THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker, or other licensed securities dealer, bank manager, solicitors, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Smart Union Group (Holdings) Limited (the "**Company**"), you should at once hand this circular and accompanying form of proxy to the purchaser or transferee, or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

The Stock Exchange of Hong Kong Limited takes no responsibility for the contents of this circular, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any losses howsoever arising from or in reliance upon the whole or any part of the contents of this circular.

This circular appears for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for the securities.

Smart Union

SMART UNION GROUP (HOLDINGS) LIMITED

合 俊 集 團 (控 股) 有 限 公 司

(Incorporated in the Cayman Islands with limited liability)

(**Stock Code: 2700**)

MAJOR TRANSACTION

A notice convening an extraordinary general meeting (the "**EGM**") of the Company to be held on Friday, 28 December 2007 at 10:00 a.m. at Pacific Place Conference Centre, Vinson Room, Level 5, One Pacific Place, 88 Queensway, Hong Kong is set out on pages 155 to 156 of this circular. A form of proxy for the EGM is enclosed with this circular. Whether or not you are able to attend the EGM, you are encouraged to complete and return the enclosed form of proxy in accordance with the instructions printed thereon and return the same to the branch share registrar of the Company in Hong Kong, Tricor Investor Services Limited, at 26/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event no later than 48 hours before the time appointed for the holding of the EGM. Completion and return of the enclosed form of proxy will not preclude you from attending and voting in person at such meeting or any adjournment meeting should you so wish.

10 December 2007

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In this circular, unless the context otherwise requires, the following expressions shall have the following meanings when used herein:

"Acquisition"	together the acquisition by the Purchaser of the Sale Shares and the subscription by the Purchaser of the Convertible Bonds subject to and upon the terms and conditions of the Formal Agreement
"associates"	has the meaning ascribed to this term under the Listing Rules
"Board"	the board of Directors
"Business Day"	any day (not being Saturday, Sunday or public holiday) on which licensed banks are generally open for business in Hong Kong throughout their normal business hours
"Company"	Smart Union Group (Holdings) Limited, a company incorporated in the Cayman Islands with limited liability and the issued Shares of which are listed on the Stock Exchange
"Completion"	completion of the Acquisition pursuant to the terms and conditions of the Formal Agreement
"Consideration Share(s)"	the 118,000,000 new Share(s) to be allotted and issued to the Vendor credited as fully paid at the Issue Price in accordance with the terms of the Formal Agreement
"Convertible Bonds"	the zero coupon convertible bonds with principal amount of HK$40,000,000 to be issued by the Target to the Purchaser pursuant to the terms of the Formal Agreement upon Completion
"Conversion Price"	the conversion price of approximately HK$11,837 per Conversion Share
"Conversion Shares"	a total of 3,379 shares of US$1.00 each in the share capital of the Target to be allotted and issued to the Purchaser upon conversion of the Convertible Bonds
"Directors"	directors of the Company
"Deposit"	the deposit of HK$8,000,000 in cash paid to the Vendor at the time of entering into of the MOU
"EGM"	an extraordinary general meeting of the Company to be convened and held to approve, among other matters, the Formal Agreement and the transactions contemplated thereunder, including but not limited to the allotment and issue of the Consideration Shares

"Enlarged Group"	the Group as enlarged by the Acquisition
"Formal Agreement"	the formal agreement dated 17 October 2007 and entered into among the Vendor, the Target and the Purchaser for the sale and purchase of the Sale Shares and the subscription of the Convertible Bonds
"Group"	the Company and its subsidiaries
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Independent Third Party(ies)"	any person(s) or company(ies) and their respective ultimate beneficial owner(s) whom, to the best of the Directors' knowledge, information and belief having made all reasonable enquiries, are third parties independent of the Company and its connected persons of the Company in accordance with the Listing Rules
"Issue Price"	the issue price of HK$1.67 per Consideration Share
"Latest Practicable Date"	7 December 2007, being the latest practicable date prior to the printing of this circular ascertaining certain information referred to in this circular
"Listing Committee"	the listing committee of the Stock Exchange for considering applications for listing and the granting of listing
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Mine"	Da An Silver Mine (大安銀礦) located in Shouning County, Ningde City, Fujian Province of the PRC which Tiancheng holds the relevant exploration permit no. 3500000730170
"MOU"	the non-legally binding memorandum of understanding dated 16 July 2007 and entered into between the Company and the Vendor
"No. 4 Geological Brigade"	福建省第四地質大隊 (No. 4 Geological Brigade, Fujian Bureau of Geology and Mineral Resources), a subordinate to 福建省地礦局 (Fujian Provincial Bureau of Geology and Mineral Resources), whose business is principally engaged in the geological exploration, geotechnical engineering investigation and construction work. No. 4 Geological Brigade is an Independent Third Party of the Company

"Placees"	the individuals, corporate, institutional investors or other investors procured by the Placing Agent to subscribe for the Placing Shares pursuant to the placing agreement between the Company and the Placing Agent dated 17 July 2007
"Placing"	the placing of the Placing Shares by the Placing Agent to the Placees as announced in the announcement of the Company dated 18 July 2007 and completed on 19 November 2007
"Placing Agent"	China Everbright Securities (HK) Limited, the placing agent under the Placing
"Placing Shares"	an aggregate of 70,000,000 new Shares allotted and issued under the Placing
"PRC"	the People's Republic of China
"Purchaser"	Smart Union Mining Investments Limited, formerly known as Queen Glory Limited, a wholly owned subsidiary of the Company
"Sale Shares"	the 22,755 shares of US$1.00 each in the issued share capital of the Target
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong)
"Share(s)"	ordinary share(s) of HK$0.10 each in the share capital of the Company
"Shareholder(s)"	holder(s) of the Share(s)
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Target"	China Mining Corporation Limited, a company incorporated in the British Virgin Islands with limited liability and is wholly beneficially owned by the Vendor
"Target Group"	together the Target and Tiancheng
"Tiancheng"	Fujian Tiancheng Mining Corporation (福建天成礦業有限公司), a company established in the PRC with limited liability. 95% of its registered capital is beneficially owned by the Target and 5% of its registered capital is beneficially owned by Tang Xue Da, brother of the Vendor
"Vendor"	Tang Xue Jin (唐學勁), to the best of Directors' knowledge, information and belief having made all reasonable enquiries, is an Independent Third Party

"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"RMB"	Renminbi, the lawful currency of the PRC
"US$"	United States dollars, the lawful currency of the United States of America
"%"	per cent.

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**)

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

Independent non-executive Directors:
Dr. Lui Sun Wing
Mr. Li Chak Hung
Mr. Tang Koon Yiu Thomas

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

Head office and principal place of business in Hong Kong:
Rooms 217-222
Advanced Technology Centre
2 Choi Fat Street
Sheung Shui
New Territories
Hong Kong

10 December 2007

To the Shareholders

Dear Sir or Madam,

MAJOR TRANSACTION

INTRODUCTION

Reference is made to the announcement of the Company dated 26 October 2007 in which the Board announced that on 17 October 2007, the Purchaser, being a wholly-owned subsidiary of the Company, entered into the Formal Agreement with the Vendor and the Target pursuant to which (i) the Purchaser has agreed to acquire and the Vendor has agreed to dispose of the Sale Shares for a total consideration of HK$269,355,000; and (ii) the Purchaser has agreed to subscribe for and the Target has agreed to issue the zero coupon Convertible Bonds at the principal amount of HK$40,000,000.

The entering into of the Formal Agreement constitutes a major transaction on the part of the Company under Chapter 14 of the Listing Rules.

The purpose of this circular is to provide you with further details regarding the Acquisition in accordance with the Listing Rules.

THE FORMAL AGREEMENT

Date:	17 October 2007
Parties:	
Vendor:	Tang Xue Jin (唐學勁), an Independent Third Party
Purchaser:	Smart Union Mining Investments Limited, formerly known as Queen Glory Limited, a wholly owned subsidiary of the Company
Target:	China Mining Corporation Limited

The Vendor is a merchant. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the Vendor is an Independent Third Party and as at the Latest Practicable Date, the Vendor and his associates do not hold any Shares or other securities in the Company.

The Purchaser, being a wholly owned subsidiary of the Company, is an investment holdings company incorporated in the British Virgin Islands.

The Target is an investment holdings company incorporated in the British Virgin Islands. For further information of the Target, please refer to the section headed "Information on the Target, Tiancheng and the Mine" below.

Assets to be acquired

Pursuant to the Formal Agreement, the Purchaser has agreed to acquire and the Vendor has agreed to dispose of the Sale Shares, representing approximately 45.51% of the total issued share capital of the Target as at the date of the Formal Agreement.

Pursuant to the Formal Agreement, the Purchaser has also agreed to subscribe and the Target has agreed to issue the Convertible Bonds upon conversion of which a total of 3,379 Conversion Shares of US$1.00 each will be allotted and issued to the Purchaser.

After Completion and full conversion of the Convertible Bonds, the Purchaser will hold an aggregate of 26,134 shares of US$1.00 each in the then issued share capital of the Target, representing approximately 48.96% of the enlarged issued share capital of the Target as enlarged by the allotment and issue of the Conversion Shares.

Upon Completion, the Target will become an associate of the Group and the earnings, assets and liabilities of the Target will be recorded in the accounts of the Company using equity method in the consolidated financial statements of the Group.

The principal asset of the Target is its 95% beneficial interests in the registered capital of Tiancheng. These 95% interests in the registered capital of Tiancheng are held by the Vendor on trust for the benefits of the Target. The remaining 5% interests in Tiancheng are held by Mr. Tang Xue Da (唐學大), an Independent Third Party and brother of the Vendor. Tiancheng is principally engaged in the exploration and exploitation of precious metal and mineral resources in the PRC. Tiancheng currently holds the exploration right of the Mine in the Fujian Province of the PRC.

Consideration

The total consideration for the Sale Shares is HK$269,355,000 and shall be settled by the Purchaser in the following manner:

(i) as to the Deposit of HK$8,000,000 in cash paid to the Vendor at the time of entering into of the MOU;

(ii) as to HK$197,060,000 shall be satisfied by the Purchaser procuring the Company to allot and issue 118,000,000 Consideration Shares to the Vendor credited as fully paid at the Issue Price at Completion; and

(iii) as to the balance of HK$64,295,000 shall be satisfied in cash by the Purchaser to the Vendor at Completion.

The total consideration for the subscription of the Convertible Bonds is HK$40,000,000, which is equivalent to the principal amount of the Convertible Bonds.

The consideration for the Sale Shares was determined after arm's length negotiations between the Vendor and the Purchaser after considering the estimation carried out by the No. 4 Geological Brigade of the silver reserves for six mineral zones in the Mine of approximately 508.37 tonnes and the current market price of silver. The sale price per Sale Share is approximately HK$11,837, which is equivalent to the Conversion Price.

Conditions precedent

Completion is subject to the following conditions having been fulfilled or waived (as the case may be):

(a) all necessary consents and approvals required to be obtained on the part of the Vendor, the Purchaser and the Target in respect of the Acquisition and the transactions contemplated thereunder having been obtained;

(b) the warranties provided by the Vendor under the Formal Agreement remaining true and accurate in all material respects;

(c) the Listing Committee of the Stock Exchange granting listing of and permission to deal in the Consideration Shares;

(d) the passing by the Shareholders at a general meeting of the Company to be convened and held of an ordinary resolution to approve the Acquisition and the transactions contemplated thereunder, including but not limited to the allotment and issue of the Consideration Shares to the Vendor credited as fully paid at the Issue Price;

(e) the obtaining of a PRC legal opinion (in form and substance satisfactory to the Purchaser) from a PRC legal adviser appointed by the Purchaser or the Company in relation to the legality and the validity in respect to the establishment and subsistence of Tiancheng and the transactions contemplated under the Formal Agreement; and

(f) the Purchaser being satisfied with the results of the due diligence review to be conducted on the assets, liabilities, operations and affairs of the Target Group.

Conditions (b) and (f) above are waivable by the Purchaser under the Formal Agreement. The Purchaser has no current intention to waive such conditions. Other than conditions (b) and (f), the other conditions cannot be waived. If the conditions are not fulfilled (or as the case may be, waived by the Purchaser) on or before 31 December 2007 (or such later date as the parties to the Formal Agreement may agree), the Formal Agreement shall cease and terminate and thereafter neither party to the Formal Agreement shall have any obligations and liabilities towards each other thereunder save for any antecedent breaches thereof.

As at the Latest Practicable Date, Conditions (e) and (f) have been fulfilled and the rest of the conditions have not yet been fulfilled.

Completion

Completion shall take place on the date falling the third Business Day after all the conditions of the Formal Agreement have been fulfilled or waived or such later date as may be agreed between the parties thereto.

Upon Completion, the Purchaser shall be entitled to nominate one individual to the board of directors of the Target. As at the Latest Practicable Date, the board of the directors of the Target consists of only one director. It is expected that upon Completion, there will be two directors in the Target, one of which shall be nominated by the Purchaser.

In the event that Completion does not take place as stipulated due to breach of terms by the Purchaser, the Vendor shall be entitled to forfeit the Deposit without interest as liquidated damages.

In the event that Completion does not take place as stipulated due to breach of terms by the Vendor, the Vendor shall refund the Deposit without interest to the Company and the Vendor shall pay an additional amount equivalent to the Deposit to the Purchaser as liquidated damages.

In the event that Completion does not take place as stipulated and that is not due to breach of terms by the Vendor and the Purchaser, the Vendor shall refund the Deposit without interest to the Purchaser and neither party shall have any obligations and liabilities under the Formal Agreement.

Consideration Shares

The Issue Price of HK$1.67 per Consideration Share represents:

(a) a discount of approximately 9.24% to the closing price of HK$1.84 per Share as quoted on the Stock Exchange on 17 October 2007, being the last trading day immediately prior to the entering into of the Formal Agreement;

(b) a discount of approximately 10.12% to the average of the closing prices of HK$1.858 per Share as quoted on the Stock Exchange for the last five consecutive trading days up to and including 17 October 2007, being the last trading day immediately prior to the entering into of the Formal Agreement;

(c) the closing price of HK$1.67 per Share as quoted on the Stock Exchange on 7 December 2007, being the Latest Practicable Date; and

(d) a premium of approximately 172.43% over the net asset value per Share of approximately HK$0.613 based on the audited net asset value of the Group of approximately HK$167 million as at 31 December 2006.

The Consideration Shares will be allotted and issued pursuant to the specific mandate to be sought at the EGM and will be allotted and issued on the date of Completion.

The Consideration Shares represent approximately 43.31% of the existing issued share capital of the Company and approximately 25.63% of the issued share capital of the Company as enlarged by the allotment and issue of the Consideration Shares and the Placing Shares.

The Consideration Shares, when allotted and issued, will rank pari passu in all respects with each other and with the Shares then in issue on the date of allotment and issue of the Consideration Shares. Pursuant to the terms and conditions of the Formal Agreement, the Vendor undertakes that he will not dispose of any of the Consideration Shares for a period of one year immediately after Completion without the prior consent of the Purchaser.

Application will be made by the Company to the Stock Exchange for the listing of, and permission to deal in, the Consideration Shares. There is no provision contained in the Formal Agreement conferring rights to the Vendor to be appointed as a Director as a result of the Acquisition. As at the Latest Practicable Date, the Company has no intention to appoint the Vendor and/or his nominee as Director because of the Acquisition.

Undertakings by the Vendor

Pursuant to the terms and conditions of the Formal Agreement, the Vendor undertakes to and covenants with the Purchaser that it will procure (i) the Target to become the legal and beneficial owner of the 95% interests in the registered capital of Tiancheng on or before 30 April 2008 (or such other date as may be agreed in writing between the parties thereto); and (ii) Tiancheng to obtain the mining licence and any other necessary approvals and consents for the mining of the Mine on or before 30 April 2008 (or such other date as may be agreed in writing between the parties thereto) (the "**Vendor's Undertakings**").

The Vendor further undertakes that immediately after Completion, 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 certificate(s) 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 (or such other date as may be agreed in writing between the parties thereto).

In the event that the Vendor's Undertakings cannot be fulfilled on or before 30 April 2008 (or such other date as may be agreed in writing between the parties thereto), (i) the Vendor shall within fourteen Business Days thereafter refund the cash consideration paid by the Purchaser under the Formal Agreement; and (ii) the Purchaser will be entitled to instruct the escrow agent to arrange or procure the sale or placing of the Consideration Shares at the reasonable market price obtainable at that time and any proceeds from the sale of the Consideration Shares will be used to set off the remaining consideration paid by the Purchaser in Consideration Shares. In the event that the proceeds from the sale or placing of the Consideration Shares is less than the remaining consideration paid by the Purchaser for the Acquisition in Consideration Shares, the Vendor shall within fourteen Business Days immediately after the sale of all Consideration Shares pay the shortfall in cash to the Purchaser.

Undertakings by the Target

Pursuant to the terms and conditions of the Formal Agreement, the Target undertakes to and covenants with the Purchaser that (i) the Target will become the legal and beneficial owner of the 95% interests in the registered capital of Tiancheng on or before 30 April 2008 (or such other date as may be agreed in writing between the parties thereto); and (ii) it will procure Tiancheng to obtain the mining licence and any other necessary approvals and consents for the mining of the Mine on or before 30 April 2008 (or such other date as may be agreed in writing between the parties thereto) (the "**Target's Undertakings**").

In the event that any of the Target's Undertaking cannot be fulfilled on or before 30 April 2008 (or such other date as may be agreed in writing between the parties thereto), the Target shall within fourteen Business Days thereafter redeem from the Purchaser the Convertible Bonds in its principal amount in full. In the event that all the Target's Undertakings have been fulfilled on or before 30 April 2008 (or such other date as may be agreed in writing between the parties thereto), the Purchaser shall convert the Convertible Bonds in full at the Conversion Price and the Target shall allot and issue the Conversion Shares to the Purchaser in accordance with the terms and conditions of the Convertible Bonds to be issued.

Upon full redemption of the Convertible Bonds and full refund of the consideration paid by the Purchaser for the Sale Shares, the Purchaser shall return all the Sale Shares to the Vendor and shall cease to hold any interests in the Target thereafter.

Further announcement(s) will be made in the event that any of the Vendor's Undertakings and/or Target's Undertakings fails to be fulfilled.

The Convertible Bonds

The Purchaser has agreed to subscribe and the Target has agreed to issue the zero coupon Convertible Bonds at the principal amount of HK$40,000,000. Subject to agreement of the parties to the Formal Agreement, the principal terms of the Convertible Bonds are set out below:

Interest

The Convertible Bonds shall bear no interest.

Mandatory conversion

Subject to the fulfillment of the Target's Undertakings, the Convertible Bonds shall be mandatorily converted into 3,379 Conversion Shares of US$1.00 each in the share capital of the Target.

The conversion of the Convertible Bonds is subject to the fulfillment of the Target's Undertakings. As such, the Purchaser might not exercise the conversion rights until fulfillment of the Target's Undertakings.

Maturity Date

30 April 2008 or such other date as may be agreed between the parties thereto.

Redemption

In the event that the Target's Undertakings cannot be fulfilled on or before the maturity date, the Purchaser shall be entitled to demand the Target to redeem the Convertible Bonds at its principal amount in full.

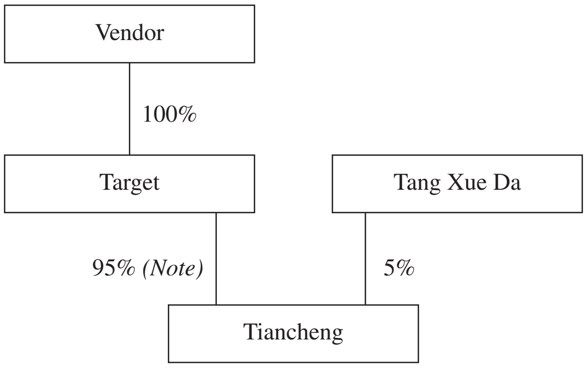
Transferability

The Convertible Bonds shall not be transferable.

GROUP STRUCTURE

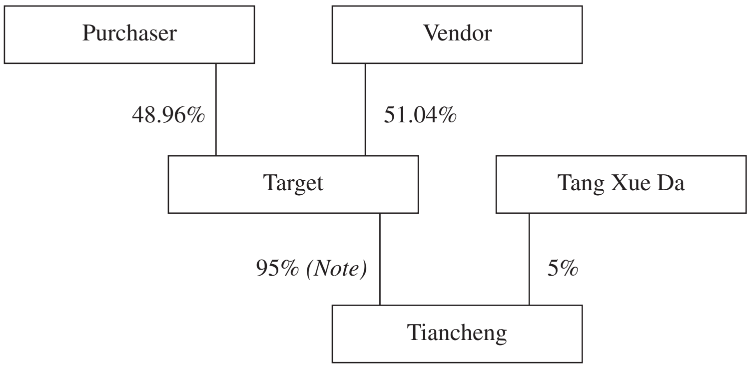
The following graph shows the group structure immediately prior to the entering into of the Formal Agreement and after Completion and conversion of the Convertible Bonds into Conversion Shares.

Immediately prior to the entering into of the Formal Agreement



Note: The 95% interests in the registered capital of Tiancheng are held by the Vendor on trust for the benefits of the Target.

After Completion and conversion of the Convertible Bonds into Conversion Shares



Note: The 95% interests in the registered capital of Tiancheng are currently held by the Vendor on trust for the benefits of the Target. Pursuant to the terms and conditions of the Formal Agreement, the Vendor undertakes that the Target will become the legal and beneficial owner of the 95% interests in Tiancheng on or before 30 April 2008 (or such other date as may be agreed between the parties in writing).

INFORMATION ON THE TARGET, TIANCHENG AND THE MINE

The Target

The Target is a company incorporated in the British Virgin Islands and is wholly and beneficially owned by the Vendor. The Target is principally engaged in investment holdings. Currently, the principal assets of the Target is its 95% beneficial interest in the registered capital of Tiancheng.

Tiancheng

Tiancheng is a company established on 12 March 2004 in the PRC and currently holds the exploration right of the Mine. Tiancheng is principally engaged in the exploration and exploitation of precious metals and mineral resources in the PRC. Currently, Tiancheng is focused on the exploration of the Mine and the preparation of the necessary documents for the application of the mining license of the Mine. Up to the Latest Practicable Date, no mining operation for the purpose of commercial production has yet been commenced by Tiancheng.

The Mine

The Mine is located in Daan Township, Shouning County, Ningde City, Fujian Province of the PRC, which is accessible from about 20 kilometers from Shouning County from county level highway. According to historical records, mining of silver was conducted during the Ming Dynasty (1368-1644) in the Shouning Daan region, and a number of ancient mining tunnels over the Shouning Daan region probably belong to this period of activity. No. 4 Geological Brigade conducted geological exploration work in the region from 1972 to 1993. A stream sediment survey was conducted between the years of 2000 and 2002. Immediately after Tiancheng obtaining the exploration right of the Mine, Tiancheng engaged No. 4 Geological Brigade to conduct exploration programs on the Mine.

According to the exploration license issued by Fujian provincial Department of Land Resources (福建省國土資源廳) on 25 April 2007, Tiancheng is allowed to explore the Mine with an area of 83.75 square kilometers for a period of two years to 9 May 2009. No. 4 Geological Brigade estimated that the silver reserves of six mineral zones in the Mine with an area of approximately 5 square kilometers are approximately 508.37 tonnes. The Mine also contains deposits including gold, zinc, lead and copper. Tiancheng intends to engage No. 4 Geological Brigade to conduct any further exploration program on the Mine if there is any further necessity.

As at the Latest Practicable Date, no mining license with respect to the exploitation has been obtained by Tiancheng and no exploitation of the Mine has been commenced. Tiancheng is currently in the process of preparing the necessary documents for the application of the mining license of the Mine and the application of the mining license is expected to be submitted before the end of 2007. As advised by the PRC legal advisers to the Company, there is no material legal obstacle barring Tiancheng from obtaining the mining license of the Mine.

The Group has engaged SRK Consulting, an independent mining and geological consultancy firm with extensive experience in mining related projects, to compile a technical report in compliance with Rule 18.09 of the Listing Rules for the Mine. Please refer to the technical report as set out in Appendix IV to this circular for further details.

REASONS FOR THE ACQUISITION

The Group is principally engaged in manufacturing and trading of toys and recreational products on an OEM basis. The Group will continue to carry on its existing business after Completion.

The Directors consider that the Acquisition represents an excellent investment opportunity. In view of the continuous economic growth in the PRC and the worldwide growing demand for natural resources as a result of the development of the global economy, the Directors believe that there will be sustainable demand for precious metals including silver.

Silver has long been valued as a precious metal and used in currency, ornaments and jewellery, as well as utensils. It is also used in photographic film, electrical contacts and mirrors. The spot price of silver quoted on the London Metal Exchange has almost tripled since 2001, rising from an average of US$4.37 per ounce in 2001 to an average of US$11.57 per ounce in 2006, and the average of which for the seven months ended 31 July 2007 is US$13.27 per ounce.

The Group intends to hold the Sale Shares and the Conversion Shares upon the conversion of the Convertible Bonds as long term investment. The Directors consider that the value of investments in a company lies in its future potential growth. In view of the growing demand for precious metals in the PRC, the Directors are of the view that the upside potential for the investment in the Target will be promising.

