000
Share premium	90,721
Accumulated losses	(77,746)
	12,975

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in Note 8 to the financial statements.

CONVERTIBLE BONDS

Details of the Convertible Bonds issued by the Company and the Group are set out in Note 19 to the financial statements.

BORROWINGS

Particulars of borrowings of the Company and the Group as at 31 December 2011 are set out in Note 23 to the financial statements.

Report of the Directors

SUMMARY OF FINANCIAL INFORMATION

A summary of the results and of the assets and liabilities of the Group for the past five financial years are set out on pages 101 to 102 of this annual report.

PURCHASE, SALE OR REDEMPTION OF SHARES

The Company did not redeem any of its shares listed on the Stock Exchange nor did the Company or any of its subsidiaries purchase any of such shares during the year. Save as disclosed above, details of the issuance of shares in the Group Restructuring are set out in Note 17 to the financial statements.

DIRECTORS

Executive Directors

Mr. Yang Wang Jian *(Chairman)**
Mr. Wong Man Keung *(Chief Executive Officer)**
Mr. Zhu Pei Heng*
Ms. Yang Jun*
Mr. Wu Kam Bun#
Mr. Ho Wai Wah#
Mr. Wong Wai Chuen#

Independent Non-executive Directors

Mr. Yeung King Wah, Kenneth*
Mr. Wu Hong*
Mr. Wong Kwong Chung, James*

* *appointed on 7 November 2011*
\# *resigned on 7 November 2011*

In accordance with article 86(3) of the Company's articles of association, Mr. Yang Wang Jian, Mr. Wong Man Keung, Mr. Zhu Pei Heng, Ms. Yang Jun, Mr. Yeung King Wah, Kenneth, Mr. Wu Hong and Mr. Wong Kwong Chung are required to retire at the forthcoming general meeting and being eligible, offer themselves for re-election.

BIOGRAPHICAL DETAILS OF DIRECTORS

Brief biographical particulars of the Directors are set out on pages 10 to 11 of this annual report.

DIRECTORS' SERVICE CONTRACTS

Each of Mr. Yang Wang Jian, Mr. Wong Man Keung and Ms. Yang Jun, the executive Directors of the Company, has entered into a service agreement with the Company for a period of three years commencing 7 November 2011 which could be terminated by either party giving to the other not less than three months' written notice.

Mr. Zhu Pei Hang, an executive Director of the Company, has entered into a service agreement with the Company for a period of one year commencing 7 November 2011 which could be terminated by either party giving to the other not less than three months' written notice.

Each of Mr. Yeung King Wah, Kenneth, Mr. Wu Hong and Mr. Wong Kwong Chung, James, the independent non-executive Directors of the Company, has entered into a letter of appointment with the Company for a period of one year commencing 7 November 2011 which could be terminated by either party giving to the other not less than three months' written notice.

None of the Directors proposed for re-election at the forthcoming annual general meeting has an unexpired service contract with the Company and/or any of its subsidiaries, which is not determinable by the employing company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in Note 36 to the financial statements, no Director had a material interest, whether directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

CONTROLLING SHAREHOLDER'S INTERESTS IN CONTRACTS

Save as disclosed in Note 36 to the financial statements, at no time during the year had the Company or any of its subsidiaries, and the controlling shareholder or any of its subsidiaries entered into any contract of significance or any contract of significance for the provision of services by the controlling shareholder or any of its subsidiaries to the Company or any of its subsidiaries.

CONNECTED TRANSACTIONS

The transactions as set out in Note 36 to the financial statements were connected transactions which were exempt from any disclosure and shareholders' approval requirements under Chapter 14A of the Listing Rules.

As far as the transactions set out in Note 36(a) to the financial statements are concerned, the remuneration of the Directors as determined pursuant to the service contracts/letters of appointment entered into between the Directors and the Group were connected transactions which were exempt from any disclosure and shareholders' approval requirements under Chapter 14A of the Listing Rules.

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

None of the Directors was considered to have interests in the businesses, which compete or are likely to compete, either directly or indirectly, with the businesses of the Group pursuant to the Listing Rules.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SECURITIES

At 31 December 2011, the interests or short positions of the Directors and chief executive of the Company or their respective associates (as defined under the Listing Rules) in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) (a) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or (b) which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or (c) which were required, pursuant to the Code of Practice for Securities Transaction by Directors and Designated Employees adopted by the Company, to be notified to the Company and the Stock Exchange, were are follows:

The Company

(a) Long positions in shares

Name of Director	Capacity in which the shares are held	Number of shares held	Approximate percentage of total issued shares
Mr. Yang Wang Jian	Interest of controlled corporations	432,000,000	71.64%

Note: The shares are beneficially owned by Gold Bless International Invest Limited, a company of which 85% of its share capital is owned by Mr. Yang Wang Jian ("Mr. Yang") and therefore, Mr. Yang is deemed to be interested in such shares pursuant to Part XV of the SFO.

(b) Long positions in underlying shares

Name of Director	Capacity in which the underlying shares are held	Interest in the underlying shares	Approximate percentage of total issued shares
Mr. Yang Wang Jian	Interest of controlled corporations	345,000,000	57.21%

Notes:

(i) These are the shares of the Company which may be issued upon full exercise of the conversion rights attaching to the convertible bonds held by Gold Bless International Invest Limited, a company of which 85% of its share capital is owned by Mr. Yang Wang Jian ("Mr. Yang") and therefore, Mr. Yang is deemed to be interested in such shares pursuant to Part XV of the SFO.

(ii) The percentage is calculated based on the total number of issued shares of the Company as at 31 December 2011.

Save as disclosed above, as at 31 December 2011, none of the Directors nor chief executive of the Company was interested, or was deemed to be interested in the long and short positions in the shares, underlying shares and/or debentures of the Company or any of its associated corporations, which were required to be notified to the Company and the Stock Exchange or recorded in the register as aforesaid.

ARRANGEMENT FOR DIRECTORS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the "Share Option Scheme" section on page 25 in this annual report and in Note 17(b) to the financial statements, at no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable a Director to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SECURITIES

As at 31 December 2011, so far as it is known by or otherwise notified by any Director or the chief executive of the Company, the particulars of the corporations or persons who had 5% or more interests in the following long positions in the shares and underlying shares as recorded in the register required to be kept under Section 336 of the SFO or were entitled to exercise, or control the exercise of, 10% or more of the voting power at any general meeting of the Company (the "Voting Entitlements") (i.e. within the meaning of substantial shareholders of the Listing Rules) were as follows:

The Company

(a) Long positions in shares

Names of Substantial Shareholders	Capacity in which the shares are held	Number of shares held	Approximate percentage of total issued shares
Gold Bless International Invest Limited	Beneficial owner	432,000,000	71.64%
Mr. Yang Wang Jian	Interest of controlled corporations	432,000,000	71.64%

Note: The shares are beneficially owned by Gold Bless International Invest Limited, a company of which 85% of its share capital is owned by Mr. Yang Wang Jian ("Mr. Yang") and therefore, Mr. Yang is deemed to be interested in such shares pursuant to Part XV of the SFO.

(b) Long positions in underlying shares

Names of Substantial Shareholders	Capacity in which the underlying shares are held	Interest in the underlying shares	Approximate percentage of total issued shares
Gold Bless International Invest Limited	Beneficial owner	345,000,000	57.21%
Mr. Yang Wang Jian	Interest of controlled corporations	345,000,000	57.21%

Notes:

(i) These are the shares of the Company which may be issued upon full exercise of the conversion rights attaching to the convertible bonds held by Gold Bless International Invest Limited, a company of which 85% of its share capital is owned by Mr. Yang Wang Jian ("Mr. Yang") and therefore, Mr. Yang is deemed to be interested in such shares pursuant to Part XV of the SFO.

(ii) The percentage is calculated based on the total number of issued shares of the Company as at 31 December 2011.

Save as disclosed above, the Directors are not aware of any other corporations or person who, as at 31 December 2011, had the Voting Entitlements or any interests or short positions in the Shares or underlying shares as recorded in the register required to be kept under Section 336 of the SFO.

MAJOR CUSTOMERS AND SUPPLIERS

The aggregate sales attributable to the Group's five largest customers accounted for approximately 100% and the largest customer accounted for approximately 42.9% of the Group's total turnover for the year.