In light of the growing potential of the Target, the Directors (including the independent non-executive Directors) consider that the terms and conditions of the Acquisition, including but not limited to the allotment and issue of the Consideration Shares, are fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

RISK FACTORS

Set out below are some of the risk factors which may be associated with the Acquisition:

Fluctuations in supply and demand of precious metals

There can be fluctuations in supply and demand of precious metals. The fluctuations in supply and demand are caused by numerous factors beyond control of the Group, which include but not limited to global and domestic economic and political conditions.

There is no assurance that the demand for precious metals in the PRC will continue to grow, or that the demand for precious metals will not experience excess supply.

Policies and regulations

The mining business of Tiancheng is subject to extensive government regulations, policies and controls. There can be no assurance that the relevant government will not change such laws and regulations or impose additional or more stringent policies.

Country risk

The Mine is located in the PRC. There can be risks that changes of political and economical conditions in the PRC may adversely affect the business of Tiancheng.

Mining rights

The mining activities in the Mine are subject to the obtaining and renewal of the mining rights of the Mine from the relevant government authorities. Should Tiancheng fail to obtain or renew the mining rights of the Mine, Tiancheng will have no right to conduct mining activities in the Mine.

Up to the Latest Practicable Date, there are no claims in relation to the exploration rights or mining rights of the Mine made or notified either by third parties against any member of the Group and the Target Group or vice versa.

Risks associated with Vendor's Undertakings and Target's Undertakings

Completion will take place prior to the fulfillment of the Vendor's Undertakings and the Target's Undertakings. As disclosed in the sections headed "Undertakings by the Vendor" and "Undertakings by the Target" above, should the undertakings cannot be fulfilled, the escrowed Consideration Shares will be sold and the Purchaser will seek refund from the Vendor for consideration paid. Given the uncertainty of fulfillment of the undertakings and the sale price of the escrowed Consideration Shares, there are risks associated in procuring the Vendor to refund the consideration paid and indemnify the Purchaser in full.

CHANGES IN SHAREHOLDING STRUCTURE OF THE COMPANY

The changes in the shareholding structure of the Company as a result of the allotment and issue of the Consideration Shares are as follows:

Shareholders	Issued share capital as at the Latest Practicable Date but before the allotment and issue of the Consideration Shares		Issued share capital immediately after allotment and issue of the Consideration Shares and the Placing Shares	
	No. of Shares	Approximate Percentage	No. of Shares	Approximate Percentage
Smart Place Investments Limited and its associates	176,842,000	51.64%	176,842,000	38.40%
The Vendor	—	—	118,000,000	25.63%
Public Shareholders				
Placees	70,000,000	20.44%	70,000,000	15.20%
Other public Shareholders	95,638,000	27.92%	95,638,000	20.77%
Total	342,480,000	100%	460,480,000	100.00%

As shown in the table, there will be no change in control as a result of the Acquisition.

MANAGEMENT DISCUSSION AND ANALYSIS OF THE RESULTS OF THE TARGET GROUP

Set out below is a summary of the audited consolidated financial information of the Target Group prepared in accordance with the Hong Kong Financial Reporting Standards. The information of which is extracted from the accountants' report of the Target Group as set out in Appendix I to this circular.

	From 16 November 2004 (date of incorporation) to 31 December	Year ended 31 December		Six months ended 30 June
	2004	**2005**	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Turnover	—	—	—	—
(Loss) attributable to equity holders of China Mining	(30)	(276)	(2,296)	(898)

	As at 31 December			As at 30 June
	2004	**2005**	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Total assets	414	880	2,552	2,635
Total liabilities	30	772	797	1,808
Total equity	384	108	1,755	827

Since the Target Group did not commence mining operation during the period from 16 November 2004 to 30 June 2007 (the "Period"), no turnover had been recorded. The loss attributable to the equity holders for the Period was mainly due to the exploration expenses and general and administrative expenses. The gearing ratio of the Target Group by dividing the total liabilities with its total equity, was approximately 219% as at 30 June 2007.

As at 30 June 2007, total assets of the Target Group mainly comprised of prepayments, deposits and other receivables of approximately RMB2.03 million, plant and equipment of approximately RMB0.4 million and bank balances and cash of approximately RMB204,000. Total liabilities of the Target Group of approximately RMB1.81 million was mainly accruals and other payables. As at the Latest Practicable Date, the Target Group did not have any bank borrowings and contingent liabilities. In addition, no assets of the Target Group is being charged or pledged. On 1 October 2006, the Target acquired 95% equity interests in Tiancheng. Save for the said acquisition, there was no other material acquisition by the Target.

The estimated working capital requirement for the Mine is approximately RMB54.3 million, which is principally applied in the application of the mining license, the construction of processing plant and the purchase of necessary equipment. Commercial mining operation is expected to be commenced in 2009. The Directors consider that the principal amount of HK$40 million invested in the Convertible Bonds will satisfy part of the estimated working capital requirement for the Mine and the remaining portion will be satisfied by Vendor in the form of shareholders' loan.

As at the Latest Practical Date, the Target Group had 6 full-time employees and 2 part-time employees in the PRC. All of the employees are paid in accordance with their duty and work in the Target Group. The Target Group had made pension contributions for its PRC employees in accordance with the relevant PRC laws.

Financial Risk

Target Group's principal financial instruments to raise finance for Target Group's operations comprise bank balances and cash. Target Group has various other financial instruments such as prepayments, deposits and other receivables and accruals and other payables which arise directly from its operations.

The main risks arising from Target Group's financial instruments are credit risk. The directors of the Target review and agree policies for managing each of these risks and they are summarised below.

Credit risk

Target Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31 December 2004, 2005 and 2006 and at 30 June 2007 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheets.

With respect to credit risk arising from the other financial assets of Target Group which comprise cash and cash equivalents and other receivables, Target Group's exposure to credit risk arising from default of the counter parties is limited as the counter parties have good credit standing and the Group does not expect to incur significant loss for uncollected advances / receivables from these entities.

Capital management

The primary objective of Target's capital management is to safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders.

Target Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions. In order to maintain or adjust the capital structure, Target Group may raise capital and borrowings. Target Group monitors capital by maintaining cash flows from operating activities, investing activities and financing activities. Capital of Target comprises all components of equity.

Fair value

The fair values of financial assets and financial liabilities reported in the balance sheets of the Target Group and Target approximate their carrying amounts due to their immediate or short-term maturities.

For details of the financial information of the Target Group during the Period, please refer to Appendix I to this circular.

FINANCIAL EFFECT OF THE ACQUISITION

Immediately after Completion but before conversion of the Convertible Bonds ("Completion but before Conversion"), the Company owns approximately 45.51% equity interest in the Target. After Completion and conversion of the Convertible Bonds ("After Completion and Conversion"), in effect, the Target becomes the legal and beneficial owner of the 95% interests in the registered capital of Tiancheng and Tiancheng obtains the mining license and any other necessary approvals and consents for the mining of the Mine, the Company owns approximately 48.96% equity interest in the Target. In both scenarios, the Target is treated as an associate of the Group and the earnings, assets and liabilities of the Target will be recorded in the accounts of the Company using equity method in the consolidated financial statements of the Group.

Assets and liabilities

Set out below is a summary of the unaudited pro forma consolidated balance sheet of the Enlarged Group under different scenarios as at 30 June 2007. The information of which is extracted from the unaudited pro forma consolidated balance sheet of the Enlarged Group as set out in Appendix III to this circular:

	The Group before Completion (Unaudited) *(HK$'000)*	**Pro forma Enlarged Group after Completion but before Conversion (Unaudited)** *(HK$'000)*	**Pro forma Enlarged Group after Completion and Conversion (Unaudited)** *(HK$'000)*
Non-current assets	72,417	341,772	397,438
Current assets	560,670	488,375	448,375
Total liabilities	438,461	438,461	438,461
Total equity	194,626	391,686	407,352

The increase of non-current assets of the Enlarged Group to (i) approximately HK$341,772,000 after Completion but before Conversion is due to the recognition of the investment cost of

HK$269,355,000 for the Sale Shares of the Target as interest in associate; and (ii) approximately HK$397,438,000 after Completion and Conversion is due to the conversion of the Convertible Bonds in the principal of HK$40,000,000 to shares of the Target and the recognition of negative goodwill of HK$15,666,000, altogether as interest in associate.

The decrease of current assets of the Enlarged Group to (i) approximately HK$488,375,000 upon Completion but before Conversion is mainly due to the reduction in cash as a result of the payment of cash deposit of HK$8,000,000 and payment of cash portion of consideration of HK$64,295,000, and the offset of HK$40,000,000 between the investment in the Convertible Bonds and the cash payment for subscription of the Convertible Bonds; and (ii) approximately HK$448,375,000 after Completion and Conversion is due to the conversion of the Convertible Bonds into shares of the Target.

Total liabilities of the Enlarged Group as at 30 June 2007 remained the same as HK$438,461,000 since no liabilities of the Target Group would be consolidated to the accounts of the Enlarged Group.

The increase of the total equity of the Enlarged Group to (i) approximately HK$391,686,800 after Completion but before Conversion is mainly due to the issue of 118,000,000 Consideration Shares at the price of HK$1.67 each; and (ii) approximately HK$407,352,000 after Completion and Conversion is mainly due to the increase in reserves as a result of the recognition of the negative goodwill of approximately HK$15,666,000.

For details of the unaudited pro forma consolidated balance sheet of the Enlarged Group, please refer to Appendix III to this circular.

Earnings

Upon Completion, the Acquisition will not have any material adverse effect on the net profit of the Group since the cost of Acquisition will be accounted for as an investment in associates. The profit and loss recorded from the Target Group after Completion will be presented as share of profit/(loss) from associate under the income statement of the consolidated Enlarged Group.

FINANCIAL AND TRADING PROSPECTS OF THE ENLARGED GROUP

The Group has long been engaging in the business of manufacturing of toys and recreational products and has established a strong fundamental in the toys industry. The recent massive recall of toys from North America and the increasing trade dispute and tension between the western countries and China remind the Directors to further strengthen the internal quality control system and explore other business or investment opportunities.

With a view to maximize the return of Shareholders and diversify the single business risk, the Directors consider the Acquisition represents an excellent investment opportunity due to the continuous global demand for precious metals including silver and the different nature of mining business. The Directors expect the Acquisition will enhance the performance and returns to Shareholders upon commencement of the mining operation of the Mine.

LISTING RULES IMPLICATION

The Acquisition constitutes a major transaction on the part of the Company under the Listing Rules and the Acquisition and the transactions contemplated thereby, including but not limited to the allotment and issue of Consideration Shares, are subject to the approval of the Shareholders at the EGM. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, no Shareholders have material interest in the Acquisition and are required to abstain from voting at the EGM.

EGM

A notice convening the EGM to be held at Pacific Place Conference Centre, Vinson Room, Level 5, One Pacific Place, 88 Queensway, Hong Kong on Friday, 28 December 2007 at 10:00 a.m. is set out on pages 155 to 156 of this circular.

A form of proxy for use at the EGM is enclosed with this circular. Whether or not you intend to attend and vote at such meeting, you are requested to complete and return the enclosed form of proxy to the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong in accordance with the instructions printed thereon as soon as possible and in any event not less than 48 hours before the time appointed for holding the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish.

To the best of the Directors' knowledge, information and belief having making all reasonable enquiries, no Shareholders have a material interest in the Acquisition and therefore required to abstain from voting at the EGM.

PROCEDURES FOR DEMANDING A POLL

Pursuant to articles 66 of the articles of association of the Company, every resolution submitted to a general meeting shall be determined on a show of hands in the first instance by the Shareholders present in person, but a poll may be demanded (before or upon the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll):

(a) by the chairman of such meeting;

(b) by at least three Shareholders present in person or in the case of a Shareholder being a corporation by its duly authorised representative or by proxy for the time being entitled to vote at the meeting;

(c) by a Shareholder or Shareholders present in person or in the case of a Shareholder being a corporation by its duly authorised representative or by proxy and representing not less than one-tenth of the total voting rights of all Shareholders having the right to vote at the meeting;

(d) by a Shareholder or Shareholders present in person or in the case of a Shareholder being a corporation by its duly authorised representative or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the Shares conferring that right; or

(e) if required by the rules of the designated stock exchange, by any Director or Directors who, individually or collectively, hold proxies in respect of Shares representing 5% or more of the total voting rights at such meeting.

RECOMMENDATION

The Board considers that the terms of the Acquisition are fair and reasonable and are in the interests of the Company and the Shareholders as a whole. Accordingly, the Board recommends the Shareholders to vote in favour of the resolution as set out in the notice of the EGM.

ADDITIONAL INFORMATION

Your attention is also drawn to the additional information as set out in the appendices to this circular.

By order of the Board
Smart Union Group (Holdings) Limited
Wu Kam Bun
Chairman

The following is the text of a report, prepared for the sole purpose of inclusion in this circular, received from the Company's reporting accountants, SHINEWING (HK) CPA Limited, Certified Public Accountants, Hong Kong.

信永中和
ShineWing

SHINEWING (HK) CPA Limited
16/F., United Centre
95 Queensway, Hong Kong

10 December 2007

The Directors
Smart Union Group (Holdings) Limited
Rooms 217-222
Advanced Technology Centre
2 Chi Fat Street
Sheung Shui
New Territories
HONG KONG

Dear Sirs,

We set out below our report on the financial information (the "Financial Information") regarding China Mining Corporation Limited ("China Mining") and its subsidiary (hereinafter collectively referred to as the "China Mining Group") for the period from 16 November 2004 (date of incorporation) to 31 December 2004 and for each of the two years ended 31 December 2006 and for the six months ended 30 June 2007 (the "Relevant Periods") for inclusion in the circular of Smart Union Group (Holdings) Limited (the "Company") dated 10 December 2007 (the "Circular") in connection with a major transaction in respect of a proposed acquisition by Smart Union Mining Investments Limited (formerly known as Queen Glory Limited) ("SUMI"), the Company's wholly-owned subsidiary, of an aggregate of 22,755 shares of US$1 each in the issued share capital of China Mining, representing approximately 45.51% of the existing issued share capital of China Mining, from Mr. Tang Xue Jin (the "Vendor") and a proposed subscription of the convertible bonds ("Convertible Bonds") issued by China Mining to SUMI (the "Proposed Acquisition").

China Mining was incorporated in the British Virgin Island ("BVI") on 16 November 2004 as a company with limited liability and authorised share capital of US$50,000 divided into 50,000 ordinary shares of US$1 each. The registered office of China Mining is at P.O. Box 957, Road Town, Tortola, BVI and its principal place of business is located at Room 19, No. 53 Jing Tang Road, Yu Zhong Qing Shi, Chong Qing, the People's Republic of China (the "PRC").

China Mining is an investment holding company. No audited financial statements of China Mining or the China Mining Group have been prepared for the period from incorporation to present as it is not subject to any statutory audit requirements. The China Mining Group has adopted 31 December as their financial year end date. The principal activities and other particulars of its subsidiary are set out below.

As at the date of this report, China Mining has beneficial interests in the following subsidiary:

Name of subsidiary	Place and date of establishment	Registered capital	Proportion of equity interest directly held	Principal activities
Fujian Tiancheng Mining Corporation* 福建天成礦業有限公司 ("Tiancheng")	The PRC 12 March 2004	RMB 7,652,900	95%	Exploration and exploitation of precious metals and mineral resources in the PRC

Note: During the year ended 31 December 2006, the Vendor acquired 95% equity interests in Tiancheng. These 95% equity interests in Tiancheng are held by the Vendor on trust for the benefits of China Mining. The remaining 5% equity interests in Tiancheng are held by Mr. Tang Xue Da, an independent third party to the Company and a close family member of the Vendor.

Pursuant to the terms and conditions of the formal agreement dated 17 October 2007 entered into among the Vendor, China Mining and SUMI for the Proposed Acquisition, the Vendor undertook that China Mining will become the legal and beneficial owner of the 95% interests in Tiancheng on or before 30 April 2008 (or such other date as may be agreed between the parties in writing).

Tiancheng currently holds the exploration right of the Mine in the Fujian Province of the PRC. No audited financial statements of Tiancheng have been issued as Tiancheng was not subject to any statutory audit requirements for the three years ended 31 December 2006.

** for identification purpose only*

For the purpose of this report, the directors of China Mining had prepared the Financial Information of the China Mining Group for the Relevant Periods in accordance with the Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

Respective responsibilities of directors and reporting accountants

The directors of China Mining are responsible for preparing the Financial Information of the China Mining Group which give a true and fair view. The directors of the Company are responsible for the contents of the Circular in which this report is included. In preparing the Financial Information which give a true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to express an independent opinion, based on our examination, on the Financial Information and to report our opinion to you. We have examined the Financial Information for the Relevant Periods, and carried out such additional procedures as are necessary in accordance with Auditing Guideline 3.340 "Prospectus and the Reporting Accountant" issued by the HKICPA.

We have not audited any financial statements of the companies comprising the China Mining Group in respect of any period subsequent to 30 June 2007.

The comparative consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement of the China Mining Group for the six months ended 30 June 2006 together with the notes thereon have been extracted from the China Mining Group's unaudited consolidated financial information for the same period (the "30 June 2006 Financial Information") which was prepared by the directors of China Mining solely for the purpose of this report. It is our responsibility to form an independent conclusion, based on our review, and to report our conclusion to you.

For the purpose of this report, we have reviewed the 30 June 2006 Financial Information in accordance with the Statement of Auditing Standard 700 "Engagements to review interim financial reports" issued by the HKICPA. Our review consisted principally of making enquires of the China Mining Group's management and applying analytical procedures to the 30 June 2006 Financial Information and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the 30 June 2006 Financial Information.

OPINION AND REVIEW CONCLUSION

In our opinion, the Financial Information together with the notes thereon, for the purpose of this report, give a true and fair view of the state of affairs of the China Mining Group and China Mining as at 31 December 2004, 31 December 2005, 31 December 2006 and 30 June 2007 and of the consolidated results and cash flows of the China Mining Group for each of the Relevant Periods.

Moreover, on the basis of our review, which does not constitute an audit, we are not aware of any material modification that should be made to the 30 June 2006 Financial Information.

I. FINANCIAL INFORMATION OF THE CHINA MINING GROUP

CONSOLIDATED INCOME STATEMENTS

		From 16 November 2004 (date of incorporation) to 31 December	Year ended 31 December		Six months ended 30 June	
		2004	2005	2006	2006	2007
	NOTES	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
					(Unaudited)	
Turnover	5	—	—	—	—	—
Other operating income		—	6	—	—	1
Administrative and other operating expenses		(30)	(282)	(2,307)	(673)	(929)
Loss before taxation	6	(30)	(276)	(2,307)	(673)	(928)
Taxation	8	—	—	—	—	—
Loss for the year/ period		(30)	(276)	(2,307)	(673)	(928)
Loss attributable to:						
Equity holders of China Mining		(30)	(276)	(2,296)	(673)	(898)
Minority interests		—	—	(11)	—	(30)
		(30)	(276)	(2,307)	(673)	(928)

CONSOLIDATED BALANCE SHEETS

		At 31 December			At 30 June
		2004	**2005**	**2006**	**2007**
	NOTES	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Non-current assets					
Plant and equipment	9	—	118	414	400
Current assets					
Prepayments, deposits and other receivables		—	300	2,031	2,031
Bank balances and cash	11	414	462	107	204
		414	762	2,138	2,235
Current liabilities					
Accruals and other payables		(30)	(772)	(797)	(1,808)
Net current assets/ (liabilities)		384	(10)	1,341	427
		384	108	1,755	827
Represented by:					
Equity attributable to equity holders of China Mining					
Share capital	12	414	414	414	414
Reserves		(30)	(306)	1,154	256
		384	108	1,568	670
Minority interests		—	—	187	157
		384	108	1,755	827

BALANCE SHEETS

		At 31 December			At 30 June
		2004	**2005**	**2006**	**2007**
	NOTES	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Non-current assets					
Plant and equipment	9	—	118	123	115
Investment in a subsidiary	10	—	—	3,756	3,756
		—	118	3,879	3,871
Current assets					
Prepayments, deposits and other receivables		—	300	40	49
Bank balances and cash	11	414	462	39	106
		414	762	79	155
Current liabilities					
Accruals and other payables		(30)	(772)	(2,188)	(2,577)
Net current assets/ (liabilities)		384	(10)	(2,109)	(2,422)
		384	108	1,770	1,449
Represented by:					
Equity attributable to equity holders of China Mining					
Share capital	12	414	414	414	414
Reserves	13	(30)	(306)	1,356	1,035
		384	108	1,770	1,449

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Share capital	Other reserve (note)	Accumulated losses	Attributable to equity holders of China Mining	Minority interests	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 16 November 2004 (date of incorporation)	414	—	—	414	—	414
Loss for the period	—	—	(30)	(30)	—	(30)
At 31 December 2004 and 1 January 2005	414	—	(30)	384	—	384
Loss for the year	—	—	(276)	(276)	—	(276)
At 31 December 2005 and 1 January 2006	414	—	(306)	108	—	108
Loss for the period	—	—	(673)	(673)	—	(673)
At 30 June 2006 and 1 July 2007	414	—	(979)	(565)	—	(565)
Loss for the period	—	—	(1,623)	(1,623)	(11)	(1,634)
Shareholder's contribution	—	3,756	—	3,756	—	3,756
Acquisition of a subsidiary (Note 14)	—	—	—	—	198	198
At 31 December 2006 and 1 January 2007	414	3,756	(2,602)	1,568	187	1,755
Loss for the period	—	—	(898)	(898)	(30)	(928)
At 30 June 2007	414	3,756	(3,500)	670	157	827

Note: Other reserve represents the consideration for acquisition of a subsidiary satisfied by the shareholder (note 14).

CONSOLIDATED CASH FLOW STATEMENTS

		From 16 November 2004 (date of incorporation) to 31 December	Year ended 31 December		Six months ended 30 June	
	NOTE	**2004**	**2005**	**2006**	**2006**	**2007**
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (*Unaudited*)	*RMB'000*
OPERATING ACTIVITIES						
Loss before taxation		(30)	(276)	(2,307)	(673)	(928)
Adjustments for :						
Bank interest income		—	(6)	—	—	(1)
Depreciation of plant and equipment		—	8	20	7	20
Operating cash flows before movements in working capital		(30)	(274)	(2,287)	(666)	(909)
(Increase) decrease in prepayments, deposits and other receivables		—	(300)	1,960	(4)	—
Increase (decrease) in accruals and other payables		30	742	(141)	751	1,011
NET CASH FROM (USED IN) OPERATING ACTIVITIES		—	168	(468)	81	102
INVESTING ACTIVITIES						
Purchases of plant and equipment		—	(126)	(18)	(16)	(6)
Bank interest received		—	6	—	—	1
Acquisition of a subsidiary	14	—	—	131	—	—

	From 16 November 2004 (date of incorporation) to 31 December	Year ended 31 December		Six months ended 30 June	
	2004	2005	2006	2006	2007
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
NET CASH (USED IN) FROM INVESTING ACTIVITIES	—	(120)	113	(16)	(5)
NET CASH FROM FINANCING ACTIVITY					
Issue of shares upon incorporation	414	—	—	—	—
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	414	48	(355)	65	97
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD/ YEAR	—	414	462	462	107
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD / YEAR, represented by bank balances and cash	414	462	107	527	204

II. NOTES TO THE FINANCIAL INFORMATION

1. CORPORATION INFORMATION

China Mining was incorporated in the BVI on 16 November 2004 as a company with limited liability and authorised share capital of US$50,000 divided into 50,000 ordinary shares of US$1 each. China Mining is an investment holding company and the principal activities of its subsidiary are exploration and exploitation of precious metals and mineral resources in the PRC.

The address of its registered office is at P.O. Box 957, Road Town, Tortola, BVI and its principal place of business is located at Room 19, No. 53 Jing Tang Road, Yu Zhong Qing Shi, Chong Qing, the PRC.

The Financial Information is presented in Reminbi, which is the same as the functional currency of China Mining.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS

For the purposes of preparing and presenting the Financial Information for the Relevant Periods, China Mining Group has consistently applied all of new or revised Hong Kong Accounting Standards ("HKASs"), HKFRSs, amendments and Interpretations ("INTs") (herein collectively referred to as "New HKFRSs") issued by the HKICPA, which are effective for the accounting periods beginning on 1 January 2005, 1 January 2006 and 1 January 2007.

At the date of this report, HKICPA has issued the following standards, amendment and INTs that are not yet effective.

HKAS 23 (Revised)	Borrowing Costs[1]
HKFRS 8	Operating Segments[1]
HK(IFRIC)-Int 11	HKFRS 2 - Group and Treasury Share Transactons[2]
HK(IFRIC)-Int 12	Service Concession Arrangements[3]
HK(IFRIC)-Int 13	Customer Loyalty Programmes[4]
HK(IFRIC)-Int 14	HKAS 19 — The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction[3]

[1] Effective for annual periods beginning on or after 1 January 2009.
[2] Effective for annual periods beginning on or after 1 March 2007.
[3] Effective for annual periods beginning on or after 1 January 2008.
[4] Effective for annual periods beginning on or after 1 July 2008.

The directors of China Mining expect that the application of these new HKFRSs listed above will not have any significant impact on the financial position and operating results of China Mining Group.

3. SIGNIFICANT ACCOUNTING POLICIES

The Financial Information has been prepared on the historical cost basis and in accordance with the accounting policies adopted by Smart Union Group (Holdings) Limited as set out below, which conform with HKFRSs issued by the HKICPA.

These accounting policies have been consistently applied to all the Relevant Periods presented, unless otherwise stated.