The aggregate purchases attributable to the Group's five largest suppliers accounted for approximately 95.4% and the largest suppliers accounted for approximately 49.5% of the Group's total purchases for the year.

None of the Directors, their associates or any shareholders (which to the knowledge of the Directors own more than 5% of the Company's issued Shares) had an interest in the five largest suppliers or customers of the Group.

PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, the Company has complied with the sufficiency of public float requirement under the Listing Rules at any time during the year and as at the date of this annual report.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's articles of association, or the laws of Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to its existing shareholders.

SHARE OPTION SCHEME

The Company adopted a share option scheme (the "Share Option Scheme") on 2 September 2006, pursuant to which the Directors may, at their discretion, invite any employee, Director, non-executive Director (including independent non-executive Director), supplier, customer, advisor, consultant, agent, contractor, and any shareholder of any member of the Group or any invested entity or any holder of any securities issued by any member of the Group or any invested entity, to take up options to subscribe for the shares.

Details of the movements in the share options granted and exercised during the year under the Share Option Scheme are as follows:

	Average exercise price in HK$ per share	Number of share options
At 1 January 2011	0.78	5,760,000
Exercised	0.78	–
Lapsed	0.78	(5,760,000)
At 31 December 2011		–

PENSION SCHEME ARRANGEMENTS

The subsidiaries operating in Hong Kong are required to participate in a defined contribution retirement scheme of the Group set up in accordance with the Hong Kong Mandatory Provident Fund Scheme Ordinance (Chapter 485 of the Laws of Hong Kong). Under the scheme, the employees are required to contribute 5% of their monthly salaries up to a maximum of HK$1,000 per month and they may choose to make additional contributions.

The employer's monthly contribution is at the rate of 5% of each employee's monthly salary up to the maximum limit of HK$1,000. Subsidiaries in the PRC are required to participate in a defined contribution retirement scheme organised by the relevant local government authorities since incorporation.

CORPORATE GOVERNANCE

Details of the Company's corporate governance practices are set out in the Corporate Governance Report on pages 12 to 19 of this annual report.

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each of the independent non-executive Directors in writing an annual confirmation of his independence and the Company considers all the independent non-executive Directors to be independent.

INDEPENDENT AUDITOR

PricewaterhouseCoopers has been appointed as the Company's external auditor since 2006 until the conclusion of the next annual general meeting. A resolution for the re-appointment of PricewaterhouseCoopers as independent auditor of the Company will be proposed at the annual general meeting in 2012.

On behalf of the Board
Yang Wang Jian
Chairman

Hong Kong, 29 March 2012

pwc 羅兵咸永道

TO THE SHAREHOLDERS OF SMART UNION GROUP (HOLDINGS) LIMITED
(Incorporated in the Cayman Islands with limited liability)

We were engaged to audit the consolidated financial statements of Smart Union Group (Holdings) Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 31 to 100, which comprise the consolidated and company balance sheets as at 31 December 2011, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory 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 been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

PricewaterhouseCoopers, 22/F, Prince's Building, Central, Hong Kong
T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com

BASIS FOR DISCLAIMER OF OPINION

(i) Investments in unconsolidated subsidiaries

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

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

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

(ii) Investment in a former subsidiary

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

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

(iii) Balances with unconsolidated subsidiaries and a former subsidiary

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

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

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

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

(v) Investment in an associated company

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

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

(vi) Convertible bonds from an associated company

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

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

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

DISCLAIMER OF OPINION

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

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 29 March 2012

Consolidated Balance Sheet

As at 31 December 2011

	Note	2011 HK$'000	2010 HK$'000 (Restated)
ASSETS			
Non-current assets			
Intangible assets	7	**1,581**	–
Property, plant and equipment	8	**3,700**	3,165
Investments in unconsolidated subsidiaries	9	**–**	–
Investment in a former subsidiary	9	**–**	–
Investment in an associated company	10	**–**	–
		5,281	3,165
Current assets			
Inventories	11	**2,945**	2,675
Trade receivables	13	**451,526**	218,360
Amounts due from unconsolidated subsidiaries	36(c)	**–**	–
Amount due from a former subsidiary	36(c)	**–**	–
Prepayments, deposits and other receivables	14	**1,500**	5,327
Convertible bonds	15	**–**	–
Tax recoverable		**–**	127
Cash and cash equivalents	16	**22,265**	16,562
		478,236	243,051
Total assets		**483,517**	246,216

The notes on pages 38 to 100 are an integral part of these consolidated financial statements.

Consolidated Balance Sheet

As at 31 December 2011

	Note	2011 HK$'000	2010 HK$'000 (Restated)
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	17	**6,030**	55,259
Share premium	18	**90,721**	368,381
Other reserves	18	**17,765**	30,474
Accumulated losses	18	**(9,579)**	(768,134)
Total equity		**104,937**	(314,020)
LIABILITIES			
Non-current liabilities			
Convertible bonds	19	**61,837**	–
Deferred income tax liabilities	20	**–**	16
		61,837	16
Current liabilities			
Trade payables	21	**281,713**	120,782
Other payables and accruals	22	**17,145**	228,758
Amounts due to unconsolidated subsidiaries	36(c)	**–**	112,362
Amount due to a director	36(c)	**2,300**	–
Borrowings	23	**–**	92,936
Tax payable		**15,585**	5,382
		316,743	560,220
Total liabilities		**378,580**	560,236
Total equity and liabilities		**483,517**	246,216
Net current assets/(liabilities)		**161,493**	(317,169)
Total assets less current liabilities		**166,774**	(314,004)

On behalf of the Board

Yang Wang Jian
Director

Wong Man Keung
Director

The notes on pages 38 to 100 are an integral part of these consolidated financial statements.

Balance Sheet

As at 31 December 2011

	Note	2011 HK$'000	2010 HK$'000
ASSETS			
Non-current assets			
Investments in subsidiaries	9	–	–
Current assets			
Prepayments, deposits and other receivables	14	1,069	4,643
Amounts due from subsidiaries	36(d)	85,000	–
Cash and cash equivalents	16	12,601	970
		98,670	5,613
Total assets		98,670	5,613
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	17	6,030	55,259
Share premium	18	90,721	368,381
Other reserves	18	17,765	80,289
Accumulated losses	18	(77,746)	(734,123)
Total equity		36,770	(230,194)
LIABILITIES			
Non-current liabilities			
Convertible bonds	19	61,837	–
Current liabilities			
Other payables and accruals	22	63	199,294
Borrowings	23	–	36,513
		63	235,807
Total liabilities		61,900	235,807
Total equity and liabilities		98,670	5,613
Net current assets/(liabilities)		98,607	(230,194)
Total assets less current liabilities		98,607	(230,194)

On behalf of the Board

Yang Wang Jian
Director

Wong Man Keung
Director

The notes on pages 38 to 100 are an integral part of these consolidated financial statements.

Consolidated Income Statement

For the year ended 31 December 2011

	Notes	2011 HK$'000	2010 HK$'000 (Restated)
Revenue	6 & 24	**572,267**	358,441
Cost of sales	26	**(498,999)**	(324,333)
Gross profit		**73,268**	34,108
Other income	25	**2,979**	5,913
Other gains	25	**300,248**	324
Selling expenses	26	**(5,553)**	(1,430)
Administrative expenses	26	**(33,230)**	(10,658)
Provision for financial guarantees to an unconsolidated subsidiary	22	**(16,710)**	(17,373)
Write back of provision for legal claims		**–**	5,368
Write back of provision for amount due from a former subsidiary		**–**	11,066
Operating profit		**321,002**	27,318
Finance costs, net	27	**(5,529)**	(3,597)
Profit before income tax		**315,473**	23,721
Income tax expense	28	**(10,203)**	(4,782)
Profit for the year attributable to equity holders of the Company		**305,270**	18,939
Earnings per share for profit attributable to the equity holders of the Company during the year			
– Basic (HK cents)	31	**192.1**	22.8
– Diluted (HK cents)	31	**135.6**	22.8

The notes on pages 38 to 100 are an integral part of these consolidated financial statements.

Dividends payable to equity holders of the company are set out in Note 32.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2011

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

The notes on pages 38 to 100 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2011

	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* (Restated)	*HK$'000* (Restated)
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	–	–	–	18,939	18,939
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	(768,134)	(314,020)
Balance at 1 January 2011, as previously reported	55,259	368,381	30,474	(765,140)	(311,026)
Prior year adjustment	–	–	–	(2,994)	(2,994)
Balance at 1 January 2011, as restated	55,259	368,381	30,474	(768,134)	(314,020)
Total comprehensive income for the year					
Profit for the year	–	–	–	305,270	305,270
Transactions with owners					
Share consolidation and capital reduction *(Note 2(a)(i), 2(a)(ii) & 17(a)(i))*	(54,430)	–	–	54,430	–
Share premium cancellation *(Note 2(a)(iv))*	–	(368,381)	–	368,381	–
Issue of new shares *(Note 2(b), 2(c), 2(e)(ii) & 17(a)(ii))*	4,931	86,147	–	–	91,078
Issue of convertible bonds *(Note 2(d) & 19)*	–	–	18,872	–	18,872
Issue of shares on conversion of convertible bonds *(Note 17(a)(iii))*	270	4,574	(1,107)	–	3,737
Transfer of merger reserve upon completion of the Group Restructuring *(Note 2(e)(iii))*	–	–	(29,107)	29,107	–
Transfer to accumulated losses upon lapse of share options *(Note 17(b)(iii))*	–	–	(1,367)	1,367	–
	(49,229)	(277,660)	(12,709)	453,285	113,687
Balance at 31 December 2011	6,030	90,721	17,765	(9,579)	104,937

The notes on pages 38 to 100 are an integral part of these consolidated financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2011

	Note	2011 HK$'000	2010 HK$'000
Cash flows from operating activities			
Cash used in operations	33(a)	**(21,989)**	(32,365)
Profits tax refunded		**8**	–
Net cash used in operating activities		**(21,981)**	(32,365)
Cash flows from investing activities			
Purchase of property, plant and equipment		**(601)**	(3,462)
Interest received		**1**	1
Net cash outflow on acquisition of a subsidiary	34	**(2,248)**	–
Net cash outflow on Group Restructuring	33(b)	**(16,684)**	–
Net cash used in investing activities		**(19,532)**	(3,461)
Cash flows from financing activities			
Proceeds from new borrowings		**–**	50,000
Increase in amount due to a director		**2,300**	–
Net proceeds from Group Restructuring and issue of convertible bonds and shares		**45,317**	–
Net cash generated from financing activities		**47,617**	50,000
Net increase in cash and cash equivalents		**6,104**	14,174
Cash and cash equivalents at 1 January		**16,161**	1,987
Cash and cash equivalents at 31 December	16	**22,265**	16,161

The notes on pages 38 to 100 are an integral part of these consolidated financial statements.

Notes to the Financial Statements

1 GENERAL INFORMATION

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(a) Capital restructuring

The capital structure of the Company had been restructured (the "Capital Restructuring") as follows:

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

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

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

(iv) upon the Capital Reduction becoming effective, the entire amount standing to the credit of the share premium account of the Company had been cancelled (the "Share Premium Cancellation"). The credit arising from the Share Premium Cancellation had been applied to set off part of the accumulated losses of the Company as at 31 December 2010; and

(v) any rights arising under the existing convertible securities had been cancelled.

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

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

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

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

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

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

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

(e) Scheme and group restructuring (the "Group Restructuring")

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

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

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

(iii) Immediately prior to the Scheme taking effect, all the assets of the Company and its subsidiaries (other than the shareholding in and the assets of Sino Front Limited and its subsidiaries) (the "Excluded Companies") including but not limited to all cash and cash equivalents held by the Company, all intercompany receivables, all causes of actions and claims which the Company has had against any person whether or not known to the Company as at the date when the Scheme took effect and the Excluded Companies had been transferred to a special purpose vehicle (the "Special Purpose Vehicle") controlled by the scheme administrators for the benefit of the Scheme Creditors.

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

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

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

The effect of the Capital Restructuring, the Scheme and the Group Restructuring have 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. 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.

Prior year adjustment

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

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.2 Subsidiaries not consolidated

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

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.2 Subsidiaries not consolidated *(Continued)*

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

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

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

3.3 Application of new standards, amendments and interpretations

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

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

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

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

Notes to the Financial Statements

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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

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

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

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

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.4 Subsidiaries

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

(a) *Consolidation*

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. The Group also assesses existence of control where it does not have more than 50% of the voting power but is able to govern the financial and operating policies by virtue of de-facto control. De-facto control may arise from circumstances such as enhanced minority rights or contractual terms between shareholders, etc.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Inter-company transactions, balances, income and expenses on transactions between group companies are eliminated. Profits and losses resulting from inter-company transactions that are recognised in assets are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(i) Business combinations

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 to the former owners of the acquiree 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.

If the business combination is achieved in stages, the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.4 Subsidiaries *(Continued)*

(a) Consolidation (Continued)

(i) Business combinations *(Continued)*

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with HKAS 39 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

Goodwill is initially measured as the excess of the aggregate of the consideration transferred and the fair value of non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

(ii) Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(iii) Disposal of subsidiaries

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

(b) Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost also includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiary 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.5 Associated company

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

3.6 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 chairman and the chief executive officer of the Company are empowered by the board of directors to control the assets and activities of the Company.

3.7 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 the Group's 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.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.7 Foreign currency translation *(Continued)*

(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.

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. Exchange differences arising are recognised in equity.

(d) Disposal of foreign operation and partial disposal

On the disposal of a foreign operation (that is, a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the equity holders of the Company are reclassified to profit or loss.

In the case of a partial disposal that does not result in the Group losing control over a subsidiary that includes a foreign operation, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (that is, reductions in the Group's ownership interest in associates) the proportionate share of the accumulated exchange difference is reclassified to profit or loss.

3.8 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.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.8 Property, plant and equipment *(Continued)*

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

Leasehold improvements	5 years or the lease period, whichever is shorter
Plant and machinery	5 – 10 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 3.10).

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

3.9 Intangible assets

(a) Goodwill

Goodwill arises on the acquisition of subsidiaries and associates, and represents the excess of the consideration transferred over the Company's interest in net fair value of the net identifiable assets, liabilities and contingent liabilities of the acquiree and the fair value of the non-controlling interest in the acquiree.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units ("CGUs"), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs to sell. Any impairment is recognised immediately as an expense and is not subsequently reversed.

(b) Research and development expenditure

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)*

3.10 Impairment of non-financial assets

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

3.11 Financial assets

(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 comprises trade and other receivables and cash and cash equivalents in the balance sheet. (Notes 3.13 and 3.14).

(b) *Recognition and measurement*

Regular ways 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 is 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)*

3.11 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.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

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 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 consolidated income statement.

3.12 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.

3.13 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.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.14 Cash and cash equivalents

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

3.15 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.

3.16 Convertible Bonds

Compound financial instruments issued by the Group comprise Convertible Bonds that can be converted to share capital at the option of the holder, and the number of shares to be issued does not vary with changes in their fair value.

The liability component of a compound financial instrument is recognised initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognised initially at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortised cost using the effective interest method. The equity component of a compound financial instrument is not re-measured subsequent to initial recognition except on conversion or expiry.

3.17 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 payable 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.

3.18 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.19 Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

3.20 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)*

3.21 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. 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)*

3.21 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.

3.22 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.

3.23 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 arrived at at its fair value.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.24 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.

3.25 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.

3.26 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.

3.27 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.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.28 Exceptional items

Exceptional items are disclosed and described separately in the financial statements where it is necessary to do so to provide further understanding of the financial performance of the Group. They are material items of income or expense that have been shown separately due to the significance of their nature or amount.

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.

(a) Foreign exchange risk

The Group mainly operates in Hong Kong with its transactions mainly denominated in HK$ and United States Dollars ("US$"). The Group is therefore exposed to foreign exchange risk arising from US$, 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 2011, 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$55,000 lower/higher (2010: approximately HK$581,000 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.

(b) Credit risk

The Group has significant concentrations of credit risk as three customers account for substantially all the Group's revenue. The carrying amounts of bank balances (Note 16), trade receivables (Note 13), and deposits and other receivables included in the balance sheet represent the Group's maximum exposure to credit risk in relation to its financial assets.

As at 31 December 2011, 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.