Basis of consolidation

The Financial Information incorporates the financial statements of the China Mining and its subsidiary (i.e. entity controlled by China Mining) made up to 31 December. Control is achieved where China Mining has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Basis of consolidation *(Continued)*

The result of a subsidiary acquired during the Relevant Periods is included in the Financial Information from the effective date of acquisition as appropriate.

Where necessary, adjustments are made to the financial statements of the subsidiary to bring its accounting policies into line with those used by China Mining.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiary are presented separately from the China Mining Group's equity therein. Minority interests consist of the amount of those interests at the date of original business combination (see below) and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of China Mining Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Business combinations

The acquisition of a subsidiary is accounted for using the purchase method. The cost of the acquisition is measured as the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the China Mining Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities meet the conditions for recognition under HKFRS 3 "Business Combinations" are recognised at their fair values at the acquisition date.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

Subsidiary

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

In the China Mining's financial statements, investment in a subsidiary is stated at cost less any impairment loss. An assessment of investment in a subsidiary is performed when there is an indication that the asset has been impaired. The result of a subsidiary is included in China Mining's income statement to the extent of dividends received and receivable.

Goodwill

Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. Capitalised goodwill on an acquisition of a subsidiary is presented separately in the consolidated balance sheets.

Goodwill arising on the acquisition of a subsidiary represents the excess of the cost of the acquisition over the China Mining Group's interest in the net fair values of the identifiable assets, liabilities and contingent liabilities of the subsidiary recognised at the date of acquisition.

For the purpose of impairment testing, goodwill is allocated to each of the China Mining Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually and whenever there is an indication that the unit may be impaired. For goodwill

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Goodwill *(Continued)*

arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that year. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the consolidated income statements. An impairment loss recognised for goodwill is not reversed in subsequent consolidated periods.

On subsequent disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Revenue recognition

Revenue is recognised at the fair value of the consideration received or receivables and represents amounts receivable from goods sold in the normal course of business, net of discounts and sales related taxes.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Leasing

Rental payables under operating leases are charged to the consolidated income statement on a straight-line basis over the terms of the relevant lease.

Retirement benefit costs

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due. Payments made to state-managed retirement benefit schemes are dealt with as payments to defined contribution plans where the China Mining Group's obligations under the plans are equivalent to those arising in a defined contribution retirement benefit plan.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on the results for the Relevant Periods. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes income statement items that are never taxable or deductible. The liability for current period/ year of the China Mining Group is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable

3. **SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

Taxation *(Continued)*

temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference are related to goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled. Deferred tax is charged or credited to the consolidated income statement, except when it relates to items credited or charged directly to equity, in which case the deferred tax is also dealt with in equity.

Plant and equipment

Plant and equipment are stated at cost less any subsequent accumulated depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost of items of plant and equipment over their estimated useful lives and after taking into account their estimated residual values, using the straight-line method.

An item of plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated income statement in the Relevant Periods in which the item is derecognised.

Impairment of tangible assets

At each balance sheet date, China Mining Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as an income immediately.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments

Financial assets and financial liabilities are recognised on China Mining Group's balance sheet when China Mining Group's entities become a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition, transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Prepayments, deposits and other receivables

Prepayments, deposits and other receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, demand deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Financial liabilities and equity

Financial liabilities and equity instruments issued by China Mining Group are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the China Mining Group after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

Accruals and other payables

Accruals and other payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

Equity instruments

Equity instruments issued by China Mining are recorded at the proceeds received, net of direct issue costs.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and China Mining has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received or receivable and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

For financial liabilities, they are removed from the balance sheet when the obligation specified in the relevant contract is discharged, cancelled or expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid or payable is recognised in profit or loss.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the China Mining Group's accounting policies, management makes various estimates and judgements (other than those involving estimates) based on past experience, expectations of the future and other information. The key sources of estimation uncertainty and the critical judgements that can significantly affect the amounts recognised in the Financial Information are disclosed below:

Estimated impairment on other receivables

Management regularly reviews the recoverability of other receivables. Appropriate impairment for estimated irrecoverable amounts are recognised in profit and loss when there is objective evidence that the amounts are not recoverable.

In determining whether allowances for bad and doubtful debts is required, the Group takes into consideration the aged status and likelihood of collection. Specific allowance is only made for receivables that are unlikely to be collected and is recognised based on the estimation of the future cash flow expected to receive and a suitable discounted rate in order to calculate the present value.

5. TURNOVER AND SEGMENTAL INFORMATION

The China Mining Group did not generate any turnover during the Relevant Periods and the six months ended 30 June 2006.

No business segment information is presented as China Mining Group had no operation during the Relevant Periods.

No geographical segment information is presented as all of the China Mining Group's assets and liabilities are situated in the PRC.

6. LOSS BEFORE TAXATION

	From 16 November 2004 (date of incorporation) to 31 December	Year ended 31 December		Six months ended 30 June	
	2004	2005	2006	2006	2007
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (*Unaudited*)	*RMB'000*
Loss before taxation has been arrived at after charging:					
Staff costs, including directors' emoluments *(Note 7)*					
- salaries and allowances	—	30	146	41	188
- retirement benefit scheme contributions	—	—	4	—	7
Total staff costs	—	30	150	41	195
Auditors' remuneration	—	—	—	—	—
Depreciation of plant and equipment	—	8	20	7	20
Operating lease rentals in respect of land and buildings	—	29	23	9	22
and after crediting:					
Bank interest income	—	(6)	—	—	(1)

7. DIRECTORS' REMUNERATION AND EMPLOYEES' REMUNERATION

Directors' remuneration

During the Relevant Periods, no emoluments were paid by China Mining Group to any directors of China Mining.

None of the directors waived any emoluments during the Relevant Periods.

Employees' remuneration

The five individuals with the highest emoluments in the China Mining Group for the Relevant Periods are as follows:

	From 16 November 2004 (date of incorporation) to 31 December	Year ended 31 December		Six months ended 30 June	
	2004	**2005**	**2006**	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(Unaudited)*	*RMB'000*
Salaries and allowances	—	30	146	41	188
Retirement benefit scheme contributions	—	—	4	—	7
Total staff costs	—	30	150	41	195

During the Relevant Periods, no emoluments have been paid by the China Mining Group to any directors or the five highest paid individuals as an inducement to join or upon joining the China Mining Group, or as compensation for loss of office.

8. TAXATION

Taxation in the PRC is calculated at the rates of tax prevailing in the PRC.

No provision for taxation had been made for China Mining Group as it did not generate any assessable profits in Hong Kong or other jurisdiction during the Relevant Periods.

China Mining Group is not subject to Hong Kong Profits Tax as its income neither arises in, nor is derived from, Hong Kong.

8. TAXATION *(Continued)*

The charge for the Relevant Periods can be reconciled to the loss per the consolidated income statements as follows:

	From 16 November 2004 (date of incorporation) to 31 December	Year ended 31 December		Six months ended 30 June	
	2004	**2005**	**2006**	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(Unaudited)*	*RMB'000*
Loss before taxation	(30)	(276)	(2,307)	(673)	(928)
Tax at the statutory Enterprise Income Tax rate of 33%	(10)	(91)	(761)	(222)	(306)
Tax effect on income not taxable for tax purposes	—	(2)	—	—	—
Tax effect on expenses not deductible for tax purposes	10	93	761	222	306
Tax charge	—	—	—	—	—

No deferred tax has been provided as China Mining Group did not have any significant temporary differences which gave rise to a deferred tax asset or liability at the balance sheet date for the Relevant Periods presented.

9. PLANT AND EQUIPMENT

China Mining Group

	Motor vehicles	Furniture, fixtures and equipment	Total
	RMB'000	*RMB'000*	*RMB'000*
COST			
At 16 November 2004, 31 December 2004 and 1 January 2005	—	—	—
Additions	120	6	126
At 31 December 2005 and 1 January 2006	120	6	126
Additions	—	18	18
Acquisition of a subsidiary	282	16	298
At 31 December 2006 and 1 January 2007	402	40	442
Additions	—	6	6
At 30 June 2007	402	46	448
ACCUMULATED DEPRECIATION AND IMPAIRMENT			
At 16 November 2004, 31 December 2004 and 1 January 2005	—	—	—
Provided for the year	7	1	8
At 31 December 2005 and 1 January 2006	7	1	8
Provided for the year	16	4	20
At 31 December 2006 and 1 January 2007	23	5	28
Provided for the period	16	4	20
At 30 June 2007	39	9	48
NET CARRYING VALUE			
At 30 June 2007	363	37	400
At 31 December 2006	379	35	414
At 31 December 2005	113	5	118
At 31 December 2004	—	—	—

9. PLANT AND EQUIPMENT *(Continued)*

China Mining

	Motor vehicles	**Furniture, fixtures and equipment**	**Total**
	RMB'000	*RMB'000*	*RMB'000*
COST			
At 16 November 2004, 31 December 2004 and 1 January 2005	—	—	—
Additions	120	6	126
At 31 December 2005 and 1 January 2006	120	6	126
Additions	—	20	20
At 31 December 2006 and 30 June 2007	120	26	146
ACCUMULATED DEPRECIATION AND IMPAIRMENT			
At 16 November 2004, 31 December 2004 and 1 January 2005	—	—	—
Provided for the year	7	1	8
At 31 December 2005 and 1 January 2006	7	1	8
Provided for the year	12	3	15
At 31 December 2006 and 1 January 2007	19	4	23
Provided for the period	6	2	8
At 30 June 2007	25	6	31
NET CARRYING VALUE			
At 30 June 2007	95	20	115
At 31 December 2006	101	22	123
At 31 December 2005	113	5	118
At 31 December 2004	—	—	—

The following rates are used for the depreciation of plant and equipment after considering their respective useful lives and estimated residual value:

Motor vehicles	5-10 years
Furniture, fixtures and equipment	5 years

10. INVESTMENT IN A SUBSIDIARY

	At 31 December			At 30 June
	2004	2005	2006	2007
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Investment in a subsidiary	—	—	3,756	3,756

Particulars of the subsidiary as at 31 December 2006 and 30 June 2007 are as follows:

Name of subsidiary	Place and date of establishment	Registered capital	Proportion of equity interest directly held	Principal activities
Fujian Tiancheng Mining Corporation* 福建天成礦業有限公司 ("Tiancheng")	The PRC 12 March 2004	RMB7,652,900	95%	Exploration and exploitation of precious metals and mineral resources in the PRC

During the year ended 31 December 2006, Mr. Tang Xue Jin (the "Vendor") acquired 95% equity interests in Tiancheng. These 95% equity interests in Tiancheng are held by the Vendor on trust for the benefits of China Mining. The remaining 5% equity interests in Tiancheng are held by Mr. Tang Xue Da, an independent third party to the Company and a close family member of the Vendor.

Pursuant to the terms and conditions of the formal agreement dated 17 October 2007 entered into among the Vendor, China Mining and Smart Union Mining Investments Limited (formerly known as Queen Glory Limited) ("SUMI") for the Proposed Acquisition, the Vendor undertook that China Mining will become the legal and beneficial owner of the 95% interests in Tiancheng on or before 30 April 2008 (or such other date as may be agreed between the parties in writing).

11. BANK BALANCES AND CASH

Bank balances and cash comprise cash held by the China Mining Group and short-term bank deposits with an original maturity of three months or less. The deposits carry interest at prevailing market rates.

The directors consider that carrying amounts of these assets approximate their fair values due to their short-term of maturities.

12. SHARE CAPITAL

	At 31 December						At 30 June	
	2004		2005		2006		2007	
	No. of shares ('000)	*RMB'000*	*No. of shares ('000)*	*RMB'000*	*No. of shares ('000)*	*RMB'000*	*No. of shares ('000)*	*RMB'000*
Authorised:								
At beginning and end of the year/ period	50	414	50	414	50	414	50	414
Issued and fully paid:								
At beginning and end of the year/ period	50	414	50	414	50	414	50	414

On 16 November 2004, China Mining was incorporated with an initial share capital of US$50,000 (equivalent to approximately HK$414,000) divided into 50,000 ordinary shares of US$1.00 each. Upon incorporation, the Company issued 50,000 ordinary shares of US$1 each at par for cash.

13. RESERVES

	Share capital *RMB'000*	Other reserve *RMB'000*	Accumulated losses *RMB'000*	Total *RMB'000*
At 16 November 2004 (date of incorporation)	414	—	—	414
Loss for the period	—	—	(30)	(30)
At 31 December 2004 and 1 January 2005	414	—	(30)	384
Loss for the year	—	—	(276)	(276)
At 31 December 2005 and 1 January 2006	414	—	(306)	108
Loss for the year	—	—	(2,094)	(2,094)
Shareholder's contribution	—	3,756	—	3,756
At 31 December 2006 and 1 January 2007	414	3,756	(2,400)	1,770
Loss for the period	—	—	(321)	(321)
At 30 June 2007	414	3,756	(2,721)	1,449

14. ACQUISITION OF A SUBSIDIARY

On 1 October 2006, China Mining acquired 95% of the equity interests in Tiancheng, a company established in the PRC with limited liability. The acquisition has been accounted for using the purchase method of accounting and particulars of the acquisition are as follows:

	Fair value
	RMB'000
Net assets acquired:	
Plant and equipment	298
Prepayments, deposits and other receivables	3,691
Bank balances and cash	131
Accruals and other payables	(166)
Minority interests	(198)
Net assets	3,756
Satisfied by:	
Shareholder's contribution	3,756
Net cash inflow arising on acquisition:	
Bank balances and cash acquired	131

Tiancheng, which was acquired by the Group on 1 October 2006, did not have significant contribution to China Mining Group's turnover for the year ended 31 December 2006 and the period from 1 January 2007 to 30 June 2007.

For the year ended 31 December 2006 and the period from 1 January 2007 to 30 June 2007, no significant profit (loss) from operations or cash flows were contributed by Tiancheng.

15. RETIREMENT BENEFIT SCHEMES

The employees of China Mining Group are members of state-managed retirement benefit schemes (the "Schemes") operated by the PRC government. China Mining Group is required to contribute certain percentage of the applicable payroll costs of permanent employees to the Schemes to fund the benefits. The only obligation of China Mining Group with respect to the Schemes is to make the required contributions under the Schemes.

16. OPERATING LEASE COMMITMENTS

At the respective balance sheet dates, China Mining Group had commitments for future minimum lease payment under non-cancellable operating lease which fall due as follows:

	At 31 December			At 30 June
	2004	**2005**	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within one year	50	21	49	46
In second to fifth year inclusive	41	36	20	—
	91	57	69	46

Operating lease payments represent rentals payable by China Mining Group for office premises. Leases are negotiated for an average term of three years and rentals are fixed for an average of three years.

17. RELATED PARTY TRANSACTIONS

Compensation to key management personnel

No remuneration was paid to directors and key management personnel for the Relevant Periods.

18. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

China Mining Group's principal financial instruments to raise finance for China Mining Group's operations comprise bank balances and cash. China Mining Group has various other financial instruments such as prepayments, deposits and other receivables and accruals and other payables which arise directly from its operations.

The main risks arising from China Mining Group's financial instruments are credit risk. The directors review and agree policies for managing each of these risks and they are summarised below.

Credit risk

China Mining Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31 December 2004, 2005 and 2006 and at 30 June 2007 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheets.

With respect to credit risk arising from the other financial assets of China Mining Group which comprise cash and cash equivalents and other receivables, China Mining Group's exposure to credit risk arising from default of the counter parties is limited as the counter parties have good credit standing and the Group does not expect to incur significant loss for uncollected advances / receivables from these entities.

Capital management

The primary objective of China Mining's capital management is to safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders.

18. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Capital management *(Continued)*

China Mining Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions. In order to maintain or adjust the capital structure, China Mining Group may raise capital and borrowings. China Mining Group monitors capital by maintaining cash flows from operating activities, investing activities and financing activities. Capital of China Mining comprises all components of equity.

Fair value

The fair values of financial assets and financial liabilities reported in the balance sheets of the China Mining Group and China Mining approximate their carrying amounts due to their immediate or short-term maturities.

19. SUBSEQUENT EVENTS

On 17 October 2007, SUMI, which is a wholly-owned subsidiary of Smart Union Group (Holdings) Limited, entered into a formal agreement with Mr. Tang Xue Jin regarding the equity interest in China Mining. Details of the formal agreement are set out in Letter from the Board of this Circular.

II. DIRECTORS' REMUNERATION

Save as disclosed in this report, no remuneration was paid or is payable in respect of the Relevant Periods by China Mining to its directors.

III. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statement have been prepared for China Mining or the China Mining Group in respect of any period subsequent to 30 June 2007.

Yours faithfully,

SHINEWING (HK) CPA Limited
Certified Public Accountants
Ip Yu Chak
Practising Certificate Number: P04798

Hong Kong
10 December 2007

1. SUMMARY OF FINANCIAL INFORMATION

The following table summaries the results, assets and liabilities of the Group for the last three financial years ended 31 December 2006 as extracted from the relevant published financial statements of the Group.

CONSOLIDATED INCOME STATEMENT

	Year ended 31st December		
	2006	**2005**	**2004**
	HK$'000	*HK$'000*	*HK$'000*
Sales	727,225	709,566	550,696
Cost of sales	(604,952)	(603,444)	(471,278)
Gross profit	122,273	106,122	79,418
Other income, net	3,710	5,265	812
Administrative expenses	(80,217)	(63,572)	(56,277)
Operating profit	45,766	47,815	23,953
Finance costs	(9,998)	(5,773)	(1,839)
Profit before tax	35,768	42,042	22,114
Income tax expense	(5,136)	(5,370)	(3,075)
Profit for the year	30,632	36,672	19,039
Attributable to:			
Equity holders of the Company	30,025	36,672	19,167
Minority interest	607	—	(128)
	30,632	36,672	19,039
Dividends	14,400	23,000	5,200

CONSOLIDATED BALANCE SHEET

	As at 31st December		
	2006	**2005**	**2004**
	HK$'000	*HK$'000*	*HK$'000*
Non-current assets	53,923	36,456	17,994
Current assets	429,341	264,771	242,437
Current liabilities	(313,504)	(202,140)	(186,942)
Non-current liabilities	(2,749)	(6,013)	(4,334)
Minority interest	(607)	—	—
Capital and reserves attributable to the Company's equity holders	166,404	93,074	69,155

2. AUDITED CONSOLIDATED FINANCIAL STATEMENTS

The following are the audited financial statements of the Group for the year ended 31 December 2006 together with accompanying notes as extracted from the 2006 Annual Report of the Company. References to page numbers in this section are to the page numbers of the 2006 Annual Report of the Company.

Consolidated Balance Sheet
As at 31st December 2006

	Note	**2006**	**2005**
		HK$'000	*HK$'000*
ASSETS			
Non-current assets			
Property, plant and equipment	7	43,245	28,963
Land use rights	8	4,516	—
Intangible assets	9	632	—
Available-for-sale financial assets	11	5,120	2,999
Deposits and other receivables	12	276	3,896
Deferred income tax assets	20	134	598
		53,923	36,456
Current assets			
Inventories	13	240,322	152,689
Trade receivables	14	104,029	84,537
Prepayments, deposits and other receivables	12	12,857	13,146
Amount due from a related company	34	—	73
Derivative financial instrument	23	1,247	—
Current income tax recoverable		737	—
Pledged bank deposits	15	5,267	2,837
Bank balances and cash	16	64,882	11,489
		429,341	264,771
Total assets		483,264	301,227

	Note	**2006** *HK$'000*	**2005** *HK$'000*
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	17	24,000	1,500
Share premium	18	30,742	—
Other reserves	18	25,830	25,767
Retained earnings	18	85,832	65,807
		166,404	93,074
Minority interest		607	—
Total equity		167,011	93,074
LIABILITIES			
Non-current liabilities			
Borrowings	19	2,749	6,013
Current liabilities			
Trade payables	21	158,837	111,926
Other payables and accruals	22	24,113	25,471
Amounts due to directors	34	—	3,456
Amount due to a related company	34	—	266
Borrowings	19	130,554	57,582
Current income tax liabilities		—	3,439
		313,504	202,140
Total liabilities		316,253	208,153
Total equity and liabilities		483,264	301,227
Net current assets		115,837	62,631
Total assets less current liabilities		169,760	99,087

Balance Sheet
As at 31st December 2006

	Note	**2006**
		HK$'000
ASSETS		
Non-current assets		
Investments in subsidiaries	10	80,422
Current assets		
Prepayments	12	195
Amounts due from subsidiaries	34	31,996
Bank balances	16	21,395
		53,586
Total assets		134,008
EQUITY		
Capital and reserves attributable to the Company's equity holders		
Share capital	17	24,000
Share premium	18	30,742
Other reserve	18	78,922
Retained earnings	18	344
Total equity		134,008

Consolidated Income Statement — By Function of Expense
For the year ended 31st December 2006

	Note	**2006** *HK$'000*	**2005** *HK$'000*
Sales	5&6	727,225	709,566
Cost of sales	25	(604,952)	(603,444)
Gross profit		122,273	106,122
Other income, net	24	3,710	5,265
Administrative expenses	25	(80,217)	(63,572)
Operating profit		45,766	47,815
Finance costs	26	(9,998)	(5,773)
Profit before tax		35,768	42,042
Income tax expense	27	(5,136)	(5,370)
Profit for the year		30,632	36,672
Attributable to:			
Equity holders of the Company	29	30,025	36,672
Minority interest		607	—
		30,632	36,672
Earnings per share for profit attributable to the equity holders of the Company during the year			
- basic	30	0.15	0.20
- diluted	30	0.15	0.20
Dividends	31	14,400	23,000

Consolidated Statement of Changes in Equity
For the year ended 31st December 2006

	Attributable to the equity holders of the Company						
	Share capital	**Share premium**	**Other reserves**	**Retained earnings**	**Total**	**Minority interest**	**Total equity**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Balance at 1st January 2005	1,500	—	25,520	42,135	69,155	—	69,155
Currency translation differences	—	—	247	—	247	—	247
Profit for the year	—	—	—	36,672	36,672	—	36,672
Total recognised income for 2005	—	—	247	36,672	36,919	—	36,919
Dividends relating to 2005	—	—	—	(13,000)	(13,000)	—	(13,000)
Balance at 31st December 2005	1,500	—	25,767	65,807	93,074	—	93,074
Balance at 1st January 2006	1,500	—	25,767	65,807	93,074	—	93,074
Revaluation of available-for-sale financial assets	—	—	121	—	121	—	121
Currency translation differences	—	—	(58)	—	(58)	—	(58)
Profit for the year	—	—	—	30,025	30,025	607	30,632
Total recognised income for 2006	—	—	63	30,025	30,088	607	30,695
Net proceeds from issuance of new shares	6,000	47,242	—	—	53,242	—	53,242
Capitalisation upon issue of new shares	16,500	(16,500)	—	—	—	—	—
Special dividend relating to 2005	—	—	—	(10,000)	(10,000)	—	(10,000)
	22,500	30,742	—	(10,000)	43,242	—	43,242
Balance at 31st December 2006	24,000	30,742	25,830	85,832	166,404	607	167,011

Consolidated Cash Flow Statements

For the year ended 31st December 2006

	Note	**2006** *HK$'000*	**2005** *HK$'000*
Cash flows from operating activities			
Cash generated from operations	32	5,033	26,271
Interest paid		(9,998)	(5,773)
Profits tax paid		(8,866)	(1,283)
Profit tax refund		18	—
Net cash (used in)/generated from operating activities		(13,813)	19,215
Cash flows from investing activities			
Purchase and construction of property, plant and equipment		(21,950)	(20,592)
Proceeds from disposal of property, plant and equipment	32	131	388
Purchase of land use rights		(4,593)	—
Increase in intangible assets		(886)	—
Purchase of available-for-sales financial assets		(2,000)	—
(Increase)/decrease in pledged deposits		(2,430)	1,922
Interest received		764	1,350
Net cash used in investing activities		(30,964)	(16,932)
Cash flows from financing activities			
Proceeds from new borrowings		357,626	142,687
Repayment of borrowings		(293,683)	(150,044)
Decrease in amounts due to directors		(3,456)	(53)
Decrease in amount due to a related company		(266)	(719)
Dividends paid		(21,000)	(2,000)
Issue of shares		66,000	—
Payment of share issuance expenses		(12,758)	—
Net cash generated from/(used in) financing activities		92,463	(10,129)
Net increase/(decrease) in cash and cash equivalents		47,686	(7,846)
Cash and cash equivalents at 1st January		9,110	16,709
Exchange (losses)/gains on cash and cash equivalents		(58)	247
Cash and cash equivalents at 31st December	16	56,738	9,110

1 GENERAL INFORMATION, GROUP REORGANISATION AND BASIS OF PRESENTATION

1.1 General information

Smart Union Group (Holdings) Limited (the "Company") was incorporated in the Cayman Islands on 8th March 2006 as an exempted company with limited liability. The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. The shares of the Company have been listed on the Main Board of the Stock Exchange of Hong Kong Limited ("HKSE") since 29th September 2006.

The Company and its subsidiaries (the "Group") are principally engaged in the manufacturing and trading of recreational and educational toys and equipment. Details of the subsidiaries of the Group are set out in Note 10 to the consolidated financial statements.

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

These consolidated financial statements are presented in Hong Kong Dollar ("HK$"), unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on 20th April 2007.

1.2 Group reorganisation and basis of presentation

Pursuant to an agreement dated 1st September 2006, the Company acquired the entire issued capital of Smart Union Investments Limited through a share swap, and became the holding company of the companies now comprising the Group (the "Reorganisation").