Notes to the Financial Statements

4 **FINANCIAL RISK MANAGEMENT** *(Continued)*

4.1 Financial risk factors *(Continued)*

(b) *Credit risk (Continued)*

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.

(c) *Liquidity risk*

The table below analyses the Group's and the Company'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.

	2011	2010
	HK$'000	*HK$'000*
Group		
Less than 1 year:		
– Trade payables *(Note 21)*	**281,713**	120,782
– Other payables and accruals *(Note 22)*	**17,145**	228,758
– Amounts due to unconsolidated subsidiaries *(Note 36(c))*	**–**	112,362
– Amount due to a director *(Note 36(c))*	**2,300**	–
– Borrowings *(Note 23)*	**–**	92,936
	301,158	554,838
Between 1 and 2 years:		
– Convertible Bonds	**80,105**	–
Company		
Less than 1 year:		
– Other payables and accruals *(Note 22)*	**63**	199,294
– Borrowings *(Note 23)*	**–**	36,513
	63	235,807
Between 1 and 2 years:		
– Convertible Bonds	**80,105**	–

4 FINANCIAL RISK MANAGEMENT *(Continued)*

4.1 Financial risk factors *(Continued)*

(d) Cash flow and fair value interest rate risk

Except for cash and cash equivalents (Note 16), the Group has no other significant interest-bearing assets. The Group's income and operating cash flows are substantially independent of changes in market interest rates. Management does not anticipate significant impact on interest-bearing assets resulted from the changes in interest rates because the interest rates of bank deposits are not expected to change significantly.

The Group's interest rate risk arises from interest bearing borrowings. The borrowings obtained at variable rates expose the Group to cash flow interest rate risk. There was no interest bearing borrowing as at 31 December 2011. Convertible bonds obtained at fixed rates expose the Group to fair value interest rate risk.

The Group does not hedge its cash flow and fair value interest rate risk. The interest rates and terms of repayments of convertible bonds are disclosed in Note 19.

4.2 Capital risk management

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

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

After the resumption of trading in the shares on the Stock Exchange on 11 November 2011, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including convertible bonds, amount due to a director and borrowings as shown in the consolidated balance sheet) less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the consolidated balance sheet plus net debt.

4 FINANCIAL RISK MANAGEMENT *(Continued)*

4.2 Capital risk management *(Continued)*

The Group's strategy is to maintain the gearing ratio within 30-50%. The gearing ratio at 31 December 2011 was as follows:

	2011
	HK$'000
Total borrowings *(Note 19 and 36(c))*	**64,137**
Less: Cash and cash equivalents *(Note 16)*	**(22,265)**
Net debt	**41,872**
Total equity	**104,937**
Total capital	**146,809**
Gearing ratio	**28.5%**

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, amount due to a director 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) Impairment of non-financial assets

Non-financial assets including investments in 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 judgments and estimates.

5 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS *(Continued)*

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

Management judgement is required in the area of asset impairment particularly in assessing: (i) whether an event has occurred that may indicate that the related asset values may not be recoverable; (ii) whether the carrying value of an asset can be supported by the recoverable amount, being the higher of fair value less costs to sell 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.

(b) 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 and a former subsidiary 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.

As at 31 December 2011, the Group had outstanding receivables of approximately HK$459,689,000; out of which approximately HK$360,043,000 were overdue. Management believes those outstanding receivables can be fully recovered and has made a total provision of approximately HK$8,163,000 for the discounting effect for the time value of money based on the agreed repayment schedules with the overdue customers.

(c) 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.

(d) Estimated fair values of convertible bonds

The fair values of convertible bonds, either convertible bonds assets or convertible bonds liabilities, are determined based on the directors' estimation in light of the latest information obtained relating to the convertible bonds and with reference to independent valuer assessment. 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)*

(e) Assessment of impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment in accordance with the accounting policy stated in Note 3.9. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations prepared on the basis of management's assumptions and estimates (Note 7). These calculations require the use of estimates.

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:

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

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

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

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

6 SEGMENT INFORMATION *(Continued)*

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

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

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

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

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

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

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

7 INTANGIBLE ASSETS

	Group	
	Goodwill	**Capitalised toys development costs**
	HK$'000	*HK$'000*
At 1 January and 31 December 2010		
Cost	**–**	6,509
Accumulated amortisation and impairment	**–**	(6,509)
Net book amount	**–**	–
Year ended 31 December 2011		
Opening net book amount	**–**	–
Acquisition of a subsidiary *(Note 34)*	**1,581**	–
Closing net book amount	**1,581**	–
At 31 December 2011		
Cost	**1,581**	–
Accumulated amortisation and impairment	**–**	–
Net book amount	**1,581**	–

The intangible asset of capitalised toys development costs was transferred to the Special Purpose Vehicle upon completion of the Group Restructuring (Note 2) on 7 November 2011.

Impairment tests for goodwill

The directors have performed an impairment review of the carrying amount of goodwill as at 31 December 2011 and have concluded that no provision for impairment is required. For the purposes of impairment testing, goodwill acquired has been allocated to the smallest individual of cash generating units identified as at 31 December 2011. The recoverable amount of each of the cash generating units is determined based on value-in-use calculations. The calculation uses cash flow projections based on financial estimates made by the directors, with reference to the prevailing market conditions, covering a period of 20 years and assuming gross profit margins of 20%. The management assumes that the sales beyond the twenty-year period will keep stable and the cash flows are extrapolated with reference to the production capacity of the cash generating units acquired. The cash flow projections are discounted at a post-tax discount rate of 10% per annum.

8 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 2010				
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
Year ended 31 December 2011				
Opening net book amount	**–**	**3,150**	**15**	**3,165**
Additions	**341**	**104**	**156**	**601**
Acquisition of a subsidiary *(Note 34)*	**–**	**770**	**–**	**770**
Depreciation	**(38)**	**(775)**	**(23)**	**(836)**
Closing net book amount	**303**	**3,249**	**148**	**3,700**
At 31 December 2011				
Cost	**341**	**4,324**	**178**	**4,843**
Accumulated depreciation	**(38)**	**(1,075)**	**(30)**	**(1,143)**
Net book amount	**303**	**3,249**	**148**	**3,700**

Depreciation expense for the year ended 31 December 2011 of approximately HK$758,000 (2010: HK$300,000) and HK$78,000 (2010: HK$7,000) have been recognised as cost of sales and administrative expenses, respectively.

9 INVESTMENTS IN SUBSIDIARIES

(a) Investments in subsidiaries – Company

	2011 HK$'000	2010 HK$'000
Investments, at cost:		
Unlisted shares *(Note (i))*	–	80,422
Less: Accumulated impairment losses	–	(80,422)
	–	–

The following is a list of the subsidiaries remained in the Group at 31 December 2011 subsequent to the Group Restructuring, which have been included in these consolidated financial statements:

Company name	Places of incorporation/ establishment and kind of legal entity	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
Sino Front Limited	Hong Kong limited liability	HK$1	100%	–	Trading of toys in Hong Kong
Victory Ford (HK) Limited	Hong Kong limited liability	HK$1	–	100%	Investment holding in the PRC
致福(深圳)玩具有限公司	The PRC, wholly foreign-owned enterprise	HK$1,000,000	–	100%	Design and manufacturing of toys in the PRC
東莞市金詡玩具有限公司	The PRC, wholly foreign-owned enterprise	RMB500,000	–	100%	Manufacturing of toys in the PRC

Note:

(i) It represents investment in Sino Front Limited of HK$1. The amount is not shown due to rounding.

9 INVESTMENTS IN SUBSIDIARIES *(Continued)*

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

The following is a list of the subsidiaries of the "Excluded Companies" which were transferred to the Special Purpose Vehicle upon the completion of the Group Restructuring (Note 2) on 7 November 2011 and have not been included in consolidated financial statement at 31 December 2011:

Company name	Places of incorporation/ establishment	Issued/registered and fully paid up share capital/ paid-in capital	Attributable equity interests before disposal		Principal activities and places of operations
			Direct	Indirect	
Smart Union Investments Limited	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 ("Dream Link")	Hong Kong	HK$1,000,000	–	69%	Inactive
Smart Union China Investments Limited	Hong Kong	HK$10,000	–	100%	Investment holding in Hong Kong
Smart Union Group Limited	Hong Kong	HK$10,000	–	100%	Investment holding in Hong Kong
Smart Union (Hong Kong) Limited	Hong Kong	HK$10,000	–	100%	Inactive
Smart Union Mining Investments Limited	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

9 INVESTMENTS IN SUBSIDIARIES *(Continued)*

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

Dream Link was a subsidiary of the Company. All accounting personnel of Dream Link left the Group subsequent to 31 December 2008 and, accordingly, the directors have not been able to obtain sufficient documentary information to satisfy themselves regarding the completeness and accuracy of the books and records of this subsidiary. In view of the lack of sufficient evidence and relevant personnel support, the directors have also not been able to determine that all transactions entered into by this subsidiary for the year ended 31 December 2011 have been properly reflected in the consolidated financial statements.

Dream Link accounted for a significant portion of the Group's financial positions as at 31 December 2010. 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 its results and cash flows for the years ended 31 December 2010 and 2011.

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 is as follows:

	2010 *HK$'000*
Trade payables	(2,079)
Other payables and accruals	(4,364)
Borrowings	(1,423)
Amounts due to unconsolidated subsidiaries	(2,563)
Deferred income tax liabilities	(16)
Net liabilities	(10,445)

An analysis of the financial result of Dream Link for the year ended 31 December 2010 is as follows:

	2010 *HK$'000*
Sales	–
Administrative expenses	(156)
Loss for the year	(156)

There was no transaction for the year ended 31 December 2011.

9 INVESTMENTS IN SUBSIDIARIES *(Continued)*

(b) Investments in unconsolidated subsidiaries – Group

	2011	2010
	HK$'000	*HK$'000*
Investment, at cost:		
Unlisted shares	**–**	3,600
Less: Accumulated impairment losses	**–**	(3,600)
	–	–

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

Company name	Places of incorporation	Issued/registered and fully paid up share capital/ paid-in capital	Attributable equity interests before disposal Direct	Indirect	Principal activities and places of operation
Smart Union Industrial Limited	Hong Kong	HK$10,000	–	100%	Inactive
Perfect Design and Product Development Limited	Hong Kong	HK$10,000	–	100%	Inactive

The investments in these unconsolidated subsidiaries were transferred to the Special Purpose Vehicle upon completion of the Group Restructuring (Note 2) on 7 November 2011.

As explained in Note 3.2, the directors have not been able to get access to certain books and records of SU Industrial and the financial results of SU Industrial and its wholly-owned subsidiary, Perfect Design, from 1 January 2011 up to the completion of the Group Restructuring have not been properly 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.

(c) Investment in a former subsidiary – Group

	2011	2010
	HK$'000	*HK$'000*
Investment, at cost:		
Unlisted shares	**–**	30,000
Less: Accumulated impairment losses	**–**	(30,000)
	–	–

9 INVESTMENTS IN SUBSIDIARIES *(Continued)*

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

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

Company name	Place of establishment	Registered and fully paid-in capital	Attributable equity interests before disposal		Principal activity and place of operation
			Direct	Indirect	
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

The investment in a former subsidiary was transferred to the Special Purpose Vehicle upon completion of the Group Restructuring (Note 2) on 7 November 2011.

As explained in Note 3.2, the directors have not been able to get access to certain books and records of a former subsidiary, SU Qingyuan.

10 INVESTMENT IN AN ASSOCIATED COMPANY

	Group	
	2011	2010
	HK$'000	*HK$'000*
Unlisted investments, at cost	–	257,555
Less: Accumulated impairment losses	–	(257,555)
	–	–

Details of the associated company as at 31 December 2010 were as follows:

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

The investment in an associated company was transferred to the Special Purpose Vehicle upon completion of the Group Restructuring (Note 2) on 7 November 2011.

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 undertook 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. However, 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 was impaired and the investment in the convertible bonds might not be recoverable. As such, full impairment provisions of approximately HK$257,555,000 and HK$40,000,000 was made in respect of China Mining and the convertible bonds, respectively as at 31 December 2010. Further details of the convertible bonds are disclosed in Note 15.

10 INVESTMENT IN AN ASSOCIATED COMPANY *(Continued)*

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	
	2011	2010
	HK$'000	*HK$'000*
Raw materials	**1,032**	1,556
Work in progress	**587**	–
Finished goods	**1,326**	1,119
	2,945	2,675

The cost of inventories recognised as expenses and included in cost of sales during the year ended 31 December 2011 amounted to approximately HK$464,867,000 (2010: HK$302,038,000).

12 FINANCIAL INSTRUMENTS BY CATEGORY

	Group	**Company**
	Loans and receivables	**Loans and receivables**
	HK$'000	*HK$'000*
Assets as per balance sheet		
At 31 December 2011		
Trade and other receivables, excluding prepayments	**452,654**	**697**
Cash and cash equivalents	**22,265**	**12,601**
Amount due from a subsidiary	**–**	**85,000**
	474,919	**98,298**
At 31 December 2010 (Restated)		
Trade and other receivables, excluding prepayments	223,445	4,588
Cash and cash equivalents	16,562	970
	240,007	5,558

12 FINANCIAL INSTRUMENTS BY CATEGORY *(Continued)*

	Group Financial liabilities at amortised cost *HK$'000*	Company Financial liabilities at amortised cost *HK$'000*
Liabilities as per balance sheet		
At 31 December 2011		
Convertible Bonds	**61,837**	**61,837**
Trade payables	**281,713**	**–**
Other payables and accruals	**17,145**	**63**
Amount due to a director	**2,300**	**–**
	362,995	**61,900**
At 31 December 2010		
Trade payables	120,782	–
Other payables and accruals	228,758	199,294
Amounts due to unconsolidated subsidiaries	112,362	–
Borrowings	92,936	36,513
	554,838	235,807

13 TRADE RECEIVABLES

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

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

13 TRADE RECEIVABLES *(Continued)*

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

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

Management assessed the credit quality of those trade receivables of HK$99,646,000 (2010: HK$56,438,000) that are neither past due nor impaired by reference to the repayment history and current financial position of these customers. There 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.

As at 31 December 2011, trade receivables of approximately HK$360,043,000 (2010 (Restated): HK$161,922,000) were past due but not impaired. These relate to three customers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

	Group	
	2011	2010
	HK$'000	*HK$'000*
		(Restated)
31 – 60 days	–	26,779
61 – 90 days	–	38,120
91 – 180 days	**183,309**	96,951
Over 180 days	**176,734**	72
	360,043	161,922

Subsequent settlement of trade receivables balances as at 31 December 2011 up to the date of approval of the consolidated financial statements amounted to approximately HK$146,673,000 (2010: HK$148,411,000). Since the customers have no recent history of default and there have been continuous settlement from these customers, the directors believe that most of the remaining balances can be recovered within the coming 6 months.

13 TRADE RECEIVABLES *(Continued)*

By reference to the repayment schedules agreed with the overdue customers, the Group has made a total provision of approximately HK$8,163,000 to account for the discounting effect of the time value of money because of the delay in settlement of the outstanding trade receivables.

Movement in the provision for impairment of trade receivables are as follows:

	Group	
	2011	2010
	HK$'000	*HK$'000*
1 January	**–**	–
Discount on past due balances	**8,163**	–
31 December	**8,163**	–

The carrying amounts of trade receivables are denominated in the following currencies:

	Group	
	2011	2010
	HK$'000	*HK$'000*
		(Restated)
Hong Kong dollars	**–**	38,260
US dollars	**459,016**	180,100
Renminbi	**673**	–
	459,689	218,360

14 PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2011	2010	**2011**	2010
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Prepayments	**372**	242	**372**	55
Deposits	**1,128**	431	**697**	–
Other receivables	**–**	4,654	**–**	4,588
	1,500	5,327	**1,069**	4,643

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

15 CONVERTIBLE BONDS -CURRENT ASSETS

	Group	
	2011	2010
	HK$'000	*HK$'000*
Zero coupon convertible bonds	**–**	40,000
Less: Accumulated impairment losses	**–**	(40,000)
	–	–

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

As disclosed in Note 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 was made in respect of the convertible bonds in prior year.

The convertible bonds was transferred to the Special Purpose Vehicle upon completion of the Group Restructuring (Note 2) on 7 November 2011.