The Reorganisation was a combination of entities under common control of the major shareholders. The major shareholders have remained the same and the respective rights of each shareholder have remained unchanged immediately before and after the Reorganisation. Accordingly, the Reorganisation had been accounted for using merger accounting, as prescribed in Hong Kong Accounting Guideline 5 "Merger Accounting for Common Control Combinations" issued by the Hong Kong Institute of Certified Public Accountants.

The consolidated financial statements present the consolidated income statements, consolidated statements of changes in equity and consolidated cash flow statements of the companies comprising the Group as if the corporate structure of the Group had been in existence from the beginning of the earliest period presented or, where this is a shorter period, since the respective dates of incorporation or establishment of the companies comprising the Group. The consolidated balance sheet of the Group as at 31st December 2005 has been prepared to present the assets and liabilities of the Group as at 31st December 2005 as if the current group structure had been in existence at 31st December 2005.

The Company's balance sheet as at 31st December 2005 is not presented as the Company was incorporated on 8th March 2006.

A uniform set of accounting policies is adopted by the combining entities. All intra-group transactions, balances and unrealised gains on transactions between combining entities or businesses are eliminated on consolidation.

2 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.

2.1 Basis of preparation

The consolidated financial statements of the Company have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 4.

(a) ***Interpretations to existing standards that are not yet effective and have not been early adopted by the Group***

The following interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1st May 2006 or later periods that the Group has not early adopted:

- HK(IFRIC)-Int 8, Scope of HKFRS 2 (effective for annual periods beginning on or after 1st May 2006). HK(IFRIC)-Int 8 requires consideration of transactions involving the issuance of equity instruments - where the identifiable consideration received is less than the fair value of the equity instruments issued - to establish whether or not they fall within the scope of HKFRS 2. The Group will apply HK(IFRIC)-Int 8 from 1st January 2007, but it is not expected to have any impact on the Group's consolidated financial statements; and

- HK(IFRIC)-Int 10, Interim Financial Reporting and Impairment (effective for annual periods beginning on or after 1st November 2006). HK(IFRIC)-Int 10 prohibits the impairment losses recognised in an interim period on goodwill, investments in equity instruments and investments in financial assets carried at cost to be reversed at a subsequent balance sheet date. The Group will apply HK(IFRIC)-Int 10 from 1st January 2007, but it is not expected to have any impact on the Group's financial statements.

(b) ***Interpretation to existing standards that are not yet effective and not relevant for the Group's operations***

The following interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1st March 2006 or later periods but are not relevant for the Group's operations:

- HK(IRFIC)-Int 7, Applying the Restatement Approach under HKAS 29, Financial Reporting in Hyperinflationary Economies (effective from 1st March 2006). HK(IFRIC)-Int 7 provides guidance on how to apply requirements of HKAS 29 in a reporting period in which an entity identifies the existence of hyperinflation in the economy of its functional currency, when the economy was not hyperinflationary in the prior period. As none of the group entities have a currency of a hyperinflationary economy as its functional currency, HK(IFRIC)-Int 7 is not relevant to the Group's operations; and

- HK(IFRIC)-Int 9, Reassessment of embedded derivatives (effective for annual periods beginning on or after 1st June 2006). HK(IFRIC)-Int 9 requires an entity to assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when the entity first becomes a party to the contract. Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment if required. As none of the group entities have changed the terms of their contracts, HK(IFRIC)-Int 9 is not relevant to the Group's operations.

(c) ***Standards, amendments and interpretations effective in 2006 but not relevant for the Group's operations***

The following standards, amendments and interpretations are mandatory for accounting periods beginning on or after 1st January 2006 but are not relevant to the Group's operations:

- HKAS 19 Amendment - Employee Benefits
- HKAS 21 Amendment — Net Investment in a Foreign Operation;
- HKAS 39 Amendment — Cash Flow Hedge Accounting of Forecast Intragroup Transactions;
- HKAS 39 Amendment — The Fair Value Option;
- HKAS 39 and HKFRS 4 Amendment — Financial Guarantee Contracts;
- HKFRS 6 Exploration for and Evaluation of Mineral Resources;
- HKFRS 1 Amendment — First-time Adoption of Hong Kong Financial Reporting Standards and HKFRS 6 (Amendment), Exploration for and Evaluation of Mineral Resources;
- HK(IFRIC)-Int 4, Determining whether an Arrangement contains a Lease;
- HK(IFRIC)-Int 5, Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds; and
- HK(IFRIC)-Int 6, Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment.

2.2 **Consolidation**

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

(a) ***Subsidiaries***

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

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

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

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

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision for impairment losses (Note 2.8). The results of subsidiaries are accounted by the Company on the basis of dividend received and receivable.

(b) ***Transactions and minority interests***

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

2.3 **Segment reporting**

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

2.4 **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 HK$, which is the Company's functional and presentation currency.

(b) ***Transactions and balances***

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated income statement, except when deferred in equity as qualifying cash flow hedges or qualifying net investment hedges.

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

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

(c) ***Group companies***

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

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

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

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

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

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

2.5 **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 expensed in the consolidated income statement during the financial period in which they are incurred.

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

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

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.8).

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

2.6 **Construction in progress**

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

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

No depreciation is provided in respect of construction in progress.

2.7 **Intangible assets**

Research expenditure is expensed as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are recognised as intangible assets when it is probable that the project will be a success considering its commercial and technological feasibility, and costs can be measured reliably. Other development expenditures are expensed as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Development costs with a finite useful life that have been capitalised are amortised from the commencement of the commercial production of the product based on the number of units sold over the total units expected to be sold.

2.8 **Impairment of investments in subsidiaries and non-financial assets**

Assets that have an indefinite useful life or have not yet available for use are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation 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). Assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.9 **Financial assets**

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

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

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

(b) ***Loans and receivables***

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are classified as trade and other receivables in the balance sheet. (Note 2.12)

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

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

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

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

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

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

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

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

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss - is removed from equity and recognised in the consolidated income statement. Impairment losses recognised in the consolidated income statement on equity instruments are not reversed through the consolidated income statement. Impairment testing of trade receivables is described in Note 2.12.

2.10 **Derivative financial instruments and hedging activities**

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

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

Derivative instruments do not qualify for hedge accounting are accounted for at fair value through profit or loss. Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in the consolidated income statement within "other income, net".

2.11 **Inventories**

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

2.12 **Trade and other receivables**

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

2.13 **Cash and cash equivalents**

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

2.14 **Share capital**

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

2.15 **Trade payable**

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

2.16 **Borrowings**

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

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

2.17 **Deferred income tax**

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

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

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

2.18 **Employee benefits**

(a) ***Pension obligations***

(i) Hong Kong

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

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

(ii) The People’s Republic of China (the “PRC”)

The Group participates in a defined contribution scheme administrated by the relevant authority of the PRC. Contributions to the scheme are calculated as a percentage of employees’ salaries. The Group’s contributions to the defined contribution retirement scheme are expensed as incurred. The Group has no further obligation in connection with other retirement benefits.

(b) ***Employee leave entitlements***

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

2.19 **Provisions**

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is more likely than not 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.

2.20 **Revenue recognition**

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

(a) ***Sales of goods and scrap materials***

Sales of goods and scrap materials are recognised when a group entity has delivered products to the customer, the customer has accepted the products and collectibility of the related receivables is reasonably assured.

(b) ***Interest income***

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

2.21 **Borrowing costs**

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

2.22 **Lease**

(a) ***Operating lease***

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

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

(b) ***Finance lease***

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

2.23 **Dividend distribution**

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

3 FINANCIAL RISK MANAGEMENT

3.1 **Financial risk factors**

The Group's activities expose it to a variety of financial risks: foreign exchange risk, price risk, credit risk, liquidity risk, and cash flow and fair value interest rate risk. The Group mainly focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to hedge certain risk exposures.

(i) ***Foreign exchange risk***

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

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

To manage their foreign exchange risk arising from future commercial transactions and recognised assets and liabilities, the Group uses certain foreign exchange derivative contracts to manage their foreign exchange risk in 2006.

(ii) ***Price risk***

The Group is exposed to price risk because investments held by the Group are classified on the consolidated balance sheet as available-for-sale financial assets.

(iii) ***Credit risk***

The carrying amounts of trade receivables and other current assets except for inventories and prepayments, pledged bank deposits and bank balances and cash, represent the Group's maximum exposure to credit risk in relation to financial assets. The Group has policies that limit the amount of credit exposure to any financial institutions. The Group also has policies in place to ensure that sales of products are made to customers with an appropriate credit history. Although sales to large or long-established customers with good repayment history comprise a significant proportion of the Group's sales, the Group has policies on granting different settlement methods to different customers.

(iv) ***Liquidity risk***

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities. Due to the dynamic nature of the underlying businesses, the Group aims to maintain flexibility in funding by keeping committed credit lines available.

The Group's primary cash requirements are for purchases of materials, machinery and equipment and payments of related debts and staff costs. The Group finances its working capital requirements through a combination of funds generated from operations and bank borrowings.

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

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

The Group's interest rate risk arises from bank deposits, bank balances and borrowings. The Group regularly seeks out the most favourable interest rates available for its bank deposits, bank balances and borrowings. Bank deposits, bank balances and borrowings issued at variable rates expose the Group to cash flow interest rate risk. Information relating to the interest rates and terms of the Group's bank deposits, bank balances and borrowings are disclosed in Notes 15, 16 and 19.

The Group has not used any interest rate swaps to hedge its exposure to interest rate risk.

3.2 **Fair value estimation**

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

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

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

The fair value of financial assets, including non-current portion of deposits and other receivables, and financial liabilities including non-current portion of borrowings for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate available to the Group for similar financial instruments. The fair values of non-current deposits and other receivables and borrowings are disclosed in Notes 12 and 19.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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) Useful lives of property, plant and machinery

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

(b) Net realisable value of inventories

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

(c) Provision for impairment of trade and other receivables

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

(d) Estimated fair values of foreign exchange derivative contracts

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

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

5 TURNOVER

	2006	**2005**
	HK$'000	*HK$'000*
Sales of goods	727,225	709,566

6 SEGMENT INFORMATION

Primary reporting format — business segments

The products and services provided by the Group are all related to the manufacturing and trading of recreational and educational toys and equipment and subject to similar business risk. No business segment information has been prepared by the Group for the year ended 31st December 2006.

Secondary reporting format — geographical segments

The Group primarily operates in Hong Kong and the PRC. Sales are mainly made to customers in America and Europe.

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

	2006	2005
	HK$'000	*HK$'000*
America	503,866	536,891
Europe	154,419	137,242
Others	68,940	35,433
	727,225	709,566

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

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

	2006	2005
	HK$'000	*HK$'000*
Hong Kong	177,027	105,574
The PRC	306,237	195,653
	483,264	301,227

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

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

	2006	2005
	HK$'000	*HK$'000*
Hong Kong	481	105
The PRC	21,469	20,487
	21,950	20,592

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

7 PROPERTY, PLANT AND EQUIPMENT

	Group						
	Construction in progress	Buildings	Leasehold improvements	Plant and machinery	Office equipment, furniture and fixtures	Motor vehicles	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1st January 2005							
Cost	—	—	8,903	24,790	10,837	1,228	45,758
Accumulated depreciation	—	—	(6,375)	(17,133)	(6,663)	(592)	(30,763)
Net book amount	—	—	2,528	7,657	4,174	636	14,995
Year ended 31st December 2005							
Opening net book amount	—	—	2,528	7,657	4,174	636	14,995
Additions	14,822	—	161	3,333	2,276	—	20,592
Disposals	—	—	(83)	(118)	(233)	—	(434)
Depreciation	—	—	(1,176)	(3,169)	(1,632)	(213)	(6,190)
Closing net book amount	14,822	—	1,430	7,703	4,585	423	28,963
At 31st December 2005							
Cost	14,822	—	8,935	27,865	12,659	1,228	65,509
Accumulated depreciation	—	—	(7,505)	(20,162)	(8,074)	(805)	(36,546)
Net book amount	14,822	—	1,430	7,703	4,585	423	28,963
Year ended 31st December 2006							
Opening net book amount	14,822	—	1,430	7,703	4,585	423	28,963
Additions	12,592	2,367	150	5,160	1,681	—	21,950
Disposals	—	—	(60)	(225)	(225)	—	(510)
Transfers	(21,962)	17,875	937	3,035	115	—	—
Depreciation	—	(202)	(1,223)	(3,729)	(1,788)	(216)	(7,158)
Closing net book amount	5,452	20,040	1,234	11,944	4,368	207	43,245
At 31st December 2006							
Cost	5,452	20,242	6,333	34,484	13,156	1,229	80,896
Accumulated depreciation	—	(202)	(5,099)	(22,540)	(8,788)	(1,022)	(37,651)
Net book amount	5,452	20,040	1,234	11,944	4,368	207	43,245

Depreciation expense of HK$5,753,000 (2005: HK$4,663,000) has been charged in cost of sales and HK$1,405,000 (2005: HK$1,527,000) in administrative expenses.

Machinery and motor vehicles include the following amounts where the Group is a lessee under finance leases:

	2006	**2005**
	HK$'000	*HK$'000*
Machinery		
Cost - capitalised finance leases	—	743
Accumulated depreciation	—	(396)
Net book amount	—	347
Motor vehicles		
Cost - capitalised finance leases	316	316
Accumulated depreciation	(135)	(74)
Net book amount	181	242

8 LAND USE RIGHTS

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

	Group	
	2006	**2005**
	HK$'000	*HK$'000*
At 1st January	—	—
Additions	4,593	—
Amortisation	(77)	—
At 31st December	4,516	—
Analysed as:		
Land use rights in the PRC of between 10 to 50 years	4,516	—

9. INTANGIBLE ASSETS

	Group
	2006
	HK$'000
At 1st January	—
Additions	886
Amortisation expense	(254)
At 31st December	632
As at 31st December 2006	
Cost	886
Accumulated amortisation	(254)
Net book amount	632

Intangibles include internally generated capitalised toys development costs.

Amortisation of intangible assets is charged to cost of sales.

10 INVESTMENTS IN SUBSIDIARIES

	Company	
	2006	**2005**
	HK$'000	*HK$'000*
Investments, at cost:		
Unlisted shares	80,422	—

The following is a list of the subsidiaries at 31st December 2006:

Company name	Place of incorporation/ establishment	Issued/ registered and fully paid up share capital/ paid-in capital	Attributable equity interests Direct	Attributable equity interests Indirect	Principal activities and place of operation
Smart Union 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%	Trading of gifts in Hong Kong
Current Creation Limited	Hong Kong	HK$2	—	100%	Inactive
Dream Link Limited	Hong Kong	HK$1,000,000	—	69%	Trading of gifts in Hong Kong
Perfect Design and Product Development	Hong Kong	HK$10,000	—	100%	Manufacturing and design of toy moulds in Hong Kong
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%	Provision of management services in Hong Kong
Smart Union Industrial Limited	Hong Kong	HK$10,000	—	100%	Manufacturing and trading of toys in the PRC and Hong Kong
Smart Union (Qingyuan) Industrial Limited	The PRC	Registered capital of HK$30,000,000 with total paid up capital of HK$18,000,000	—	100%	Manufacturing of toys in the PRC
Smart Union Technology Limited	Hong Kong	HK$10,000	—	100%	Inactive
Topmark Industrial Limited	Hong Kong	HK$10,000	—	100%	Trading of toys and food containers in Hong Kong
Worldtrade Promotions Limited	Hong Kong	HK$10,000	—	100%	Trading of promotional products in Hong Kong

11 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Group	
	2006	**2005**
	HK$'000	*HK$'000*
At 1st January	2,999	2,999
Additions	2,000	—
Revaluation *(Note 18)*	121	—
At 31st December	5,120	2,999

Available-for-sale financial assets represent unlisted investment funds in Hong Kong, which have been pledged for certain bank borrowings of the Group (Note 19).

The carrying amounts of available-for-sale financial assets approximate their fair values.

12 PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2006	**2005**	**2006**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Prepayments	4,994	8,455	195	—
Deposits	3,701	3,162	—	—
Other receivables	4,438	5,425	—	—
	13,133	17,042	195	—
Less: non-current portion	(276)	(3,896)	—	—
Current portion	12,857	13,146	195	—

The carrying amounts of prepayments, deposits and other receivables approximate their fair values.

13 INVENTORIES

	Group	
	2006	**2005**
	HK$'000	*HK$'000*
Raw materials	99,210	60,143
Work in progress	105,834	64,147
Finished goods	35,278	28,399
	240,322	152,689

The carrying amounts of inventories that were carried at fair value less costs to sell as at 31st December 2006 amounted to approximately HK$4,873,000 (2005: HK$1,963,000).

The cost of inventories recognised as expenses and included in cost of sales during the year ended 31st December 2006 and 2005 are as follows:

	Group	
	2006	**2005**
	HK$'000	*HK$'000*
Cost of inventories	604,196	600,177

14 TRADE RECEIVABLES

	Group	
	2006	**2005**
	HK$'000	*HK$'000*
Trade receivables	104,701	86,409
Less: provision for impairment of receivables	(672)	(1,872)
	104,029	84,537

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

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

The aging analysis of trade receivables as at 31st December 2006 and 2005 are as follows:

	Group	
	2006	**2005**
	HK$'000	*HK$'000*
0 - 30 days	78,737	63,994
31 - 60 days	5,670	9,278
61 - 90 days	11,394	6,955
91 days - 1 year	8,633	5,365
1 - 2 years	267	817
	104,701	86,409

The sales to large or long-established customers with good repayment history comprise a significant proportion of the Group's sales. The Group has policies in place to ensure that sales of products are made to customers with an appropriate credit history to minimise the credit risk.

The Group has recognised losses of approximately HK$147,000 for the impairment of its trade receivables during the year ended 31st December 2006 (2005: HK$658,000). The losses have been included in administrative expenses in the consolidated income statement.

Trade receivables are denominated in the following currencies:

	Group	
	2006	**2005**
	HK$'000	*HK$'000*
HK$	43,104	37,927
US$	61,597	48,482
	104,701	86,409

As at 31st December 2006, the Group had factored trade receivables of approximately HK$27,350,000 (2005: Nil) to banks on a non-recourse basis. As the financial asset derecognitions as stipulated in HKAS 39 have been fulfilled, these factored receivables without recourse are derecognised.

15 PLEDGED BANK DEPOSITS

The effective interest rate on pledged bank deposits as at 31st December 2006 was 3.8% (2005: 3.2%). These pledged deposits for bank borrowings are denominated in HK$ and have an average maturity of 60 days (Note 19).

16 BANK BALANCES AND CASH

Bank balances and cash are denominated in the following currencies:

	Group		Company	
	2006	**2005**	**2006**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
HK$	42,187	6,323	21,395	—
US$	11,824	1,514	—	—
RMB	10,871	3,652	—	—
	64,882	11,489	21,395	—

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:

	2006	**2005**
	HK$'000	*HK$'000*
Bank balances and cash	64,882	11,489
Less: bank overdrafts *(Note 19)*	(8,144)	(2,379)
Cash and cash equivalents	56,738	9,110

17 SHARE CAPITAL

	Number of shares	Nominal value
		HK$'000
Authorised - ordinary shares of HK$0.1 each		
Upon incorporation *(Note 17(a))*	500,000	50
Increase in authorised share capital *(Note 17(a))*	1,999,500,000	199,950
	2,000,000,000	200,000
Issued and fully paid - ordinary shares of HK$0.1 each		
Upon incorporation *(Note 17(b))*	1	—
Issuance of shares upon the Reorganisation *(Note 17(b))*	14,999,999	1,500
New shares issued upon initial public offering ("IPO") *(Note 17(c))*	60,000,000	6,000
Capitalisation upon issue of new shares *(Note 17(d))*	165,000,000	16,500
	240,000,000	24,000

Notes:

(a) The Company was incorporated on 8th March 2006 with an authorised share capital of HK$50,000 divided into 500,000 shares of HK$0.1 each. On 1st September 2006, the authorised share capital was increased to HK$200,000,000 divided into 2,000,000,000 shares of HK$0.1 each, by the creation of 1,999,500,000 shares of HK$0.1 each.

(b) Upon incorporation, one share of HK$0.1 was alloted and issued for cash at par. Pursuant to the Reorganisation referred to in Note 1.2, on 1st September 2006, 14,999,999 shares of HK$0.1 each were alloted, issued and credited as fully paid at par.

(c) On 29th September 2006, the Company issued 60,000,000 shares of HK$0.1 each at approximately HK$1.1 per share in connection with the listing of the Company's shares on the HKSE (the "Listing"), and raised net proceeds of approximately HK$53 million.

(d) Immediately after the Listing, 165,000,000 shares were allotted and issued, credited as fully paid at par value of HK$0.1 each to the then shareholders of the Company in proportion to their respective shareholdings, by the capitalisation of HK$0.1 from the share premium account. Such allotment and capitalisation were conditional upon the share premium account being credited as a result of the new shares issued in connection with the Listing as described in Note 17(c) above.

18 RESERVES

(a) Group

	Share premium HK$'000	Available-for-sale financial assets HK$'000	Exchange reserve HK$'000	Merger reserve HK$'000 Note (i)	Retained earnings HK$'000	Total HK$'000
At 1st January 2005	—	—	—	25,520	42,135	67,655
Currency translation differences	—	—	247	—	—	247
Profit for the year attributable to equity holders of the Company	—	—	—	—	36,672	36,672
Dividends	—	—	—	—	(13,000)	(13,000)
At 31st December 2005	—	—	247	25,520	65,807	91,574
At 1st January 2006	—	—	247	25,520	65,807	91,574
Revaluation *(Note 11)*	—	121	—	—	—	121
Currency translation differences	—	—	(58)	—	—	(58)
Profit for the year attributable to equity holders of the Company	—	—	—	—	30,025	30,025
Net proceeds from issuance of new shares	47,242	—	—	—	—	47,242
Capitalisation of share premium *(Note 17(d))*	(16,500)	—	—	—	—	(16,500)
Special dividend relating to 2005	—	—	—	—	(10,000)	(10,000)
At 31st December 2006	30,742	121	189	25,520	85,832	142,404

(b) **Company**

	Share premium HK$'000	Merger reserve HK$'000 Note (ii)	Retained earnings HK$'000	Total HK$'000
At 8th March 2006 (date of incorporation)	—	—	—	—
Profit for the period attributable to equity holders of the Company	—	—	344	344
Reserve from Reorganisation	—	78,922	—	78,922
Net proceeds from issuance of new shares	47,242	—	—	47,242
Capitalisation of share premium *(Note 17(d))*	(16,500)	—	—	(16,500)
At 31st December 2006	30,742	78,922	344	110,008

Notes:

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

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

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

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

19 BORROWINGS

	Group	
	2006	**2005**
	HK$'000	*HK$'000*
Non-current		
Bank borrowings, secured	2,650	5,850
Finance lease liabilities	99	163
	2,749	6,013
Current		
Bank overdrafts, secured *(Note 16)*	8,144	2,379
Short-term bank loans, secured	16,000	5,000
Trust receipt bank loans, secured	90,416	47,533
Current portion of non-current bank borrowings, secured	3,200	2,500
Factoring facilities utilised	12,730	40
Finance lease liabilities	64	130
	130,554	57,582
Total borrowings	133,303	63,595

Secured bank borrowings are secured by available-for-sale financial assets amounting to HK$5,120,000 as at 31st December 2006 (2005: HK$2,999,000) (Note 11), corporate guarantees executed by the Company and pledged bank deposits amounted to HK$5,267,000 as at 31st December 2006 (2005: HK$2,837,000) (Note 15).

The maturities of the Group's borrowings as at 31st December 2006 and 2005 are as follows:

	2006	**2005**
	HK$'000	*HK$'000*
Within 1 year	130,554	57,582
Between 1 and 2 years	2,749	6,013
	133,303	63,595

Finance lease liabilities - minimum lease payments:

	Group 2006 *HK$'000*	Group 2005 *HK$'000*
Within 1 year	74	137
Between 1 and 2 years	104	174
	178	311
Future finance charges on finance leases	(15)	(18)
Present value of finance lease liabilities	163	293

The present value of finance lease liabilities is as follows:

	Group 2006 *HK$'000*	Group 2005 *HK$'000*
Within 1 year	64	130
Between 1 and 2 years	99	163
	163	293

The effective interest rates of the Group's borrowings as at 31st December 2006 and 2005 are as follows:

	Group 2006	Group 2005
Bank overdrafts	8.0%	8.5%
Other bank borrowings	7.5%	7.3%
Finance lease liabilities	3.3%	3.7%

The carrying amounts of borrowings approximate their fair values.

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

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	
	2006	**2005**
	HK$'000	*HK$'000*
Deferred income tax assets to be recovered after more than 12 months	134	598

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

	2006	**2005**
	HK$'000	*HK$'000*
At 1st January	598	(143)
Recognised in the consolidated income statement *(Note 27)*	(464)	741
At 31st December	134	598

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

Deferred income tax assets:

	Provision for impairment of assets	**Tax losses**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
At 1st January 2005	487	132	619
Recognised in the consolidated income statement	395	62	457
At 31st December 2005	882	194	1,076
At 1st January 2006	882	194	1,076
Recognised in the consolidated income statement	(748)	(194)	(942)
At 31st December 2006	134	—	134

Deferred income tax liabilities:

	Accelerated depreciation allowances	
	2006	**2005**
	HK$'000	*HK$'000*
At 1st January	(478)	(762)
Recognised in the consolidated income statement	478	284
At 31st December	—	(478)

Deferred income tax assets are recognised for tax losses carry-forwards to the extent that the realisation of the related tax benefits through the future taxable profits is probable. As at 31st December 2006, the Group did not recognise deferred income tax assets of HK$988,000 (2005: HK$1,222,000) in respect of losses amounting to HK$5,646,000 (2005: HK$6,984,000) that can be carried forward against future taxable income.

21 TRADE PAYABLES

The ageing analysis of trade payables as at 31st December 2006 and 2005 are as follows:

	Group	
	2006	**2005**
	HK$'000	*HK$'000*
0-30 days	83,478	46,364
31-60 days	35,128	27,858
61-90 days	17,913	17,028
91 days - 1 year	18,862	18,404
1 - 2 years	2,405	2,272
Over 2 years	1,051	—
	158,837	111,926

The carrying amounts of trade payables approximate their fair values.

Trade payables are denominated in the following currencies:

	Group	
	2006	**2005**
	HK$'000	*HK$'000*
HK$	112,950	70,937
US$	40,699	7,248
RMB	5,188	33,741
	158,837	111,926

22 OTHER PAYABLES AND ACCRUALS

	Group	
	2006	**2005**
	HK$'000	*HK$'000*
Accruals	19,251	12,025
Receipts in advance	4,862	2,446
Dividends payable	—	11,000
	24,113	25,471

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

23 DERIVATIVE FINANCIAL INSTRUMENTS

	Group	
	2006	**2005**
	HK$'000	*HK$'000*
Foreign exchange derivative contracts — not qualified for hedge accounting at fair value	1,247	—

24 OTHER INCOME, NET

	Group	
	2006	**2005**
	HK$'000	*HK$'000*
Sales of scrap materials	1,142	3,915
Unrealised gain on derivative financial instruments	1,247	—
Realised gain on derivative financial instruments	557	—
Interest income	764	1,350
	3,710	5,265

25 EXPENSES BY NATURE

	Group	
	2006	**2005**
	HK$'000	*HK$'000*
Auditors' remuneration	1,080	521
Depreciation of property, plant and equipment *(Note 7)*	7,158	6,190
Amortisation of intangible assets *(Note 9)*	254	—
Amortisation of land use rights *(Note 8)*	77	—
Raw materials used	449,104	445,264
Changes in inventories of finished goods and work in progress	(48,272)	(5,438)
Employee benefit expenses *(Note 28)*	30,360	28,860
Operating lease rentals for land and buildings	8,576	8,043
Exchange losses, net	5,577	2,653
Impairment of trade receivables	147	658
Inventory write-down	756	3,267
Others	230,352	176,998
Total cost of sales and administrative expenses	685,169	667,016

26 FINANCE COSTS

	Group	
	2006	**2005**
	HK$'000	*HK$'000*
Interest expense:		
- Bank borrowings and overdrafts	9,718	6,154
- Factoring facilities	1,532	129
- Finance lease liabilities	16	16
	11,266	6,299
Less: interest capitalised	(1,268)	(526)
	9,998	5,773

Borrowing costs of approximately HK$1,268,000 arising on financing specifically entered into for the construction of new factories were capitalised during the year ended 31st December 2006 (2005: HK$526,000) and are included in the additions of property, plant and equipment. A capitalisation rate of 8% was used for the year ended 31st December 2006 (2005: 5.1%), representing the borrowing costs of the loans used to finance the project.

27 INCOME TAX EXPENSE

Hong Kong profits tax has been provided at the rate of 17.5% (2005: 17.5%) on the estimated assessable profit during the year. Taxation on overseas profits has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the countries in which the Group operates.

Pursuant to the processing agreements entered into with Dongguan City Zhangmutou Town Economic Development General Company on 26th November 1996 (as extension agreement dated 29th April 2002) and 18th August 2004 (the "Processing Agreements"), Smart Union Industrial Limited ("SUI") subcontracted certain processing work to 東莞樟木頭合俊玩具廠 ("Zhang Yang factory") and 東莞樟木頭俊領玩具廠 ("Po Shan factory") in the PRC. Pursuant to the settlement basis as agreed with the Inland Revenue Department of Hong Kong (the "IRD"), 50% of SUI's assessable profits arising from the manufacturing activities carried out by Zhang Yang Factory and Po Shan factory under the Processing Agreements are considered as offshore in nature and are not subject to Hong Kong profits tax in accordance with the Departmental Interpretation and Practice Notes No.21 (Revised) - Locality of Profits issued by the IRD in March 1998.

Such offshore treatment is not applicable to the assessable profits arising from the processing activities subcontracted to other PRC sub-contractors, which are fully subject to Hong Kong profits tax. The portion of SUI's assessable profits allowable for the 50% offshore treatment is calculated by reference to the proportion of the direct labour, manufacturing overheads, mould costs and administrative expenses of Zhang Yang Factory and Po Shan Factory (collectively "Manufacturing Costs") to the aggregation of the Manufacturing Costs and the sub-contracting fees paid to other PRC sub-contractors. For the year ended 31st December 2006, the effective portion of SUI's assessable profits allowed as offshore and not subject to Hong Kong profits tax was 37.06% (2005: 33.02%).

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

	Group	
	2006	**2005**
	HK$'000	*HK$'000*
Current taxation:		
- Hong Kong profits tax	3,899	6,111
- PRC enterprise income tax	534	—
Under-provision in prior years	239	—
Deferred income tax relating to the origination and reversal of temporary differences *(Note 20)*	464	(741)
	5,136	5,370

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:

	2006	**2005**
	HK$'000	*HK$'000*
Profit before tax	35,768	42,042
Calculated at a tax rate of 17.5%	6,259	7,357
Effect of different taxation rates in other countries	251	—
Income not subject to taxation	(1,696)	(2,276)
Expenses not deductible for taxation purposes	317	40
Unrecognised tax losses	369	249
Utilisation of previously unrecognised tax losses	(603)	—
Under-provision in prior years	239	—
Income tax expense	5,136	5,370

28 EMPLOYEE BENEFIT EXPENSES

	Group	
	2006	**2005**
	HK$'000	*HK$'000*
Wages, salaries and other short-term employee benefits	29,554	28,072
Pension costs - defined contribution plans	806	788
	30,360	28,860

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

The remuneration of each director of the Company for the year ended 31st December 2006 is set out below:

Name of Director	Basic salaries, housing allowances, other allowances and benefits in kind	Discretionary bonus	Employer's contribution to pension scheme	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
WU, Kam Bun	1,656	198	12	1,866
LAI, Chiu Tai	1,656	198	12	1,866
HO, Wai Wah	960	140	12	1,112
LO, Kwok Choi	1,656	198	12	1,866
WONG, Wai Chuen	840	130	12	982
LUI, Sun Wing	33	—	—	33
LI, Chak Hung	33	—	—	33
TANG, Koon Yiu Thomas	33	—	—	33
	6,867	864	60	7,791

The remuneration of each director of the Company for the year ended 31st December 2005 is set out below:

Name of Director	Basic salaries, housing allowances, other allowances and benefits in kind	Discretionary bonus	Employer's contribution to pension scheme	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
WU, Kam Bun	1,426	138	12	1,576
LAI, Chiu Tai	1,426	138	12	1,576
HO, Wai Wah	860	80	12	952
LO, Kwok Choi	1,426	138	12	1,576
WONG, Wai Chuen	730	59	10	799
	5,868	553	58	6,479

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 (2005: Nil).

(b) **Five highest paid individuals**

The five individuals whose emoluments were the highest in the Group include 5 (2005: 4) directors whose emoluments are reflected in the analysis presented in Note (a) above. The emoluments payable to the remaining one individual during the year ended 31st December 2005 are as follows:

	2005
	HK$'000
Basis salaries, housing allowances, other allowances and benefits in kind	952
Employer's contribution to pension scheme	10
	962

The emoluments fell within the following bands:

Nil - HK$1,000,000	1

29 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$344,000.

30 EARNINGS PER SHARE

The calculation of basic earnings per share is based on the consolidated profit attributable to equity holders of the Company of approximately HK$30,025,000 (2005: HK$36,672,000) and on the weighted average number of 195,452,000 (2005: 180,000,000) ordinary shares in issue during the year. In determining the number of shares in issue, a total of 180,000,000 shares issued in connection with the Reorganisation and the capitalisation issue were deemed to have been issued since 1st January 2005.

	2006	**2005**
Profit attributable to equity holders of the Company (HK$'000)	30,025	36,672
Weighted average number of ordinary shares in issue (thousands)	195,452	180,000
Basic earnings per share (HK$) per share	0.15	0.20

The Company has no diluted potential ordinary shares as at 31st December 2006.

31 DIVIDENDS

	2006	**2005**
	HK$'000	*HK$'000*
Dividends paid by the subsidiaries to their then shareholders before the Reorganisation *(note a)*	—	23,000
Proposed special dividend of HK$0.022 (2005: Nil) per ordinary share *(note b)*	5,280	—
Proposed final dividend of HK$0.038 (2005: Nil) per ordinary share *(note b)*	9,120	—
	14,400	23,000

Notes:

(a) Dividends for the year ended 31st December 2005 represented (i) a final dividend in relation to 2005 declared and paid by Smart Union Investments Limited to its then shareholders of HK$13,000,000 and (ii) a special dividend in relation to 2005 of HK$10,000,000 declared and paid to their then shareholders during 2006 and prior to the completion of the Reorganisation (see note 1). As part of the Reorganisation, such amounts were capitalised by the then shareholders.

(b) At a meeting held on 20th April 2007, the directors proposed a special dividend of HK$0.022 per ordinary share and a final dividend of HK$0.038 per ordinary share. The proposed dividends are not reflected as dividends payable in the financial statements but will be reflected as an appropriation of retained earnings for the year ending 31st December 2007.

32 CASH GENERATED FROM OPERATIONS

	2006	2005
	HK$'000	*HK$'000*
Profit before tax	35,768	42,042
Adjustment for:		
- Depreciation on property, plant and equipment	7,158	6,190
- Loss on disposal of property, plant and equipment	379	46
- Amortisation of land use rights	77	—
- Amortisation of intangible assets	254	—
- Unrealised gain on derivative financial instruments	(1,247)	—
- Interest income	(764)	(1,350)
- Interest expense	9,998	5,773
	51,623	52,701
Changes in working capital:		
- Inventories	(87,633)	(43,433)
- Trade receivables	(19,492)	1,886
- Prepayments, deposits and other receivables	3,909	453
- Amount due from a director	—	3,562
- Amounts due from related companies	73	728
- Trade payables	46,911	18,307
- Other payables and accruals	9,642	(7,933)
Cash generated from operations	5,033	26,271

In the consolidated cash flow statements, proceeds from disposal of property, plant and equipment comprise:

	2006	2005
	HK$'000	*HK$'000*
Net book amount	510	434
Loss on disposal of property, plant and equipment	(379)	(46)
Proceeds from disposal of property, plant and equipment	131	388

33 COMMITMENTS

(a) **Capital commitments**

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

	Group	
	2006	**2005**
	HK$'000	*HK$'000*
Property, plant and equipment - contracted but not provided for	10,754	1,898

(b) **Commitments under operating leases**

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

	2006	**2005**
	HK$'000	*HK$'000*
Not later than one year	1,253	329
Later than 1 year and not later than 5 years	968	52
	2,221	381

34 SIGNIFICANT RELATED PARTY TRANSACTIONS

In addition to the related party transactions undertaken in connection with the Reorgansation (Note 1.2) and directors' emoluments (Note 28) as disclosed above, the Group had the following significant transactions carried out with related parties during the year.

(a) **Transactions with related parties**

	2006	**2005**
	HK$'000	*HK$'000*
Rental expenses to Current Creation Limited	—	271

(i) On 26th May 2005, the Group acquired 9% equity interests in Dream Link Limited from a director, Lo Kwok Choi, at a total cash consideration of HK$90,000.

(ii) On 19th December 2005, the Group acquired 1% equity interest in Amart International Limited from a director, Wu Kam Bun, at a total cash consideration of HK$1.

(iii) On 30th December 2005, the Group acquired another 50% equity interests in Current Creation Limited from a director, Lo Kwok Choi, at a total cash consideration of HK$1.

(iv) On 4th January 2006, the Group acquired 9% equity interests in Dream Link Limited from a director, Lo Kwok Choi. Dream Link Limited was in a net liability position and the consideration was determined at a nominal value of HK$1.

(v) During the year, the Group charged Smart Place Investment Limited of approximately HK$2,552,000 for the placement of the Company's 12,000,000 shares (Note 17).

(b) **Key management compensation**

	Group	
	2006	**2005**
	HK$'000	*HK$'000*
Salaries and other short-term employee benefits	7,632	6,421
Pension costs - defined contribution plans	60	58
	7,692	6,479

(c) (i) Balances with related companies

	Group		
	2006	**2005**	**Maximum amount outstanding during the year**
	HK$'000	*HK$'000*	*HK$'000*
Receivable from a related company	—	73	73
Payable to a related company	—	266	

All balances maintained with related companies were unsecured, interest-free and had no fixed repayment terms.

(c) (ii) Balances with directors

	Group	
	2006	**2005**
	HK$'000	*HK$'000*
Amounts due to directors	—	3,456

The amounts due to directors were unsecured, interest-free and had no fixed repayment terms.

(d) **Balances with subsidiaries**

	Company	
	2006	**2005**
	HK$'000	*HK$'000*
Smart Union (Hong Kong) Limited	180	—
Smart Union Industrial Limited	23,816	—
Smart Union Investments Limited	8,000	—
	31,996	—

Amounts due from subsidiaries are unsecured, interest-free and have no fixed repayment terms.

3. INDEBTEDNESS

Borrowings and banking facilities

As at the close of business on 30 September, 2007, being the latest practicable date prior to the printing of this circular for the purpose of this indebtedness statement, the Group had aggregate bank facilities of approximately HK$442.5 million comprising bank loans, letters of credit, import and export facilities and receivable factoring facilities, among which approximately HK$257.1 million had been utilised by the Group at that date.

As the close of business on 30 September, 2007, the Group's bank borrowings and finance leases comprised bank overdrafts of approximately HK$5.3 million, short-term bank loans of approximately HK$35 million, trust receipt bank loans of approximately HK$134.1 million, non-current bank borrowings of approximately HK$3.5 million, factoring facilities utilised of approximately HK$77.7 million and finance lease liabilities of approximately HK$1.5 million.

Security and guarantees

All banking facilities are guaranteed by corporate guarantee executed by the Company and certain subsidiaries of the Company. Banking facilities from Hong Kong Bank and Standard Chartered Bank are secured by bank deposits of approximately HK$7.4 million. Banking facilities from Hang Seng Bank, BNP Paribas, Hong Kong Branch and The Bank of Tokyo-Mitsubishi UFJ Limited are secured by available-for-sale financial assets of approximately HK$5.4 million.

Commitment

As the close of business on 30 September, 2007, the Group had finance lease commitment of approximately HK$1.5 million.

Contingent liability

As at 30 September, 2007, the Group did not have any material contingent liability.

Disclaimer

Save as aforesaid and apart from intra-group liabilities, the Group did not have any bank loans, bank overdrafts and liabilities under acceptances or other similar indebtedness, debentures or other loan capital, mortgage, charges, finance leases or hire purchase commitments, guarantees or other material contingent liabilities outstanding at the close of business on 30 September, 2007. The Directors have confirmed that there have been no material changes in the indebtedness and contingent liabilities of the Group since 30 September, 2007.

4. WORKING CAPITAL

The Directors, after due and careful consideration, are of the opinion that, taking into consideration of the financial resources available to the Group including the internally generated funds, the present bank and other facilities, the Group will have sufficient working capital for at least 24 months from the date of this circular.

It is estimated that save for the proceeds from the subscription of the Convertible Bonds, there will not be any further funding requirements for the Mine for the next 24 months. Taking into accounts of the proceeds from the subscription of Convertible Bonds and the financial resources available to the Target Group, the Directors are of the view that the Group will have sufficient working capital for at least 24 months from the date of this circular.

It is estimated that no further finance from the Group is required for the Target Group to exploit the reserves of the Mine on a commercial scale.

5. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 December 2006, the date to which the latest published audited financial statements of the Group were made up.

6. MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS

For the year ended 31st December 2006, the Group recorded a turnover of approximately HK$727.2 million (2005: HK$709.6 million) representing approximately 2.5% increase. The increase was driven by the turnover contributed from the operation of our subsidiary, Dream Link Limited ("Dream Link"). The profit attributable to equity holders of the Company was dropped by approximately 18.2% to approximately HK$30.0 million (2005: HK$36.7 million) by which the basic earning per share was 15 HK cents (2005: 20 HK cents). The financial year 2006 was challenging for our toys production business. Increase in statutory minimum wages of labour, unstable supply of electricity, appreciation of renminbi against the Hong Kong dollar and increase in interest rate caused the increase in operating cost and overheads. In addition, the Group's net profit was affected by written off of pre operating expenses of Qing Yuan factory during the year and the increased expenses for enhanced corporate governance.

Comparing the Group's sales by product type, educational and recreational products and sports products such as bouncers had a healthy growth in the reporting period under review. As many of the sports products are for spring and summer activities, the growth of this category can help the Group to reduce seasonality fluctuation in toys industry.

Analysis of the Group's sales by product type for the year ended 31st December

	2003	2004	2005	2006
Hard and electronic toys	50%	61%	57%	54%
Educational and recreational products	26%	23%	19%	21%
Soft toys	19%	9%	9%	9%
Sports products	0%	1%	10%	15%
Others	5%	6%	5%	1%
	100%	100%	100%	100%

On the other hand, our subsidiary, Dream Link which is focused on ODM and OBM business started profit contribution in 2006. Sales of Dream Link reached approximately HK$46.2 million, which was more than doubled from the previous year. The growth of Dream Link contributed to the Group's gross margin despite rigorous pricing competition in the market, resulting in the gross profit margin increase from approximately 14.95% to 16.81%.

Some customers postpone the delivery of spring items such as bouncers in the year under review to first quarter of year 2007. In additions, the Group received orders from two renowned customers for the production of Spider-man III action toys the movie of which is expected to be released worldwide in May 2007. Therefore the sales of the Group in the first quarter of 2007 had doubled compare with the first quarter of the year under review.

The increase in interest rate and bank borrowing caused the finance cost of the Group to be increased by approximately 73.2% compared with last year and amounted to approximately HK$10 million (2005: HK$5.8 million). Bank borrowing increases due to increase in working capital and capital investment of Qing Yuan plant. Nowadays, many customers request short and tight delivery lead time to avoid their inventory risk which result in the Group having to build up inventories and incur extra working capital. The Group has taken a series of important steps to reduce the working capital requirement by stringent control of inventories and account receivables. In addition, the Group raised funds from our initial public offering on The Stock Exchange of Hong Kong Limited in September 2006 to support further development of Qing Yuan plant this reducing borrowing for Qing Yuan plant.

Liquidity and Financial Resources

As at 31st December, 2006, the Group had bank balances and cash of approximately HK$64.9 million (2005: HK$11.5 million) and pledged bank deposit of approximately HK$5.3 million (2005: HK$2.8 million) secured for banking facilities granted. During the year under review, the Group was granted banking facilities in a total of approximately HK$235 million secured by fixed deposits, available-for-sale financial assets and corporate guarantee given by the Group.

The Group's gearing ratio, representing total bank borrowing less bank balances and cash (including pledged bank deposits) and divided by shareholders' equity was approximately 37.8% (2005: 52.9%).

Assets and Liabilities

As at 31st December, 2006, the Group had total assets of approximately HK$483.3 million (2005: HK$301.2 million), total liabilities of approximately HK$316.3 million (2005: HK$208.2 million). The net assets of the Group increased by approximately 79.4% to approximately HK$167 million at the year ended (2005: HK$93.1 million).

Exchange Rate Risk

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

Capital Structure

There has been no change in the capital structure of the Company since the date of the prospectus of the Company dated 19th September 2006. The share capital of the Company comprises only ordinary shares.

DIVIDENDS

The directors of the Group recommend a final dividend of 3.8 HK cents per share in respect of the year ended 31st December 2006 and a special dividend of 2.2 HK cents per share in view of the Group's first year listing and to thanks for the shareholders' support to the shareholders of the Company whose name appear on the register of members on 18th May 2007.

BUSINESS REVIEW

The year of 2006 was a very challenging year for the toy manufacturing industry characterised by strong competition and rising commodity and labour costs. To overcome these challenges, the Group carried out a series of marketing strategies in order to optimise its product mix, further develop the OBM/ODM business, and enhance its toy manufacturing.

In 2006, the marketing strategy of the Group's core business, the OEM business was coincided with the marketing strategy developed in the past year. In light of the niche market in integrated products, the Group manufactured products that require integration of product lines across different industries, such as electronic toy integration with educational recreational product and toy integration with food-grade product. The product lines crossover created a one-stop-shop as those outsourced materials could now be self-supported. This largely improved profit margins, boosted the production capacity and diverse product types of the Group. Also, the process of integration further differentiated products of the Group from its competitors and hence strengthened its competitiveness.

In order to enlarge the production scale and improve cost effectiveness of the Group, the Qing Yuan factory was constructed. Qing Yuan Factory has started the operation in the forth quarter of 2006. Qing Yuan Factory occupies a site area of approximately 154,280 square meters and at present approximately 1,500 workers are in operation. The production capacity will reach one-third of the current one. Phase 1B of Qing Yuan Factory is proceeding smoothly and is expected to be completed in mid 2007 and commence operation in the 3rd quarter of 2007. Phase 1B is under construction which involves about HK$30,000,000, which will partly be paid off by the listing proceeds, and it is expected to start operation by the end of 2007. There will be a total of 4,000 workers when the two phases are in operation. The management is optimistic to the production prospects of Qing Yuan Factory. It is believed that the production capacity of the factory will facilitate the Group in exploring diversified customer network worldwide and building up a solid base for the business development in the coming year. The commencement of operation in the Qing Yuan Factory has demonstrated the enlarged production scale and improved production level, in which the Group is promising to become the largest toy production base in China. This will enhance the Group's production capacity in combining plastics, textile fabrics and electronic components into one single product. The Group endeavors to become a world-class toy supplier, and the strengthened production capacity would assist the Group in exploring high profit margin and high value-added product market, widening the customer network and expanding the revenue basis.

Dream Link's operations provided sourcing, design and engineering of the gift products for the clients and market their own created products under the brand Dream Cheeky. The creativity on the electronic entertainment gift category enable Dream Link to build up good relationship with the UK customers and achieved the critical mass on the operation in 2006 and contributed positive result to the group. In 2006, Dream Link has marketed seven computer companion products with USB connection, four remote control toys for the "big Boys" in the gift category. These contribute around 40% of their turnover and the balance of the sales are ODM products such as airflow, sporting entertainment products and other license products for the clients. The sales channels in UK have been reinforced, and we envisaged there will have growth of sales via internet channels for the USB products. The sales under this channels will further increase the profit margin of the Dream Link business.

Last year, Dream Link has set up a product showroom sized approximately 8,000 square feet in Shenzhen, the PRC. The products displayed ranging from electronic gifts to outdoor activities equipment. The Group believes that rapid development, vast market and attractive business opportunities in the PRC would create a favourable environment for its development of OBM business. It is expected that both the ODM and OBM business will become one of the major growth drivers in the foreseeable future.

Employees and remuneration polices

As at 31st December 2006, the Group had a total of approximately 1,600 full-time employees based in Hong Kong and the PRC. Remuneration packages of the Group's employees are generally structured by reference to market terms and individual qualifications. Employees may also participate in the share option scheme of the Company. The Group operates a defined contribution benefits scheme under the Mandatory Provident Fund Schemes Ordinance (Chapter 485 of the Laws of Hong Kong) as well as medical insurance for all its employees in Hong Kong. Also, the Group provides its employees in the PRC with welfare schemes covering various insurance and social benefits.

Future plan and prospects

In the coming year, the Group will continue to adjust its marketing strategies to tie in the changing market, aiming at sustaining steady growth in core business, exploring markets and opportunities for the OBM business in China and the U.S., developing new manufacturing process for the niche market and enhancing collaboration with other industries for further business growth.

Dream Cheeky is expected to launch over 20 new computer companion USB products launch to the market and the sales growth rate of Dream Link is expected to continue. The engineering and sales office of Dreamlink will be consolidated in Shenzhen and a show room for the sporting goods and USB products will be ready in 2007 to prepare for the next business growth driver for Dream Link in the China Market.

The niche sporting products has steady growth contributing to approximately 15% of the Group's sales apart from the fabric airflow lines and the unique backpacks categories. The Group has extended the niche design for the preschool ride-on category and will continue steadily expand via cooperate design and development with our marketing partners.

To enhance the toy manufacturing business of the Group, a three years long-term exclusive manufacturing agreement has been entered into between the Group and Artin International (Holdings) Limited ("Artin"), the world leading road race products company, to produce road race products effective from 1st January 2007. The initial production value target for 2007 reaches HK$150 million. In order to facilitate a smooth production scheduling, the Group will manage the production facilities on behalf of Artin of a gross floor area of 450,000 square feet in Dongguan, and use the facilities and equipment for free in the first year of the agreement. The Directors consider the partnership with Artin is a good deal for the Group, on the ground that we do not have immediate capital outlay but secure a handsome production value in the first year of the agreement. The Group looks forward to the establishing business relationship with Artin, as well as being able to offer road race fans a great product line with wide selection to collect and play. In the past years, the Group has invested and established the reputation in the market as a turnkey manufacturer of carrying the sophisticated capability of combining plastic, fabric or electronic components into a single product. It lays the foundation for establishing partnership with companies like Artin which looks for strong manufacturing capability and stringent quality control.