16 CASH AND CASH EQUIVALENTS

	Group		Company	
	2011	2010	**2011**	2010
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Cash at banks and on hand	**22,265**	16,562	**12,601**	970
Maximum exposure to credit risk	**22,237**	16,542	**12,601**	970

Cash and cash equivalents are denominated in the following currencies:

	Group		Company	
	2011	2010	**2011**	2010
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Hong Kong dollars	**21,166**	4,938	**12,601**	970
Renminbi	**1,099**	11,624	**–**	–
	22,265	16,562	**12,601**	970

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

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

	2011	2010
	HK$'000	*HK$'000*
Bank balances and cash	**22,265**	16,562
Less: Bank overdrafts *(Note 23)*	**–**	(401)
Cash and cash equivalents	**22,265**	16,161

17 SHARE CAPITAL

(a) Authorised capital

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

(b) Issued and fully paid capital

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

17 SHARE CAPITAL *(Continued)*

Notes:

(a) Capital restructuring

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

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

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

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

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

17 SHARE CAPITAL *(Continued)*

Notes: (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 were 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 option 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 were deemed as lapsed under the Share Option Scheme.

(iii) Pursuant to the Capital Restructuring as stated in Note 2, any rights arising under the existing convertible securities were to be cancelled. As the Capital Restructuring was completed on 7 November 2011, all outstanding share options were declared to be lapsed.

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

	2011		2010	
	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**	**5,760,000**	0.78	6,060,000
Lapsed	**0.78**	**(5,760,000)**	0.78	(300,000)
At 31 December		**–**		5,760,000

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 reserves HK$'000 Note (i)	Convertible Bonds – equity component reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2010	368,381	1,446	29,107	–	(787,152)	(388,218)
Profit for the year (Restated)	–	–	–	–	18,939	18,939
Transfer to accumulated losses upon lapse of share options *(Note 17(b)(ii))*	–	(79)	–	–	79	–
At 31 December 2010 (Restated)	368,381	1,367	29,107	–	(768,134)	(369,279)
At 1 January 2011, as previously reported	368,381	1,367	29,107	–	(765,140)	(366,285)
Prior year adjustment	–	–	–	–	(2,994)	(2,994)
At 1 January 2011, as restated	**368,381**	**1,367**	**29,107**	**–**	**(768,134)**	**(369,279)**
Profit for the year	**–**	**–**	**–**	**–**	**305,270**	**305,270**
Share consolidation and capital reduction *(Note 2(a)(i), 2(a)(ii) & 17(a)(i))*	**–**	**–**	**–**	**–**	**54,430**	**54,430**
Share premium cancellation *(Note 2(a)(iv))*	**(368,381)**	**–**	**–**	**–**	**368,381**	**–**
Issue of new shares *(Note 2(b), 2(c), 2(e)(ii) & 17(a)(ii))*	**86,147**	**–**	**–**	**–**	**–**	**86,147**
Issue of Convertible Bonds *(Note 2(d) & 19)*	**–**	**–**	**–**	**18,872**	**–**	**18,872**
Issue of shares on conversion of Convertible Bonds *(Note 17(a)(iii))*	**4,574**	**–**	**–**	**(1,107)**	**–**	**3,467**
Transfer of merger reserve upon completion of the Group Restructuring *(Note 2 (e)(iii))*	**–**	**–**	**(29,107)**	**–**	**29,107**	**–**
Transfer to accumulated losses upon lapse of share options *(Note 17 (b)(iii))*	**–**	**(1,367)**	**–**	**–**	**1,367**	**–**
At 31 December 2011	**90,721**	**–**	**–**	**17,765**	**(9,579)**	**98,907**

18 RESERVES *(Continued)*

(b) Company

	Share premium HK$'000	Share-based equity reserves HK$'000	Merger reserve HK$'000 Note (ii)	Convertible Bonds – equity component reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2010	368,381	1,446	78,922	–	(719,326)	(270,577)
Loss for the year	–	–	–	–	(14,876)	(14,876)
Transfer to accumulated losses upon lapse of share options *(Note 17(b)(ii))*	–	(79)	–	–	79	–
At 31 December 2010	368,381	1,367	78,922	–	(734,123)	(285,453)
At 1 January 2011	**368,381**	**1,367**	**78,922**	**–**	**(734,123)**	**(285,453)**
Profit for the year	**–**	**–**	**–**	**–**	**153,277**	**153,277**
Share consolidation and capital reduction *(Note 2(a)(i), 2(a)(ii) & 17(a)(i))*	**–**	**–**	**–**	**–**	**54,430**	**54,430**
Share premium cancellation *(Note 2(a)(iv))*	**(368,381)**	**–**	**–**	**–**	**368,381**	**–**
Issue of new shares *(Note 2(b), 2(c), 2(e)(ii) & 17(a)(ii))*	**86,147**	**–**	**–**	**–**	**–**	**86,147**
Issue of Convertible Bonds *(Note 2(d) & 19)*	**–**	**–**	**–**	**18,872**	**–**	**18,872**
Issue of shares on conversion of Convertible Bonds *(Note 17(a)(iii))*	**4,574**	**–**	**–**	**(1,107)**	**–**	**3,467**
Transfer of merger reserve upon completion of the Group Restructuring *(Note 2 (e)(iii))*	**–**	**–**	**(78,922)**	**–**	**78,922**	**–**
Transfer to accumulated losses upon lapse of share options *(Note 17 (b)(iii))*	**–**	**(1,367)**	**–**	**–**	**1,367**	**–**
At 31 December 2011	**90,721**	**–**	**–**	**17,765**	**(77,746)**	**30,740**

18 RESERVES *(Continued)*

Notes:

(i) On 30 December 2002, Smart Union Investments Limited ("SU Investments") issued certain shares to the then shareholders of certain subsidiaries 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 reserves 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.

The merger reserves were released and transferred to accumulated losses upon completion of the Group Restructuring (Note 2) on 7 November 2011.

(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.

The merger reserve was released to accumulated losses upon completion of the Group Restructuring (Note 2) on 7 November 2011.

19 CONVERTIBLE BONDS – NON-CURRENT LIABILITIES

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

The fair value of the liability component, was calculated using a market interest rate for an equivalent non-convertible bond. The residual amount, representing the value of the equity conversion option, is included in shareholders' equity in other reserves (Note 18).

19 CONVERTIBLE BONDS – NON-CURRENT LIABILITIES *(Continued)*

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

	Group and Company 2011 *HK$'000*
Face value of Convertible Bonds at issue date	**85,100**
Less: Direct issue costs	**(2,553)**
Face value of Convertible Bonds at issue date, net	**82,547**
Equity component on initial recognition *(Note 18)*	**(18,872)**
Liability component on initial recognition	**63,675**
Right of conversion exercised by bond holders	**(3,737)**
Interest expense *(Note 27)*	**1,899**
Liability component at 31 December 2011	**61,837**

The fair value of the liability component of the Convertible Bonds at 31 December 2011 amounted to HK$73,082,000. The fair value is calculated using cash flows discounted at a rate based on the borrowings rate of 5%.

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	
	2011 *HK$'000*	2010 *HK$'000*
Deferred income tax liabilities to be recovered after more than 12 months	**–**	16

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

	2011 *HK$'000*	2010 *HK$'000*
At 1 January and 31 December	**–**	16

The deferred income tax was transferred to the Special Purpose Vehicle upon completion of the Group Restructuring (Note 2) on 7 November 2011.

21 TRADE PAYABLES

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

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

The carrying amounts of trade payables are denominated in the following currencies:

	Group	
	2011	2010
	HK$'000	*HK$'000*
Hong Kong dollars	**281,353**	120,782
Renminbi	**360**	–
	281,713	120,782

The carrying amounts of trade payables approximate their fair values.

22 OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2011	2010	**2011**	2010
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Accruals	**16,695**	41,077	**63**	11,997
Receipts in advance	**–**	238	**–**	–
Other payables	**450**	1,616	**–**	–
Provision for financial guarantees to a subsidiary *(Note (i))*	**–**	–	**–**	1,470
Provision for financial guarantees to an unconsolidated subsidiary *(Note (ii))*	**–**	185,827	**–**	185,827
	17,145	228,758	**63**	199,294

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 had provided corporate guarantee for this loan, a full provision for such financial guarantee was made by the Company as at 31 December 2010. The provision for financial guarantees was transferred to the Special Purpose Vehicle upon completion of the Group Restructuring (Note 2) on 7 November 2011.