The Group has continued to focus on the productivity of high volume categories of OEM opportunities and have been gaining ground with major marketing partners. The Group believes such trend will allow the Company to build up stronger industrial engineering capability and continue to achieve the economy of scales in the production processes. This direction will enable the Group to remain competitive in the costing area.

The Group is under an operational restructuring and Zhang Yang Plant in our Zhangmutou operations will be the centralised service and engineering support area. This will enable the Group to reduce duplication of resources, improve our flexibility of capacity utilization and set uniformity of the Group's operating and ERP system among our multi-plants operations. The purchasing function will be consolidated and believe can continue improve the ability to acquire material through greater bulk purchases.

The Group expects to grow in sales as Phase 1A of the Qing Yuan factory has been in full production and sales of both sport and spring items will be enlarged in the coming year. Further, with cooperation from Artin on production of road race products and smooth operation of Dream Link, sales and profit of the Group will also be boosted in the forthcoming year.

Despite of keen competition in the industry, increasing labour costs and overhead costs for the Group and appreciation of Renminbi that is likely to continue in 2007, the Group believes that there is substantial growth potential for the toy industry in China and overseas in future.

The following is an illustrative and pro forma consolidated balance sheet of the Enlarged Group which has been prepared based on the unaudited consolidated balance sheet of the Group as at 30 June 2007 as extracted from the published interim report of the Company for the six months ended 30 June 2007 and the audited consolidated balance sheet of China Mining Group as at 30 June 2007 as extracted from the Accountants' report of China Mining Group as set out in Appendix I to this Circular, as adjusted for the pro forma adjustments as described in the notes thereto.

This unaudited pro forma consolidated balance sheet of the Enlarged Group has been prepared to illustrate the effects of the proposed acquisition by Smart Union Mining Investments Limited (formerly known as Queen Glory Limited) ("SUMI"), the Company's wholly-owned subsidiary, of an aggregate of 22,755 shares of US$1 each in the issued share capital of China Mining, representing approximately 45.51% of the existing issued share capital of China Mining, from Mr. Tang Xue Jin (the "Vendor") and a proposed subscription of the convertible bonds ("Convertible Bonds") issued by China Mining to SUMI (the "Proposed Acquisition"), as if the Proposed Acquisition had been completed on 30 June 2007. It has been presented in a manner consistent with both the format and accounting policies adopted by the Group. As it is prepared for illustration purpose only, it does not purport to represent what the financial position of the Enlarged Group will be on the completion of the Proposed Acquisition.

The unaudited pro forma financial information of the Enlarged Group is presented in two stages. The first stage assumes that the Proposed Acquisition has been completed but the mining license has not yet been obtained by the China Mining Group whilst the second stage assumes that the Proposed Acquisition has been completed and the mining license has been obtained by the China Mining Group.

As at 30 June 2007

	The Group		Pro forma adjustments regarding to the Proposed Acquisition (at completion)	Pro forma Enlarged Group (at completion)		Pro forma adjustments relating to the Proposed Acquisition (at completion and upon obtaining the mining license)	Pro forma Enlarged Group (at completion and upon obtaining the mining license)
	HK$'000	*Notes*	*HK$'000*	*HK$'000*	*Notes*	*HK$'000*	*HK$'000*
	(Unaudited)			*(Unaudited)*			
ASSETS AND LIABILITIES							
Non-current assets							
Property, plant and equipment	57,286			57,286			57,286
Intangible assets	4,728			4,728			4,728
Land use rights	4,626			4,626			4,626
Interest in an associate	—	(a)	269,355	269,355	(c)	40,000	325,021
					(d)	15,666	
Available-for-sale financial assets	5,325			5,325			5,325
Deposits and other receivables	318			318			318
Deferred income tax assets	134			134			134
	72,417			341,772			397,438
Current assets							
Inventories	367,457			367,457			367,457
Trade and other receivables	108,542			108,542			108,542
Prepayment, deposits and other receivables	19,790			19,790			19,790
Convertible bonds	—	(b)	40,000	40,000	(c)	(40,000)	—
Tax recoverable	2,202			2,202			2,202
Pledged bank deposits	7,350			7,350			7,350
Bank balances and cash	55,329	(a)	(72,295)	(56,966)			(56,966)
		(b)	(40,000)				
	560,670			488,375			448,375

	The Group	Notes	Pro forma adjustments regarding to the Proposed Acquisition (at completion)	Pro forma Enlarged Group (at completion)	Notes	Pro forma adjustments relating to the Proposed Acquisition (at completion and upon obtaining the mining license)	Pro forma Enlarged Group (at completion and upon obtaining the mining license)
	HK$'000		*HK$'000*	*HK$'000*		*HK$'000*	*HK$'000*
	(Unaudited)			*(Unaudited)*			
Current liabilities							
Trade payables	174,274			174,274			174,274
Accruals and other payables	55,056			55,056			55,056
Borrowings	208,166			208,166			208,166
	437,496			437,496			437,496
Net current assets	123,174			50,879			10,879
Total assets less current liabilities	195,591			392,651			408,317
Non-current liabilities							
Borrowings	965			965			965
	965			965			965
Net assets	194,626			391,686			407,352
Equity							
Share capital	27,248	(a)	11,800	39,048			39,048
Share premium	70,675	(a)	185,260	255,935			255,935
Reserves	95,742			95,742	(d)	15,666	111,408
Equity attributable to equity holders of the parent	193,665			390,725			406,391
Minority interests	961			961			961
Total equity	194,626			391,686			407,352

Notes:

On 17 October 2007, Smart Union Mining Investments Limited (formerly known as Queen Glory Limited) ("SUMI"), a wholly owned subsidiary of the Company, entered into an agreement (the "Agreement") with Mr. Tang Xue Jin (the "Vendor") to acquire an aggregate of 22,755 shares of US$1.00 each in the issued share capital of China Mining, representing 45.51% of the entire share capital of the China Mining. The total consideration for the acquisition is HK$269,355,000 as at 30 June 2007 which is to be satisfied in the following manners:

(i) as to the deposit of HK$8,000,000 in cash paid to the Vendor, at the time of entering into of the memorandum of understanding dated 16 July 2007;

(ii) as to HK$197,060,000 shall be satisfied by SUMI procuring the Company to allot and issue 118,000,000 ordinary shares of HK$0.1 each to the Vendor credited as fully paid at the price of HK$1.67 each; and

(iii) as to the balance of HK$64,295,000 shall be satisfied in cash by SUMI to the Vendor at the completion of the Proposed Acquisition.

Pursuant to the Agreement, SUMI has also agreed to subscribe zero coupon convertible bonds ("Convertible Bonds") with principal amount of HK$40,000,000. Upon conversion of the Convertible Bonds, 3,379 ordinary shares of US$1.00 each of China Mining will be allotted and issued to SUMI.

China Mining undertakes to and covenants with SUMI 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; and (ii) it will procure Tiancheng to obtain the mining license and any other necessary approvals and consents for the mining of the Mine on or before 30 April 2008 (the "Undertakings").

Subject to the fulfillment of the Undertakings, the Convertible Bonds shall be mandatorily converted into 3,379 ordinary shares of US$1.00 each in the share capital of China Mining.

After the completion of the Proposed Acquisition and full conversion of the Convertible Bonds, SUMI will hold an aggregate of 26,134 shares of US$1.00 each in the issued share capital of China Mining, representing approximately 48.96% of its enlarged issued share capital of China Mining.

Upon completion of the Proposed Acquisition, China Mining Group is considered by the directors of the Company as an associate of the Company as the Group will exercise significant influence in the financing and operating activities of China Mining Group after completion.

As at 30 June 2007, the total net identifiable assets of China Mining Group are approximately HK$850,000 (equivalent to approximately RMB827,000).

(a) This adjustment is made to illustrate the effect of the acquisition of 45.51% equity interests in China Mining Group, before the mining license is obtained, at a total consideration of approximately HK$269,355,000.

Details of net identifiable assets and liabilities to be acquired and the goodwill arising on the Proposed Acquisition are as follows:

	HK$'000
Cost of investments at the completion of the Proposed Acquisition	269,355
Less: Fair value of net identifiable assets and liabilities to be acquired 45.51% x HK$850,000	387
Goodwill	268,968

The fair values of net identifiable assets and liabilities of China Mining Group at completion of Proposed Acquisition are as follow:

		Fair value
	RMB'000	*HK$'000*
Plant and equipment	400	411
Prepayment, deposits and other receivables	2,031	2,088
Bank balances and cash	204	210
Accruals and other payables	(1,808)	(1,859)
Net assets of China Mining Group at completion of Proposed Acquisition	827	850
Share of net assets of China Mining Group acquired by SUMI		387

It is assumed that the fair value of net identifiable assets and liabilities of China Mining Group as at 30 June 2007 is the carrying amounts as recorded in the books of the China Mining Group as extracted from the Accountants' report of the China Mining Group as set out in Appendix I to this Circular. As the mining license has not yet been obtained, it is assumed that surplus of consideration over the fair value of net identifiable assets and liabilities is goodwill.

(a) On completion of Proposed Acquisition, the fair value of net identifiable assets and liabilities of China Mining Group will have to be assessed. As a result of the assessment, the amount of goodwill may be different from that estimated based on the basis stated above for the purpose of preparation of the unaudited pro forma consolidated balance sheet. Accordingly, the actual goodwill at the date of completion may be different from that presented above.

(b) The adjustment is made to illustrate the effect of the subscription of the Convertible Bonds to be issued by China Mining to SUMI. The maturity date is on 30 April 2008 or such other date as may be agreed between the parties thereto. The Convertible Bonds are designated as financial liabilities at fair value through profit or loss on initial recognition by the Enlarged Group.

(c) The adjustment is made to illustrate the effect of the Proposed Acquisition, after the fulfillment of the Undertakings, on the Convertible Bonds issued by China Mining to SUMI. Subject to the fulfillment of the Undertakings, the Convertible Bonds shall be mandatorily converted into 3,379 ordinary shares of US$1.00 each in the share capital of China Mining. Thus, the Convertible Bonds would be transferred to and accounted as part of the investment cost in an associate.

(d) The adjustment is made to illustrate the effect of the Proposed Acquisition, after the mining license is obtained, on the consolidated balance sheet of the Group as if the Proposed Acquisition had taken place on 30 June 2007.

Details of net identifiable assets and liabilities to be acquired and the goodwill arising on the Proposed Acquisition are as follows:

	HK$'000
Cost of investments at the completion of the Proposed Acquisition and upon the fulfillment of the Undertakings	309,355
Less: Fair value of net identifiable assets and liabilities to be acquired 48.96% x HK$663,850,000 *(note)*	325,021
Negative goodwill	15,666

Note:

The net identifiable assets and liabilities of the China Mining Group increased from approximately HK$850,000 to HK$663,850,000. The increase represents the increase in cash and cash equivalent upon the issuance of the Convertible Bonds of HK$40,000,000 and the fair value of the mining license of HK$623,000,000, which is included in the intangible asset.

The fair values of net identifiable assets and liabilities of China Mining Group at completion of Proposed Acquisition and upon the fulfillment of the Undertakings are as follow:

	HK$'000
Net assets of China Mining Group at completion of Proposed Acquisition	850
Add: Issue of Convertible Bonds	40,000
Intangible assets — Mining Rights	623,000
Net assets of China Mining Group at completion of Proposed Acquisition and upon the fulfillment of the Undertakings	663,850

The directors of the Company have reviewed the fair value of the Mining Rights as at 30 June 2007 with reference to the report prepared by the independent professional valuer. The fair value of the Mining Rights is assessed assuming the mining license has been obtained by Tiancheng as at 30 June 2007. For the details of the status when the mining license is obtained, please refer to the Letter from the Board of this Circular.

On completion of the Proposed Acquisition and the successful conversion of the Convertible Bonds, the fair value of the consideration and the net identifiable assets and liabilities of the China Mining Group will have to be assessed. As a result of the assessment, the amount of negative goodwill may be different from that estimated based on the basis stated above for the purpose of preparation of the unaudited pro forma consolidated balance sheet. Accordingly, the actual goodwill at the date of completion may be different from that presented above.

(e) The adjustments reflect the effect of the Proposed Acquisition on the consolidation balance sheet of the Group as if the Proposed Acquisition had taken place and the Undertakings have been fulfilled on 30 June 2007.

	Convertible Bonds	**Investment cost in an associate**	**Positive goodwill included in interests in an associate**	**Negative goodwill**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Balance at completion of Proposed Acquisition	40,000	269,355	(268,968)	—
Transfer to investment cost upon the fulfillment of the Undertakings	(40,000)	40,000	—	
Being the excess of cost of investment in an associate over the share of net fair value of the identifiable assets and liabilities of China Mining Group upon the fulfillment of the Undertakings	—	—	268,968	(15,666)
Balance at completion of Proposed Acquisition and the fulfillment of the Undertakings	—	309,355	—	(15,666)

The following is the text of a report, prepared for the sole purpose of inclusion in this circular, received from the independent reporting accountants, SHINEWING (HK) CPA Limited, Certified Public Accountants, Hong Kong.

信永中和 ShineWing

SHINEWING (HK) CPA Limited
16/F., United Centre
95 Queensway, Hong Kong

10 December 2007

ACCOUNTANTS' REPORT ON THE UNAUDITED PRO FORMA CONSOLIDATED BALANCE SHEET ON THE ENLARGED GROUP

The Directors
Smart Union Group (Holdings) Limited

Dear Sirs,

We report on the unaudited pro forma consolidated balance sheet of Smart Union Group (Holdings) Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group"), and China Mining Corporation Limited and its subsidiary (hereinafter collectively referred to as the "China Mining Group") (together with the Group hereinafter collectively referred to as the "Enlarged Group") ("Unaudited Pro Forma Consolidated Balance Sheet") set out in Appendix III to the Company's circular dated 10 December 2007 (the "Circular"), which has been prepared by the directors of the Company for illustration purpose only, to provide information about how the proposed acquisitions of 45.51% of the issued capital of China Mining Corporation Limited and proposed subscription of the convertible bonds ("Convertible Bonds") issued by China Mining Corporation Limited by the Group (the "Proposed Acquisition") might have affected the financial information presented. The basis of preparation of the Unaudited Pro Forma Consolidated Balance Sheet is set out in Appendix III to the Circular.

Respective Responsibilities of Directors of the Company and the Reporting Accountants

It is the responsibility solely of the directors of the Company to prepare the unaudited pro forma financial information of the Enlarged Group in accordance with paragraph 29 of Chapter 4 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

It is our responsibility to form an opinion, as required by paragraph 29(7) of Chapter 4 of the Listing Rules, on the Unaudited Pro Forma Consolidated Balance Sheet and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Consolidated Balance Sheet beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of opinion

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by the HKICPA. Our work consisted primarily of comparing the unadjusted financial information with source documents, considering the evidence supporting the adjustments and discussing the unaudited pro forma financial information with the directors of the Company. This engagement did not involve independent examination of any of the underlying financial information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Unaudited Pro Forma Consolidated Balance Sheet has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purposes of the Unaudited Pro Forma Consolidated Balance Sheet as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

Our work did not constitute an audit or review made in accordance with Hong Kong Standards on Auditing or Hong Kong Standards on Review Engagements issued by the HKICPA, and accordingly, we did not express any such assurance on the Unaudited Pro Forma Consolidated Balance Sheet.

The Unaudited Pro Forma Consolidated Balance Sheet is for illustration purpose only, based on the judgements and assumptions of the directors of the Company, and because of its hypothetical nature, does not give any assurance or indication that any event will take place in the future and may not be indicative of the financial position of the Enlarged Group as at 30 June 2007 or any future date.

Opinion

In our opinion:

a. the Unaudited Pro Forma Consolidated Balance Sheet has been properly compiled by the directors of the Company on the basis stated;

b. such basis is consistent with the accounting policies of the Group; and

c. the adjustments are appropriate for the purposes of the Unaudited Pro Forma Consolidated Balance Sheet as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

Yours faithfully,

SHINEWING (HK) CPA Limited
Certified Public Accountants
Ip Yu Chak
Practicing Certificate Number: P04798
Hong Kong

10 December 2007

Independent Technical Assessment on Dashu-Pandi Ag-Au Project, Fujian Province, People's Republic of China

Report Prepared for

Smart Union Group (Holdings) Limited

Report Prepared by

SRK Consulting
Engineers and Scientists

September 2007

Independent Technical Assessment on Dashu-Pandi Ag-Au Project, Fujian Province, People's Republic of China

Report Prepared for

Smart Union Group (Holdings) Limited

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September 2007

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EXECUTIVE SUMMARY

SUMMARY OF PRINCIPAL OBJECTIVES

SRK's objective was to review the geology, exploration and mineral resource of the Dashu-Pandi project owned by Fujian Tiancheng Mining Company Limited ("Tiancheng") to provide Smart Union Group (Holdings) Limited ("Smart Union" or "the Company") with a clear understanding of the risks and opportunities associated with the mineral project. SRK was further required to provide an independent technical assessment report ("the Report") that was to be made available to directors and shareholders of the Company which is listed on the Stock Exchange of Hong Kong Limited ("SEHK").

OUTLINE OF WORK PROGRAM

The work program consisted of two phases:

Phase 1 — travel to Shouning, Fujian Province, inspection of the properties, interviews with the staff of Tiancheng, and preparation of a draft Report

Phase 2 — Completion of a draft Report, copying to Smart Union for review and then finalisation of the Report.

RESULTS

Overall

The Dashu-Pandi project is still in its exploration stage. Previous exploration programs, including surface engineering, drilling and tunnelling, as well as mapping and sampling of ancient underground workings, provided preliminary definition of the silver-gold mineralization in the Project area. There are more than 80 mineralised-altered vein systems distributed in fault zones in various prospects. The vein systems can be as long as 1,000m. No. 4 Geological Brigade of Fujian Bureau of Geology and Mineral Resources ("No. 4 Geological Brigade") conducted a resource estimate for some mineralized veins based on sampling and assay results obtained. Category 334 resources were reported. SRK is of the opinion that the Chinese 334 resource category is insufficient to define a JORC Mineral Resource and can only be considered as a potential exploration target size of the Dashu-Pandi silver-gold project, and the potential quantity and grade is conceptual in nature. Considering the large area of the exploration permit, SRK believes that further exploration programs focusing on the discovery of potentially economic mineralised bodies can be warranted to be conducted in stages based on solid achievements in previous programs.

Geology and Mineralogy

Strata cropping out in the Project area are Jurassic System, dominated by tuff, volcanoclastic rocks, rhyolite, and clastic sedimentary rocks. Intrusive igneous dykes of syenite and diabase were also distributed in the area. Silver-gold mineralisation in Dashu-Pandi project is located within faults in the Jurassic strata. The mineralisation occurs as steeply dipping veins in three different orientations, NE, nearly N-S and NW. Alteration associated with the mineralization includes silicification, pyritization, chloritization, sericitization, and pyrophyllitization, indicating a low to medium temperature mineralization environment.

According to No. 4 Geological Brigade, there are in total about 80 veins which have a strike length of greater than 200m defined in the prospects in the Project area, including Shanjikeng, Tieguping, Wailou, Fuji, Da'an, Fengyangting, Houxixi, and Wenyang prospect. The sampling and assaying of material from surface trenches, drill holes and tunnels defined mineralised bodies in at least three veins. They are:

Shanjikeng No. SIII Vein: occurs in Jurassic tuff in Shanjikeng prospect, with a strike length of about 320m and a width of 5-14m. It generally strikes 290° and dips NE between 69° and 74°. On the surface, six trenches at a spacing of 40-50m intersected the vein. One tunnel intercepts the vein on the elevation of 930m ASL, which defines the vein to a depth of 30m down dip. No. SIII-1 body was defined by the outcrop and a tunnel. It strikes 290° and dips NE at 74°. It is inferred that the body has a length of 36m, a width of 2.70m, and a down-dip extent of about 30m. The body has average grades of 109g/t silver, and 3.75g/t gold, and contains some molybdenum grades.

Tieguping No. T-(8) Vein: occurs in Jurassic tuff in Tieguping prospect. Six trenches at a spacing of 100m on the surface have defined a 400m strike length, and revealed a vein width of 30-40m . It strikes 050° and dips W between 75° and 85°. One mineralised body (No. T-(8)-1) has been defined in the No. T-(8) vein system. Four trenches with spacing from 50m to 100m on 850-910m ASL, and three drill holes at a spacing of 100m have defined the body for about 200m along strike and to 790m ASL to depth. One tunnel 105m long was developed along the body at 878m ASL level, and two cross-cuts were also developed at a spacing of 50m. The overall defined extent down-dip is 70-110m. The drilling revealed that the body is branched at depth. The mineralised body generally occurs in the secondary quartzite or quartz vein in the hanging-wall of the broken zone. The intensity of the mineralization increases with the intensity and width of the silicification. The assays of the samples taken on the surface, drill cores, and tunnels return grades of 10-166g/t silver, 0.1-1.06g/t gold, and some molybdenum.

Wailou No. WIII Vein: occurs also in Jurassic tuff in Wailou prospect. Five trenches at a spacing of 80m on the surface have identified a 300m strike length, and revealed a width of 40-100m of the vein. The overall strike length is about 1000m. It strikes nearly N-S and dips E between 70° and 80°. One mineralised body (No. WIII-1) has been defined in the No. WIII vein system. Four trenches on 780-850m ASL, have defined the body for about 400m along strike with a width of 1-8m. The body strikes nearly N-S and dips E between 70° and 80°. The assays of the samples taken on the surface, and old tunnels returned grades of 40-100g/t silver with a maximum of 207g/t, 0.2-0.5g/t gold, and maximum 0.69g/t. One drill rig is currently drilling the mineralized body.

Resource and Reserve Estimates

The No. 4 Geological Brigade conducted a resource estimate, based on the sampling and assaying database established in previous exploration programs, for some veins with length greater than 200m. Sample cut-off for Ag is 80g/t, and minimum block average grade is 100g/t silver. Detailed resource estimates have been made by the No. 4 Geological Brigade using geological block method, as detailed in the tables below.

Please note that the resources should comply with Chinese standard, but the Chinese standard is different from the JORC code. Category 334 does not have an equivalent in JORC resource category. It would be reported as an exploration potential. A comparison between Chinese resource categories and JORC resource is given in Appendix 1.

Exploration Potential

Considering the size of the exploration permit area of the Dashu-Pandi project, SRK believes that further exploration work can be warranted to discover and define potentially economic resources at both currently explored prospects and other prospects. SRK recommends that a comprehensive study should be done to better understand the structures, controls of silver-gold mineralization, and possible patterns of ore body distribution in vein systems. The focus of further exploration should be to discover some economic mineralised bodies which have a large size and high grade and may suitable for an underground operation.

Chinese 334 Resources of Some Mineralized Veins in Dashu-Pandi project

Prospect	Vein No.	Metal Ag Contained (t)	Ag (g/t)	Mined Ag Metal (t)	Remained Ag Metal(t)	Remained Mineralised material (t)
Da'an	I-1	22	120	1	21	175,000
	I-2	69	120	1	68	567,000
	Subtotal	91	120	2	89	742,000
Tieguping	①	27	190	4	23	121,000
	④	47	190	3	44	232,000
	⑧	50	160	0	50	312,500
	Subtotal	124	178	7	117	658,000
Wailou	III	115	180	10	105	583,000
Shanjikeng	③	72	200	0	72	360,000
Fuji	③	45	183	1	44	240,000
	④	32	150	0	32	213,000
	Subtotal	77	169	1	76	449,000
Fengyangting	①	50	100	0	50	500,000
Total/Average		529	155	20	509	3,292,000

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DISCLAIMER

The opinions expressed in this report have been based on the information supplied to SRK by Fujian Tiancheng Mining Company Limited. SRK has exercised all due care in reviewing the supplied information. Whilst SRK has compared key supplied data with expected values, the accuracy of the results and conclusions from the review are entirely reliant on the accuracy and completeness of the supplied data. SRK does not accept responsibility for any errors or omissions in the supplied information and does not accept any consequential liability arising from commercial decisions or actions resulting from them.

1 INTRODUCTION

Smart Union Group (Holdings) Limited ("Smart Union") is a Hong Kong Based company that plans to acquire the interest in a mineral project from Fujian Tiancheng Mining Company Limited. The Dashu-Pandi project ("the Project" or "the Property") includes an exploration permit under which some silver-gold mineralization has been discovered, located in Shouning County, Fujian Province, China. Smart Union requires an independent report to be provided to its directors, shareholders and the Stock Exchange of Hong Kong Limited ("SEHK").

2 PROJECT WORK SCOPE AND STANDARDS

2.1 Scope of Work

The scope of work included SRK visiting the Project area in Shouning, Fujian Province and the preparation of an independent technical assessment report ("the Report") providing relevant information to the Company.

2.2 Purpose of the Report

The purpose of the SRK Report is to provide the directors and shareholders of Smart Union that is considering to purchase the project, and SEHK with an independent technical assessment of the Property.

2.3 Reporting Standard

This Report has been prepared to the standard of and is considered by SRK to be, a Technical Assessment Report under the guidelines of the Valmin Code. The Valmin Code incorporates the Australian Joint Ore Reserves Committee ("JORC") Code for the reporting of Mineral Resources and Ore Reserves and is binding upon all AusIMM members.

Resources reported in this Report are not classified according to the JORC code. Rather the resources have been reported against the relevant Chinese classification system. This report is not a Valuation Report and does not express an opinion as to the value of mineral assets. SRK does not express an opinion regarding the specific value of the assets and tenements involved.

2.4 **Work Program**

The work program included the following:

- A review of data prior to departure from Beijing;
- Travel to Shouning, Fujian Province and inspection of the project during September 2007;
- Collection of data and documents;
- Return travel to Beijing and review of data;
- Preparation of a draft Report;
- Provision of the draft Report to Smart Union for comment; and
- Completion of the Report

2.5 **Project Team**

SRK's team for the Project consists of the following experienced professionals:

Dr Anson Xu, ***PhD, MAusIMM,*** is a principal consultant who specialises in exploration of mineral deposits. He has more than 20 years experience in exploration and development of various types of mineral deposits including copper-nickel sulphide deposits related to ultrabasic rocks, tungsten and tin deposits, diamond deposits, and in particular, various types of gold deposits including vein-type, fracture-breccia zone type, alteration type, Carlin type. He was responsible for resource estimations for several diamond deposits and review of resource estimations for several gold deposits. He recently completed several due diligence assessments for clients in China, including gold, silver, lead-zinc, iron, bauxite, and copper etc projects, and several technical review projects, as well as Canadian NI43-101 and HKSE IPO technical reports. Dr Xu is the project manager and the competent person of the project.

Zhaojun Wang, B.S., is a *Senior Geologist* from SRK Beijing office. He graduated from China University of Geosciences and worked in the 6th Geological Team of Shandong Province for more than 15 years. Mr Wang was involved in the geological survey for the Cangshan Gold Mine in Lanzhou Shandong province, and the large Scale Dayigezhuang Gold Mine in Zhaoyuan Shandong Province. From 2000 to 2005, Mr Wang worked as the Director of the Geological Resource Company of the 6th Geological Team, and was responsible for several exploration and production projects both in China and abroad. Zhaojun worked on several gold, tin, lead-zinc exploration projects and due diligent projects recently. Mr Wang assisted Dr Xu in the site visit to collect technical data, and in the compiling of related sections of the report.

Dr Peter Williams, BSc (Hons), PhD, MAIG, FAICD, has over 30 years mining industry experience, including 14 years consulting, and 8 years as Managing Director of SRK Consulting in Australia. His specialisation includes the areas of mineral exploration, structural geology and geology-geophysics-GIS integration with particular expertise in major deposit syntheses and major research projects. His special interests include the relationship of structures to mineral systems, particularly shear-hosted Au, stratiform base metals, nickel sulphides, epithermal Au, breccia-hosted Cu-Au skarn, porphyry-Cu, and alkali granite Sn-W environments. He has conducted major interpretation projects from aeromagnetic data for exploration targeting, and has worked in a range of geological terranes in Australia (specialising in the Yilgarn Craton and Mount Isa), West Africa, East Africa, Zimbabwe, Zambia, DRC, Indonesia, PNG, Vanuatu, Solomon Islands, Europe and China. Dr Williams is responsible for the peer review for this project ensuring the quality of the report.

2.6 Statement of SRK Independence

Neither SRK nor any of the authors of the Report has any material, present or contingent, interest in the outcome of this report, nor have they any pecuniary or other interest that could be reasonably regarded as being capable of affecting their independence or that of SRK.

SRK has no prior association with Smart Union in regard to the mineral assets that are the subject of this Report. SRK has no beneficial interest in the outcome of the technical assessment being capable of affecting it independence.

SRK's fee for completing this Report is based on its normal professional daily rates plus reimbursement of incidental expenses. The payment of that professional fee is not contingent upon the outcome of the report.

2.7 Indemnities

As recommended by the VALMIN Code, Smart Union has provided SRK with an indemnity under which SRK is to be compensated for any liability and/or any additional work or expenditure resulting from any additional work required:

- that results from SRK's reliance on information provided by Smart Union or to Smart Union not providing material information, or;

- that relates to any consequential extension workload through queries, questions or public hearings arising from this Report, excluding the queries and questions from SEHK for the possible transaction.

2.8 Forward-Looking Statements

Estimates of mineral resources, ore reserves and mine and processing plant production are inherently forward-looking statements which, being projections of future performance will necessarily differ from the actual performance. The errors in such projections result from the inherent uncertainties in the interpretation of geologic data, in variations in the execution of mining and processing plans, in the ability to meet construction and production schedules due to many factors including weather, availability of necessary equipment and supplies, fluctuating prices and changes in regulations.

3 INTRODUCTION

3.1 Location and Access

The location of the project inspected by SRK is shown in Figure 3-1. The Dashu-Pandi project is located at E119°28’00”-119°36’30” and N27°29’15”-27°34’00”, in Shouning County, Ningde City, Fujian Province, China.

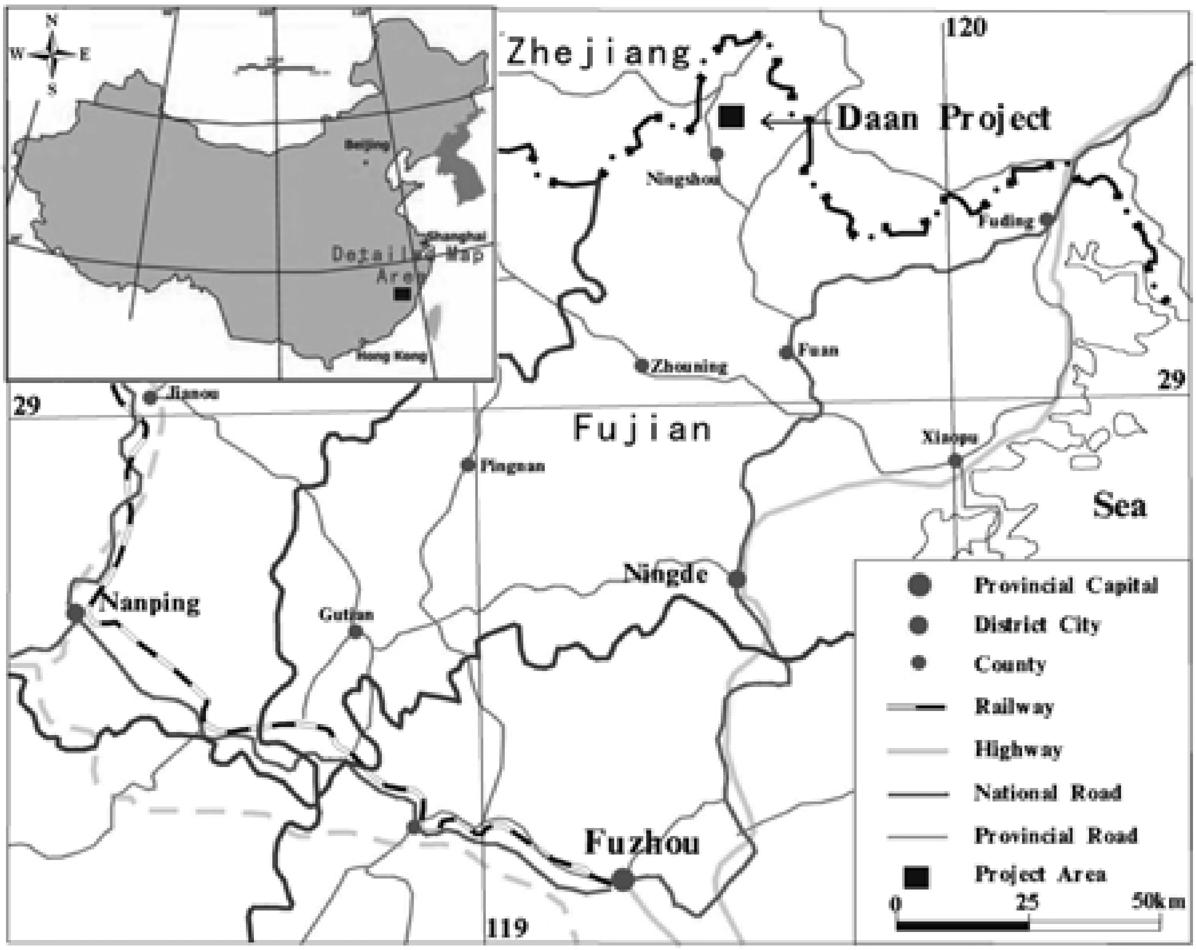

Figure 3-1: Location map, Dashu-Pandi Project, Fujian Province

Access to the project region is by approximately 230km of freeway from Fuzhou to Fu’an and about 90km of national highway from Fu’an to Shouning County town, and then about 20km of county level highway from Shouning County town to Da’an township, where the Project area is located. The prospective targets of the Project can be accessed via up to 15km of sand-gravel road and then approximately two kilometres of walking trails. There are several flights between Fuzhou and Beijing each day. It takes about three and a half hours to drive to Shouning County town from Fuzhou, and then about one hour to the prospect area.

The Project area is located in a low-medium mountainous region with elevations of 720m to 1075m above sea leave (ASL). Landform appears steep. Vegetation is abundant and mainly pine trees, bamboo and bushes. There are rivers and streams in the valleys. The climate in the region is sub-tropical with hot, wet summers and cold, dry winters. The average annual temperature is 15.1 C°, and the average annual rainfall is about 2,000-2,400mm. Agriculture is the main economy in the area. Supplies of manpower, water and electricity are sufficient to support additional exploration activity.

3.2 **Exploration Permit**

Currently, the exploration permit for the Dashu-Pandi project is owned by the Fujian Tiancheng Mining Co. Ltd. ("Tiancheng"). Table 3-1 provides details about the exploration permit. Appendix 2 gives a copy of the permit.

Table 3-1: Dashu-Pandi Exploration Permit held by Tiancheng

Permit No.	**No. 3500000730170**
Owner	Fujian Tiancheng Mining Co. Ltd.
Location	No. 6A, Moon, Xianshi Building 49 Wuyi Zhong Lu Gulou District, Fuzhou
Name of the Project	General prospecting of silver and polymetallic mineral resource at Dashu-Pandi area, Shouning County, Fujian Province
Location	Shouning County, Ningde City, Fujian Province
Map Sheet No.	G50E004022, G50E003033, G50E003023, G50E004023
Mine Area	83.75 km^2
Valid Period	From May 9, 2007 to May 9, 2009
Issued Date	April 25, 2007
Exploration unit	No. 4 Geological Brigade, Fujian Province

4 GEOLOGICAL AND MINERAL INVENTORY ASSESSMENT

According to historical records, mining of silver was conducted during the Ming Dynasty (1368-1644) in the Dashu-Pandi region, and a number of ancient mining tunnels over the region probably belong to this period of activity. No. 4 Geological Brigade, Fujian Bureau of Geology and Mineral Resources ("No. 4 Geological Brigade" or "the Brigade") conducted geological exploration work in the region from 1972 to 1993. A stream sediment survey was conducted between 2000 and 2002. Fujian Tiancheng acquired the project in 2004, and the company contracted the No. 4 Geological Brigade to conduct exploration programs on the Project. The Brigade compiled some reports on previous exploration work, and compiled reports on the work done in 2005 and 2006. Mr. John Seeley, an Australian geologist, visited the Project area and prepared a geological report for Fujian Tiancheng. SRK's descriptions in this section are based mainly on the reports prepared by No. 4 Geological Brigade and Mr. John Seeley and SRK's own field inspections.

4.1 Regional Geology

Fujian Province lies within the South China Fold Belt between the Precambrian Yangtze Craton, to the northwest, and partially consumed old continental mass of Cathaysia to the east. At a regional scale, the Project area is located in the intersection of a nearly N-S striking regional fault and a NW striking regional fault, within a NE striking volcanic eruptive belt in the Mingdong (Eastern Fujian) fault depression.

In the region, the outcrops are mainly of Jurassic and Cretaceous strata, including the Jurassic Changlin Formation which is comprised of tuffs, volcanic sandstones, conglomerates and siltstones, the Xiaoxi Formation which is comprised of greyish tuffs, siltstone and tuffaceous conglomerates and marks the transition from Jurassic to Cretaceous. The Early Cretaceous rocks, include the Huangkeng Formation of red dacites, dacitic ignimbrites and basalt, and lower Cretaceous sediments which were deposited in rift valleys, suggesting a major deviation in stress direction and style. At the Project area, the Late Cretaceous rocks comprise purple-red siltstones, mudstones and sandy conglomerates of the Shaxian Formation. Figure 4-1 shows regional geology of the project.

In the region, the regional structures are mainly faults. There are three sets of faults which strike nearly N-S, NW and NE, respectively. The nearly-N-S and NE striking faults control the mineralization and alteration. Mineral deposits may occur in the secondary faults associated with the other two sets of faults. Main N-S and NE striking faults include Fuji-Dashu Fault, Guantianchang-Da'an Fault, and Tanchatou-Shanbian Fault.

Magmatic rocks include the volcanic rocks in the strata, and granite intrusive bodies of Early Cretaceous age which distribute in the areas east and northeast of the Project area. There are also some syenite porphyry and diabase dykes in the area.

Some silver-gold and silver-lead-zinc mineral deposits or showings have been discovered in the region. The deposits are all epithermal-mesothermal fill-replacement type occurring in the faults. The mineralised sites defined in the Dashu-Pandi Project area are mainly silver-gold mineralisation.

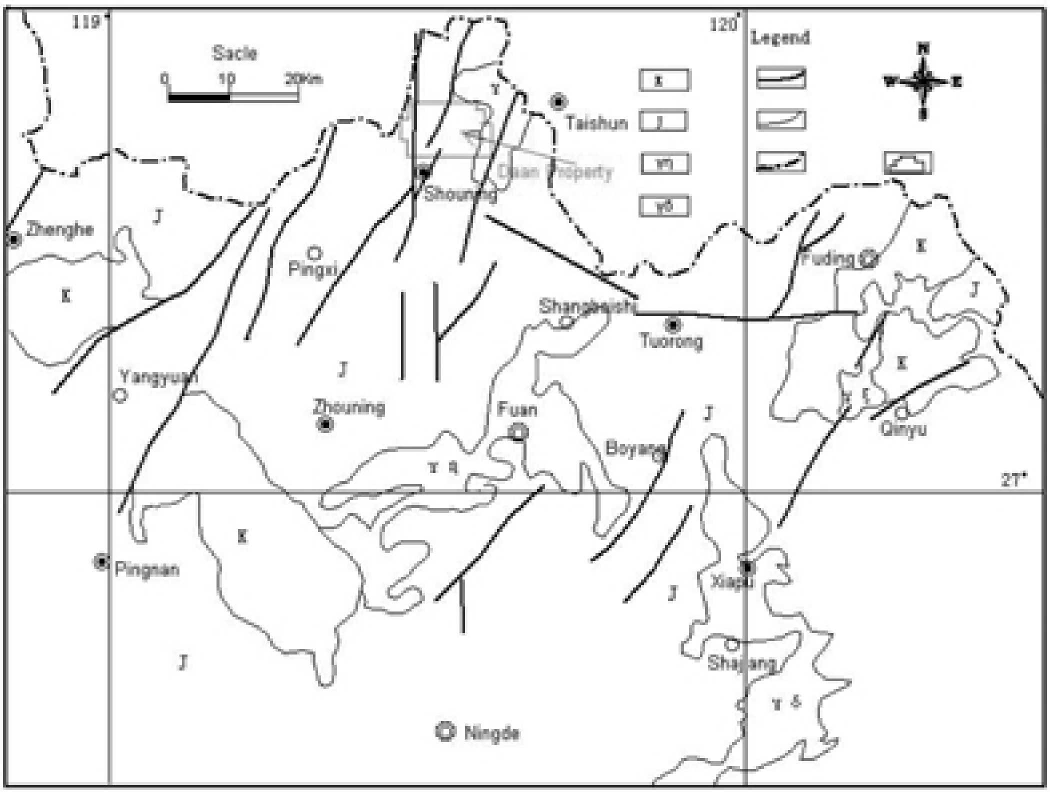

Figure 4-1: Regional Geological Map of the Dashu-Pandi Project

4.2 Property Geology

4.2.1 Strata, Structures and Intrusive bodies

Strata

The predominant strata in the Property are of the Lower Jurassic System. The following description of the strata in the Property is mainly based on the geological reports prepared by No. 4 Geological Brigade (2007a, and 1007b). From top to bottom, the strata include:

Quaternary: top soil and slope residuals of rock fragment distributed in the slopes and valleys;

Upper Member of Xiaoxi Formation of Lower Jurassic System: is mainly tuff with and volcanoclastic sediments. The strata are mainly in the central part of the Project area. They are mostly un-mineralization;

Upper portion of the Lower Member of Xiaoxi Formation of Lower Jurassic System: is also consisted of mainly tuff with volcanoclastic sediments, but the Member has an unconformable contact with the overlying strata. The unit contains weak mineralization. There are some ancient mining workings in the unit. The strata in general strike 290-325° and dip south between 12° and 30°;

Lower portion of the Lower Member of Xiaoxi Formation of Lower Jurassic System: is sparsely distributed. They are composed of siltstone, sandstone and conglomerate. The strata also contain weak mineralization. They in general strike 290-325° and dip south between 12° and 20°;

Upper Member of Ezhai Formation of Lower Jurassic Nanyuan Group: is consists mainly of tuff, volcanic clastics rocks, rhyolite. The Member is unconformable with the overlaying strata. The strata contain intensive mineralization. There are many ancient mining workings in the strata.

Structures

There are three sets of faults which strike nearly N-S, NW and NE, respectively. The nearly-N-S and NE striking faults control the mineralization and alteration. Mineral deposits may occur in the secondary faults associated with the two sets of faults. The main faults are as below.

No. F5-1 Fault: generally strikes NE (36°) and dips W between 75°-80°. It has a strike length of about 1,250m and a width of 3-5m. It cuts the alteration zones and is a fault after the mineralization.

No. F5-2 Fault: generally strikes NE (50°) and has a strike length of about 900m. It also cuts the alteration zones and is a fault after the mineralization.

No. F6 Fault: occurs in the central part of the property. It generally strikes NE (50°) and dips W with at about 80°. It has a strike length greater than 2,000m and a width of 5-7m. Locally, structural broken zones, dense quartz veins, and igneous dykes can be observed within the fault zone.

No. F7 Fault: also occurs in the central part of the property. It generally strikes NE (55°) and dips W at about 75°. It has a strike length greater than 2,500m and a width of 10-20m. Locally, structural breccia, silicified zones, and igneous dykes can be observed within the fault zone.

No. F8-1 Fault: occurs in the south-eastern part of the Project area. It is greater than 3,000m in length and 5-10m wide. In general, it strikes 58° and dips west at about 76°. On the surface, it can be observed that structural breccia cemented by silicates and locally silicified rocks fill in the fault zone.

No. F8-1 Fault: occurs in the south-eastern part of the Project area. It has a length greater than 3,000m and is 5-10m wide. It strikes 058° and dips west at about 76°. On the surface, it can be observed that structural breccia cemented by silicates and locally silicified rocks fill in the fault zone.

Magmatic Rocks

Intrusive rock bodies in the Project area are mainly dykes. There is a syenite porphyry dyke in the No. F7 fault zone. The dyke occurs near Shanjikeng prospect, and has a strike length of about 1km, and a width of 20-50m. Some small diabase dykes 20-50m long and 1-3m wide occur in Tieguping, Fengyangting and Wenyang prospects. The relationship between the dykes and mineralization is not clear.

Figure 4-2 shows the geology of the Dashu-Pandi Au-Ag project. Figure 4-3 shows areas with alteration which may be indicative of mineralization.

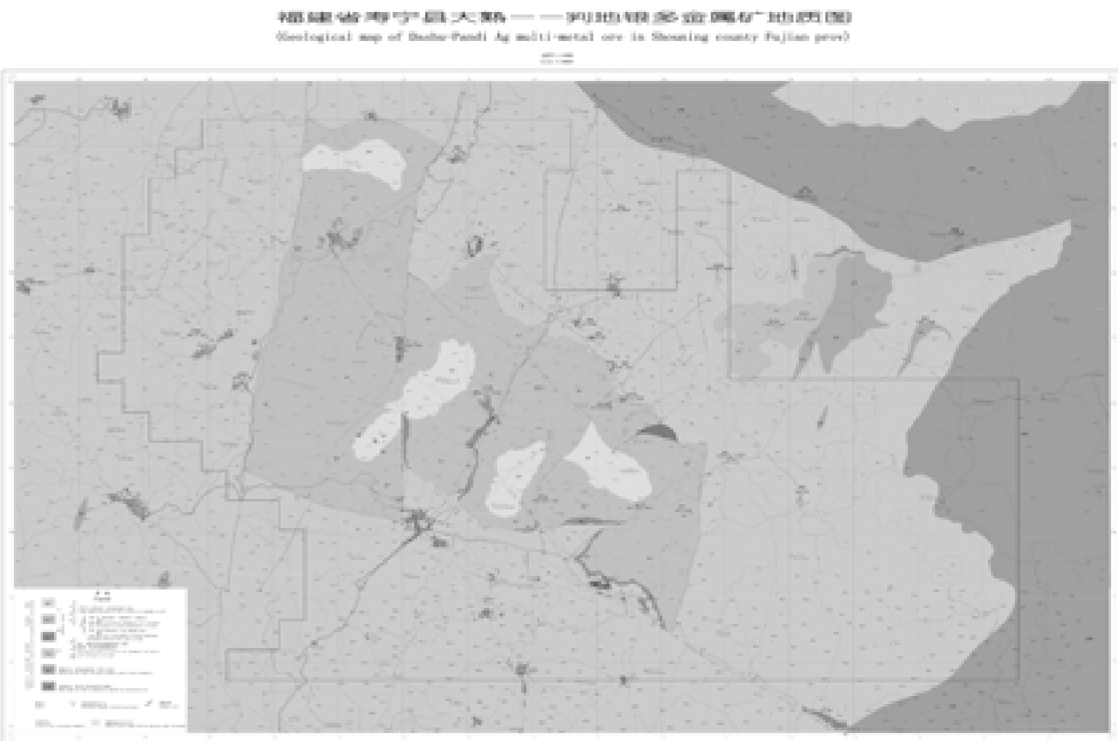

Figure 4-2: Dashu-Pandi Ag-Au Property Geological Map

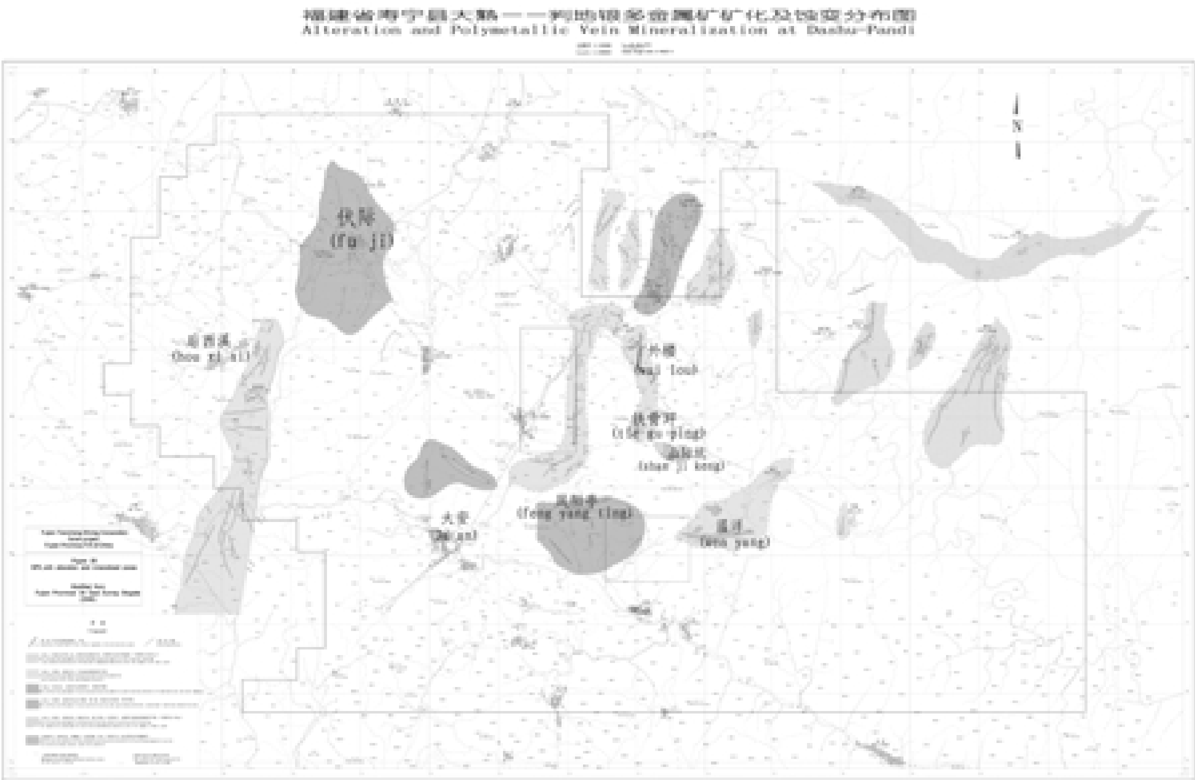

Figure 4-3: Dashu-Pandi Ag-Au Project: Simplified Geological Map with Distribution of Alterations

4.2.2 Mineralised Veins

No. 4 Geological Brigade and other institutes conducted exploration programs in the Dashu-Pandi Project area, including geological mapping, regional stream sediment surveys, soil surveys, trenching and pitting, investigation mapping of old mining tunnels developed in ancient time, drilling and further tunnelling. The exploration programs have defined some exploration prospects in the area. The prospects include Shanjikeng, Tieguping, Wailou, Fuji, Da'an, Fengyangting, Houxixi, Wenyang, as well as Guantianchang, and Tanshan which are outside of the boundary of the current exploration permits (Figure 4-3). Mineralised veins or showings have been defined during the investigation and mapping of old tunnels, surface trenching and pitting, drilling and tunnels in the targets. Especially, after Tiancheng took over the project, some detailed exploration work has intercepted and defined some mineralised bodies. The characteristics of the mineralised veins and bodies include:

- the mineralised veins are surrounded by alteration zones;
- the mineralised veins occur in faults in all three strike directions;
- the width of the mineralised bodies varies from <1m to 9m;
- the bodies swell, pinch out and re-appear along both strike and dip, and appear as lenses;

- the silver grade in the mineralised bodies vary from a few grams per tonne to a few hundred grams per tonne, and gold grade generally is less than 0.5g/t, but with some high grade of more than 10g/t.