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

Other payables and accruals are denominated in the following currencies:

	Group		Company	
	2011	2010	**2011**	2010
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Hong Kong dollars	**15,788**	228,308	**63**	199,294
Renminbi	**1,357**	450	**–**	–
	17,145	228,758	**63**	199,294

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

23 BORROWINGS

	Group 2011 HK$'000	Group 2010 HK$'000	Company 2011 HK$'000	Company 2010 HK$'000
Other borrowings, secured *(Note (i) & (ii))*	–	91,513	–	36,513
Bank overdrafts, secured *(Note (iii) & 16)*	–	401	–	–
Factoring facilities utilised	–	1,022	–	–
Total borrowings	–	92,936	–	36,513

Notes:

(i) Pursuant to the Exclusivity Agreement, the Investor provided a loan of HK$55,000,000 to Sino Front during the year ended 31 December 2010, which was secured by a debenture, to enable it to meet its working capital needs. The loan bore interest at 2% per annum and was fully settled by deducting from the subscription money for subscription of the shares of the Company by the Investor on 7 November 2011.

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

These secured borrowings were 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 before completion of the Group Restructuring, for the outstanding balance due from the Company to one of these independent third parties of approximately HK$17,600,000. These borrowings, together with the outstanding interest, were discharged upon completion of the Group Restructuring on 7 November 2011.

(iii) Secured bank borrowings were secured by corporate guarantees executed by the Company which were discharged upon completion of the Group Restructuring (Note 2) on 7 November 2011.

23 BORROWINGS *(Continued)*

The maturities of the Group's borrowings were as follows:

	2011	2010
	HK$'000	*HK$'000*
Within 1 year	–	92,936

The effective interest rates of the Group's borrowings as at 31 December 2011 and 2010 were as follows:

	2011	2010
Other borrowings	N/A	5.7%
Bank overdrafts	N/A	5.8%
Other bank borrowings	N/A	7.3%

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

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

24 REVENUE

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

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

25 OTHER INCOME AND OTHER GAINS

	2011 HK$'000	2010 HK$'000
Other income:		
– Non-refundable income *(Note (i))*	**2,912**	5,902
– Sundry income	**67**	11
	2,979	5,913
Other gains:		
– Gain on Group Restructuring *(Note (ii) & 33(b))*	**300,248**	–
– Exchange gains	**–**	324
	300,248	324

Notes:

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

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

26 EXPENSES BY NATURE

	2011 HK$'000	2010 HK$'000
Auditor's remuneration	**1,100**	680
Depreciation of property, plant and equipment *(Note 8)*	**836**	307
Merchandise and raw materials used	**464,867**	302,038
Change in inventories of work-in-progress	**(587)**	–
Change in inventories of finished goods	**(207)**	(1,119)
Subcontracting charges	**32,591**	22,247
Provision for impairment of trade receivables *(Note 13)*	**8,163**	–
Employee benefit expenses *(Note 29)*	**3,479**	2,153
Operating lease rentals for land and buildings	**1,674**	1,072
Costs incurred for the Group Restructuring	**15,599**	5,222
Others	**10,267**	3,821
Total cost of sales, selling expenses and administrative expenses	**537,782**	336,421

27 FINANCE COSTS, NET

	2011 HK$'000	2010 HK$'000
Interest income on bank deposits	**1**	1
Interest expense:		
– Other borrowings due within one year	**(3,631)**	(3,598)
– Interest on Convertible Bonds *(Note 19)*	**(1,899)**	–
Finance costs, net	**(5,529)**	(3,597)

28 INCOME TAX EXPENSE

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

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

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

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

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

29 EMPLOYEE BENEFIT EXPENSES

	2011	2010
	HK$'000	*HK$'000*
Wages, salaries and other short-term employee benefits	**3,152**	2,015
Pension costs – defined contribution plans	**327**	138
	3,479	2,153

(a) Directors' and senior management's emoluments

The remuneration of each director of the Company for the year ended 31 December 2011 is set out below:

Name of director	Basic salaries, housing allowances, share-based compensation, other allowances and benefits in kind	Employer's contribution to pension scheme	Total
	HK$'000	*HK$'000*	*HK$'000*
Executive directors			
WU, Kam Bun *(Note (i))*	–	–	–
HO, Wai Wah *(Note (i))*	–	–	–
WONG, Wai Chuen *(Note (i))*	–	–	–
YANG, Wang Jian *(Note (ii))*	162	2	164
WONG, Man Keung *(Note (ii))*	144	2	146
YANG, Jun *(Note (ii))*	81	2	83
ZHU, Pei Heng *(Note (ii))*	36	–	36
Independent non-executive directors			
YEUNG, King Wah *(Note (ii))*	18	–	18
WU, Hong *(Note (ii))*	18	–	18
WONG, Kwong Chung *(Note (ii))*	18	–	18
	477	6	483

29 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 2010 is set out below:

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

Notes:

(i) These directors were resigned on 7 November 2011.

(ii) These directors were appointed on 7 November 2011.

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 (2010: Nil).

29 EMPLOYEE BENEFIT EXPENSES *(Continued)*

(b) 5 highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year ended 31 December 2011 did not include any directors (2010: Nil), whose emoluments are disclosed in Note 29(a). Details of emoluments of the five (2010: five) individuals are as follows:

	2011	2010
	HK$'000	*HK$'000*
Wages, salaries and other short-term employee benefits	**1,410**	1,286
Pension costs – defined contribution plans	**77**	28
	1,487	1,314

The emoluments fee within the following bands:

	Number of individuals	
	2011	2010
Emolument bands		
Nil – HK$500,000	**4**	4
HK$500,001 – HK$1,000,000	**1**	1
	5	5

30 PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The profit attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of HK$153,277,000 (2010: loss of HK$14,876,000).

31 EARNINGS PER SHARE

Basic

The calculation of basic earnings per share is based on the consolidated profit attributable to equity holders of the Company of approximately HK$305,270,000 (2010 (Restated): HK$18,939,000) by the weighted average number of 158,895,000 (2010: 82,888,000) ordinary shares in issue after taking into account the effect of the shares consolidation as stated in Note 17(i) during the year.

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

Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares and adjusting for the shares consolidation (as stated in Note 17(a)(i)). The Company has one category of dilutive potential ordinary shares that is Convertible Bonds. The Convertible Bonds are assumed to have been converted into ordinary shares, and the net profit is adjusted to eliminate the interest expense.

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

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

32 DIVIDENDS

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

33 NOTES TO CONSOLIDATED CASH FLOW STATEMENT

(a) Cash used in operations

	2011 HK$'000	2010 HK$'000 (Restated)
Profit before tax	**315,473**	23,721
Adjustment for:		
– Depreciation on property, plant and equipment	**836**	307
– Gain on Group Restructuring	**(300,248)**	–
– Provision for financial guarantees to an unconsolidated subsidiary	**16,710**	17,373
– Provision for impairment of trade receivables	**8,163**	–
– Write back of provision for legal claims	**–**	(5,368)
– Interest income	**(1)**	(1)
– Interest expense	**5,530**	3,598
	46,463	39,630
Changes in working capital:		
– Inventories	**(94)**	(2,675)
– Trade receivables	**(241,196)**	(171,345)
– Prepayments, deposits and other receivables	**3,771**	(3,884)
– Trade payables	**163,010**	80,004
– Other payables and accruals	**6,057**	25,905
Cash used in operations	**(21,989)**	(32,365)

(b) Assets and liabilities of the Group transferred to the Special Purpose Vehicle upon completion of the Group Restructuring

As detailed in Note 2, the Group completed a Group Restructuring on 7 November 2011 and the Excluded Companies were transferred to the Special Purpose Vehicle.

33 NOTES TO CONSOLIDATED CASH FLOW STATEMENT *(Continued)*

(b) Assets and liabilities of the Group transferred to the Special Purpose Vehicle upon completion of the Group Restructuring *(Continued)*

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

	Group *HK$'000*	Company *HK$'000*
Prepayment, deposits and other receivables	68	–
Tax recoverable	127	–
Cash and cash equivalents	17,085	5,312
Total identifiable assets at carrying value	17,280	5,312
Deferred income tax liabilities	16	–
Trade payable	2,079	–
Other payables and accruals	238,443	231,448
Amounts due to unconsolidated subsidiaries	112,362	–
Borrowings	37,936	36,513
Total identifiable liabilities at carrying value	390,836	267,961
Net liabilities transferred	373,556	262,649
Less: Settlement to Scheme Creditors:		
By allotment of shares of the Company	(6,308)	(6,308)
By cash	(50,000)	(50,000)
Restructuring costs	(17,000)	(17,000)
Gain on Group Restructuring	300,248	189,341

An analysis of the net outflow of cash and cash equivalents in respect of the transfer of assets and liabilities of the Group to the Special Purpose Vehicle are as follows:

	Group *HK$'000*	Company *HK$'000*
Cash and cash equivalents transferred	17,085	5,312
Bank overdraft transferred	(401)	–
Net cash outflow on Group Restructuring	16,684	5,312

34 BUSINESS COMBINATION

Acquisition of 東莞市金詡玩具有限公司

On 1 August 2011, the Group acquired the entire equity interest in Dongguan Jinxu Toy Limited ("Jinxu"), a company incorporated in the PRC, at a cash consideration of HK$2,300,000. Jinxu is principally engaged in manufacturing of toys in the PRC.

The acquired business contributed revenue and net profit of HK$677,000 and HK$14,000 respectively to the Group for the period from 1 August 2011 to 31 December 2011. If the acquisition had occurred on 1 January 2011, revenue and net profit of the Group for the year ended 31 December 2011 would have been approximately HK$947,000 and HK$12,000 respectively.

The fair values of the identifiable assets and liabilities of Jinxu at the date of acquisition were as follows:

	Fair value recognised on acquisition *HK$'000*
Cash consideration of acquisition	2,300
Recognised amounts of identifiable assets acquired and liabilities assumed	
Property, plant and equipment	770
Inventories	176
Trade receivables	133
Prepayment, deposits and other receivables	12
Tax recoverable	8
Cash and cash equivalents	52
Other payables and accruals	(432)
Total identifiable net assets	719
Goodwill	1,581

An analysis of the net outflow of cash and cash equivalents in respect of the acquisition are as follows:

Consideration satisfied by cash	2,300
Less: Cash and cash equivalents acquired	(52)
Net cash outflow on acquisition of a subsidiary	2,248

35 OPERATING LEASE COMMITMENTS

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

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

	Company	
	2011	2010
	HK$'000	*HK$'000*
Not later than one year	**103**	–

36 SIGNIFICANT RELATED PARTY TRANSACTIONS

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

(a) Key management compensation

	Group	
	2011	2010
	HK$'000	*HK$'000*
Wages, salaries and other short-term employee benefits	**477**	–
Pension costs – defined contribution plans	**6**	–
Share-based compensation	**–**	–
	483	–

(b) Transactions

Rentals paid to related companies beneficially owned by Mr Yang, Wang Jian, a director of the Company	**523**	–

36 SIGNIFICANT RELATED PARTY TRANSACTIONS *(Continued)*

(c) Balances with unconsolidated subsidiaries, a former subsidiary and a director

	Group	
	2011	2010
	HK$'000	*HK$'000*
Amounts due from unconsolidated subsidiaries		
– SU Industrial	**–**	231,937
– Perfect Design	**–**	2
	–	231,939
Less: Accumulated impairment losses	**–**	(231,939)
	–	–
Amount due from a former subsidiary		
– SU Qingyuan	**–**	32,241
Less: Accumulated impairment losses	**–**	(32,241)
	–	–
Amounts due to unconsolidated subsidiaries:		
– SU Industrial	**–**	(111,051)
– Perfect Design	**–**	(1,311)
	–	(112,362)
Amount due to a director, Mr. Yang, Wang Jian	**(2,300)**	–

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

Due to the freezing orders on certain major assets and production facilities of SU Industrial and SU Qingyuan as discussed in Note 3.2, the Group was not able to recover the amounts due from SU Industrial and its subsidiary, Perfect Design, and SU Qingyuan. Accordingly, full provisions were made in respect of the above balances. As discussed in Note 2, these balances were released and transferred to the Special Purpose Vehicle upon completion of the Group Restructuring on 7 November 2011.

36 SIGNIFICANT RELATED PARTY TRANSACTIONS *(Continued)*

(d) Balances with subsidiaries

	Company	
	2011	2010
	HK$'000	*HK$'000*
Amounts due from subsidiaries:		
– Smart Union (Hong Kong) Limited	–	545
– SU Industrial	–	188,373
– SU Investments	–	16,400
– SU China	–	27,630
– Smart Union Mining Investments Limited	–	227,208
– Smart Union Group Limited	–	160
– Sino Front Limited	**85,000**	–
	85,000	460,316
Less: Accumulated impairment losses	–	(460,316)
	85,000	–

37 POST BALANCE SHEET EVENT

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

Five Year's Financial Summary

A summary of the results and of the assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the published audited financial statements and restated/reclassified as appropriate, is set out below. The financial statements for the years ended 31 December 2008, 2009, 2010, 2011 had been disclaimed by the auditors of the Company. Details of the disclaimer opinions of the auditors has been set out in the annual reports for the year 2008, 2009, 2010 and 2011 of the Company, respectively.

	Year ended 31 December				
	2011	2010	2009	2008	2007
	HK$'000	*HK$'000* (Restated)	*HK$'000*	*HK$'000*	*HK$'000*
RESULTS					
REVENUE	**572,267**	358,441	98,140	37,550	953,623
Costs of sales	**(498,999)**	(324,333)	(93,384)	(32,954)	(839,734)
Gross profit	**73,268**	34,108	4,756	4,596	113,889
Other income	**2,979**	5,913	11,251	10,171	12,320
Other gains/(losses)	**300,248**	324	(1,575)	4,904	(1,893)
Selling expenses	**(5,553)**	(1,430)	–	–	–
Administrative expenses	**(33,230)**	(10,658)	(15,436)	(38,251)	(96,704)
Loss on de-consolidation of unconsolidated subsidiaries	**–**	–	–	(63,393)	–
Impairment loss on investments in unconsolidated subsidiaries	**–**	–	–	(3,600)	–
Gain on de-consolidation of a former subsidiary	**–**	–	–	506	–
Impairment loss on investment in a former subsidiary	**–**	–	–	(30,000)	–
Impairment loss on amounts due from unconsolidated subsidiaries	**–**	–	–	(231,939)	–
Impairment loss on amount due from a former subsidiary	**–**	–	–	(43,307)	–
Provision for financial guarantees to an unconsolidated subsidiary	**(16,710)**	(17,373)	(13,917)	(154,537)	–
Write back of provision for legal claims	**–**	5,368	204	(5,572)	–
Write back of provision for amount due from a former subsidiary	**–**	11,066	–	–	–
Impairment loss on interest in an associated company	**–**	–	–	(257,555)	–
Impairment loss of convertible bonds	**–**	–	–	(40,000)	–
Finance costs, net	**(5,529)**	(3,597)	(2,048)	(173)	(19,035)
PROFIT/(LOSS) BEFORE INCOME TAX	**315,473**	23,721	(16,765)	(848,150)	8,577
Income tax expense	**(10,203)**	(4,782)	(600)	(6)	(3,134)
PROFIT/(LOSS) FOR THE YEAR	**305,270**	18,939	(17,365)	(848,156)	5,443
Attributable to:					
Owners of the Company	**305,270**	18,939	(17,365)	(846,786)	4,680
Non-controlling interests	**–**	–	–	(1,370)	763
	305,270	18,939	(17,365)	(848,156)	5,443

Five Year's Financial Summary

	2011	2010	2009	2008	2007
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
		(Restated)			
ASSETS AND LIABILITIES					
TOTAL ASSETS	**483,517**	246,216	50,983	10,750	800,553
TOTAL LIABILITIES	**(378,580)**	(560,236)	(383,942)	(326,344)	(482,393)
NON-CONTROLLING INTERESTS	**–**	–	–	–	(1,370)
	104,937	(314,020)	(332,959)	(315,594)	316,790