Shanjikeng-Tieguping-Wailou prospects are the most advanced exploration prospects in the Project area (Figure 4-4). Followings are descriptions of selective veins in the prospects.

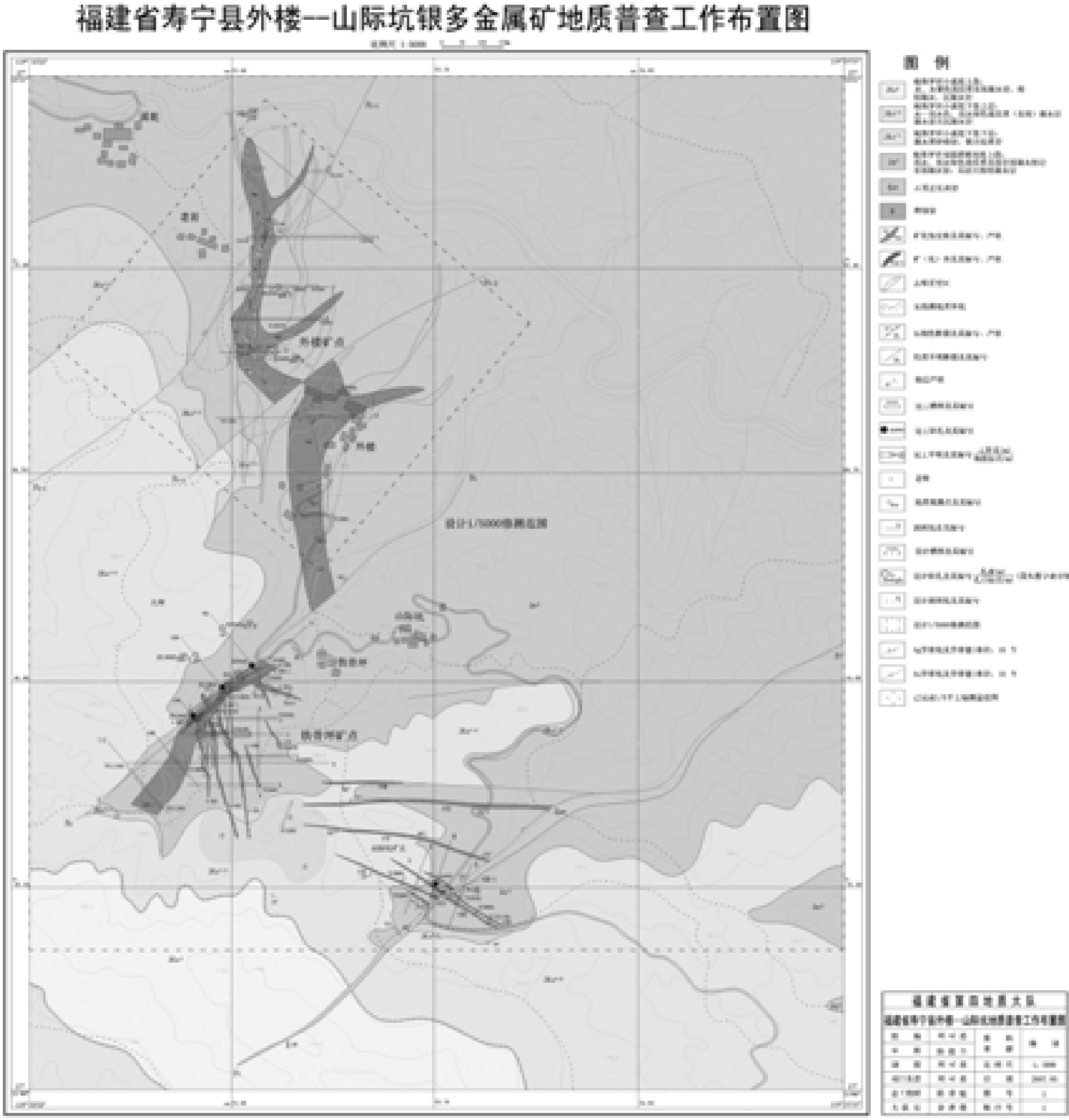

Figure 4-4: Geological Map of Shanjigou-Tieguping-Wailou Prospects

Shanjikeng No. SIII Vein: occurs in Jurassic tuff in Shanjikeng prospect, and has a strike length of about 320m and a width of 5-14m. It generally strikes 290° and dips NE between 69°-74° (Figure 4-4). On the surface, six trenches at a spacing of 40-50m exposed the vein. One tunnel intercepts the vein at 930m ASL, which defines a dip depth extent of 30m. A drill hole intercepts the vein on 850m ASL, but does not return good mineralisation. A syenite dyke cuts the vein. Structural breccia can be observed on the outcrops of the vein (Figure 4-5). Silver, gold and molybdenum mineralization has been defined in the vein, locally the grades are as high as above 200g/t silver, 7g/t gold, and 0.15% molybdenum. In general the grade ranges are 3-25g/t silver, 0.01-0.8g/t gold, and 0.017-0.068% molybdenum.

Figure 4-5: Outcrop of No. SIII Vein at Shanjikeng Prospect

One mineralised body at Shanjikeng prospect was reported by No. 4 Geological Brigade. No. SIII-1 body was defined by the outcrop (Figure 4-5) and a tunnel. It strikes 290° and dips NE at 74°. It is inferred that the body has a length of 36m, a width of 2.70m, and a down-dip extent of about 30m. The body has average grades of 109.64g/t silver, and 3.75g/t gold, and contains molybdenum grades ranging from 0.004% to 0.035%.

Tieguping No. T-(8) Vein: occurs in Jurassic tuff in Tieguping prospect. Six trenches at a spacing of 100m on the surface have defined 400m of strike length, and a width of 30-40m of vein material. It strikes 50° and dips W between 75° and 85°. Alteration and mineralization can be observed on the surface and in trenches;, silicification, chloritization, and pyritization have been noted. Quartz veinlets are widespread. Pyrite is sparsely distributed in the quartz veinlets. A structural broken zone occurs in the central part of the vein. Underground working revealed that the structural broken zone can be wavy, swell and pinch, and has a width of 0.5-2m. Surface samples from the vein returned grades of 5-166.8g/t silver, 0.1-1.06g/t gold, and locally 0.014-0.035% molybdenum. Underground samples from a tunnel returned similar results.

One mineralised body (No. T-(8)-1) has been defined in the No. T-(8) vein system. Four trenches with spacing from 50m to 100m on 850-910m ASL, and three drill holes at a spacing of 100m have defined the body for about 200m along strike and to 790m ASL to depth (Figure 4-6). One tunnel was developed for 105m along the body at 878m ASL level (Figure 4-7), and two cross-cuts were also developed at a spacing of 50m. The overall defined dip extent is 70-110m. The drilling revealed that the body is branched in depth. The mineralised body in generally occurs in the secondary quartzite or quartz vein in the hanging-wall of the broken zone. The intensity of the mineralization increases with the intensity and width of silicification. The assays of the samples taken on the surface, drill cores, and tunnels return grades of 10.3-166.8g/t silver, 0.1-1.06g/t gold, and 0.01-0.035% molybdenum.

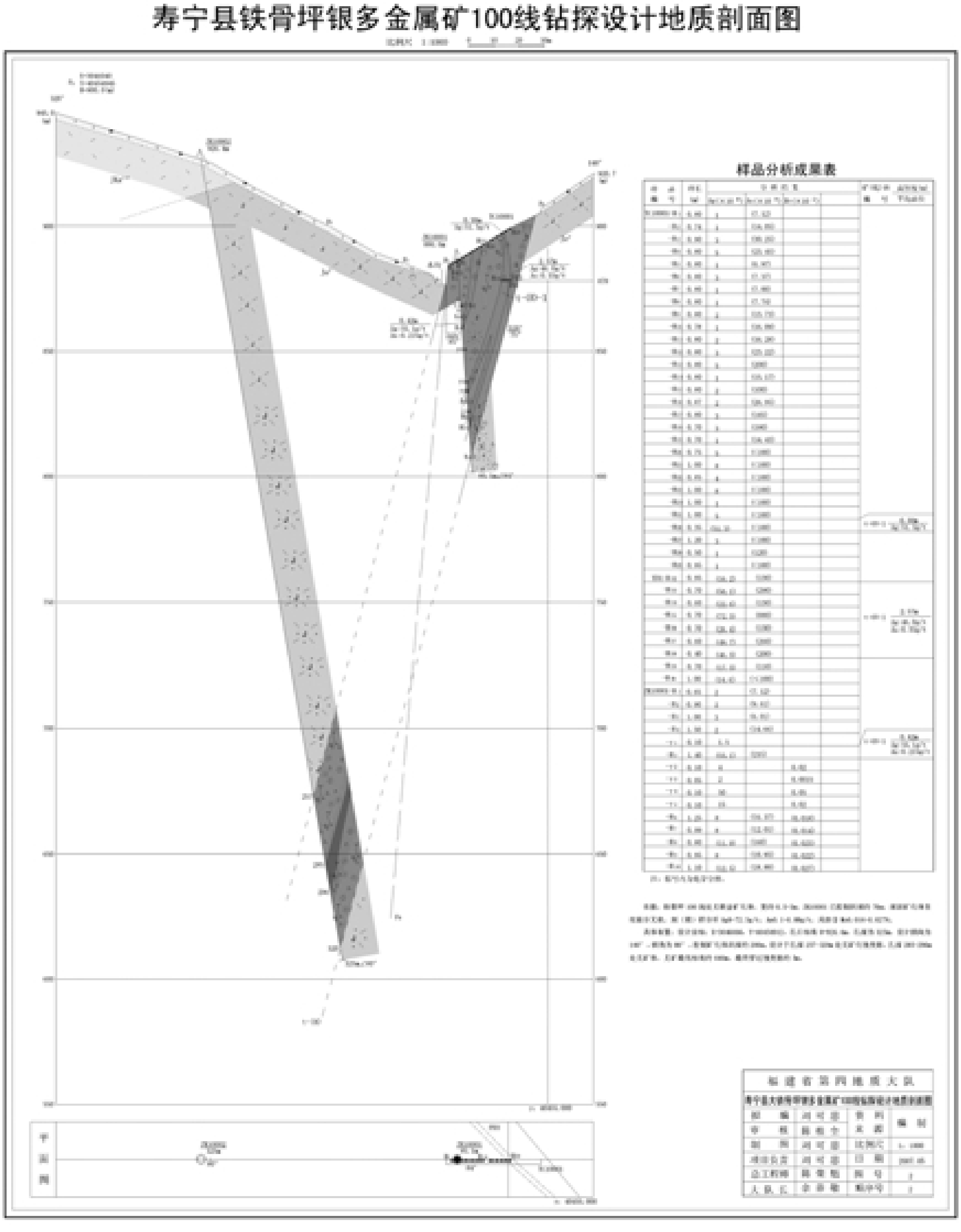

Figure 4-6: Cross Section of No. 100 Line at Tieguping Prospect (Showing Drilling and Mineralised zone and body of T-(8))

Figure 4-7: A Tunnel Developed for Exploring No. T-(8) Vein at Tieguping Prospect

Wailou No. WIII Vein: occurs also in the Jurassic tuff in Wailou prospect. Five trenches at a spacing of 80m on the surface have controlled 300m strike length, and revealed a width of 40-100m of the vein. The overall strike length is about 1,000m. It strikes nearly N-S and dips E between 70-80°. The vein is offset by No. F5-1 and No. F5-2 faults. There are 25 ancient mining tunnels on the vein. The main tunnel was developed in the north portion of the vein, and has a length of 300m and width of 1-3m, and the maximum depth of the underground working reaches 70m. There are a lot of branches on the north side of the main tunnel. Alterations and mineralization can be observed on trenches and tunnels, and have the features of silicification, and pyritization. Surface and underground working revealed that the vein is wavy, swell and pinch. Samples from the vein returned grades of 10-40g/t silver with a maximum of 207g/t, 0.1-0.3g/t gold, and maximum 0.69g/t Au.

One mineralised body (No. WIII-1) has been defined in the No. WIII vein system. Four trenches on 780-850m ASL, have controlled the body for about 400m along strike and a width of 1-8m. The body strikes nearly N-S and dips E between 70° and 80°. The assays of the samples taken on the surface, and old tunnels returned grades of 40-100g/t silver with a maximum of 207g/t, 0.2-0.5g/t gold, and maximum 0.69g/t. One drill rig currently is drilling the mineralized body. Figure 4-8 is the designed cross-section of No. 4 Line at Wailou prospect.

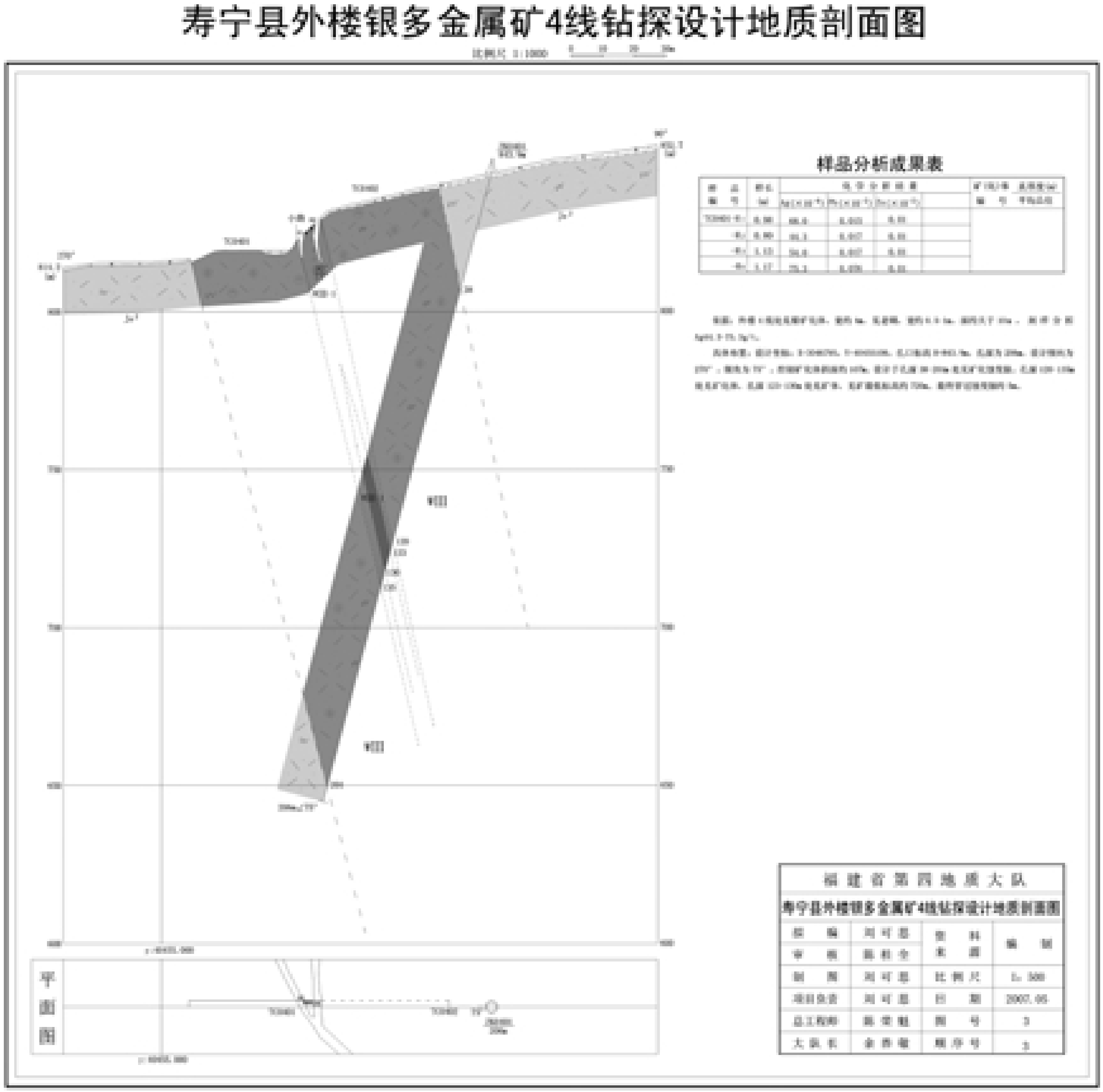

Figure 4-8: Projected Cross-Section of No. 4 Line at Wailou Prospect (showing the drill hole for Exploring No. WIII-1 Mineralised body)

No. 4 Geological Brigade summarized the characteristics of the main mineralised zones or bodies which have a strike length of greater than 200m in various prospects as in Table 4. It is reported that there are in total about 80 veins in the Project area. Figure 4-9 shows an alteration-mineralization vein at Fengyangting prospect.

Table 4-1: Characteristics of the main mineralised veins in Dashu-Pandi Ag-Au Project

Prospect	Vein No.	Length (m)	Width (m)	Strike (°)	Dip (°)	Dip angle (°)
Da'an	I-1	260	3-15	320	50	80
	I-2	360	5-20	320	50	80
Tieguping	(1)	240	5-20	340-0	70-90	70-80
	(4)	370	5-10	340-350	70-80	75-88
	(8)	400	30-40	50	330	75-85
Wailou	III	1,000	40-100	0	90	70-80
Fuji	③	610	2-10	50	140	80
	④	200	3-15	28	298	81
Fengyangting	①	460	5-53	272	182	78
Shijikeng	II	280	3-8	290	200	74-77
	III	320	5-14	290	20	69-74
	IV	410	4-14	290	200	62

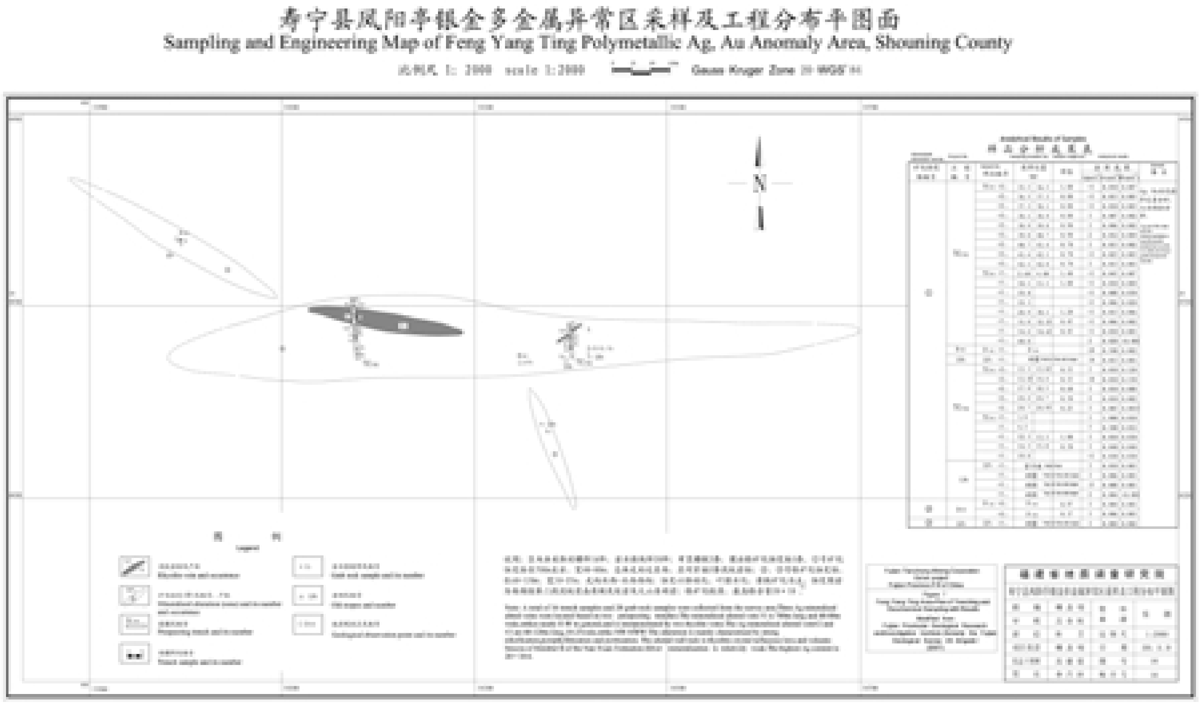

Figure 4-9: One vein defined at Fengyangting Prospect

4.3 **Mineralogy, Alteration and Mineralisation Types**

The ore minerals are mainly pyrite with some sphalerite, tetrahedrite, and molybdenite. There is information about the occurrences of silver and gold. Gangue minerals are quartz, chlorite, epidote, and sericite.

The alteration associated with mineralization has a characteristic zonation. From the centre of the vein to the edge, the alteration changes from strong silicification (quartz vein) + pyritization, to silicification + pyritization + chloritization, to chloritization + sericitization + pyrophyllitization, to pyrophyllitization.

The mineralization types based on the host-rocks can be divided into:

Secondary quartzite (quartz vein) type: the mineralization, is mainly sulphide minerals, such as pyrite, in massive quartz veins which can be a few of metres thick. This type of mineralization contains usually about 100g/t silver and a few tenths of grams per tonne gold

Structural breccia type: the mineralization occurs in quartz-sulphide veinlets in structural broken zones which are 2-3m wide

Structural breccia type: the broken ores possess breccia texture, and extensive alteration, such as silicification, sericitization, and actinolitization. The type of mineralization may contain 300-400g/t silver and a few grams per tonne gold.

4.4 Sampling analytical procedures and quality control

No. 4 Geological Brigade conducted geological exploration programs in the Dashu-Pandi project from 2004 to 2006, contracted by Tiancheng. Table 4-2 details the extent of the exploration programs.

Table 4-2: Exploration programs conducted by No. 4 Geological Brigade for Dashu-Pandi Project

Item	Unit	Total
1:10,000 geological survey	km^2	11
1:5,000 geological survey	km^2	10
1:2,000 geological survey	km^2	1.1
1:10,000 soil survey	km^2	4.8
1:1,000 geological profiling	m	10,784.2
1:500 geological profiling	m	1,000
Tunnel survey	m	485
Investigation of old tunnels ($84km^2$)	Tunnel	173
Trenching and stripping	m^3	5723
Trench clearing	m	460
Tunnelling	m	472.7
Drilling	m	301
Channel samples	Sample	512
Drill core samples	Sample	46
Soil samples	Sample	1,500
Petrographical study samples	Sample	120
1:10000 geological mapping	km^2	5
Geological profiling	km	4.98
1:5000 Topographic survey	km^2	8.6
1:2000 Topographic survey	km^2	1.2
1:2000 Geological mapping	km^2	1.2
1:1000 geological profiling	km	1.2

Adit tunnels were developed to explore the mineralized bodies for dip extensions of about 30-50m. The typical section of the adit tunnel is 1.8m (height) by 1.5m (width). The tunnels were properly mapped.

Trenches were developed perpendicular to the mineralized bodies at a spacing of 40-100m, varying at different prospects. The trenches were more than 0.8m wide at the bottom and penetrated into bedrock for at least 0.3m. The trenches were properly numbered and mapped.

Three drill holes were conducted at Tieguping prospect by Tiancheng. SRK checked the drill cores stored on site, and observed that the overall recovery of the drilling is good. The drilling was carried out by No. 4 Geological Brigade, and abides by Chinese regulations on the drilling procedures.

The channel samples were taken from a channel with a typical section of 10cm (width) by 3-5cm (depth) in the adits and surface trenches for hangingwall and footwall of mineralized bodies, alteration zone, and the mineralized bodies. Sample length varied, but was usually about 1-1.5m.

Drill cores were split into halves, and one half was taken as samples and another half was stored as reference samples.

The samples were analysed for Ag, Au, and Mo at the Fuzhou Central Laboratory of Fujian Bureau of Geology and Mineral Resources which is a qualified laboratory in China. Sample preparation was conducted according to Chinese regulations. Samples were all assayed by using semi-quantitative spectrum analysis. Samples containing Ag>10g/t, Au>0.1g/t, and Mo>0.01% were re-assayed for silver, gold, and molybdenum by using Atomic Absorption Method (AA) (Ag and Au), and Inductively Coupled Plasma Mass Spectrometry (ICP-MS) for Mo, respectively.

The laboratory performed quality control procedures as required in the Chinese regulations standard. National standards and blanks were inserted for each batch of samples. The laboratory randomly selected 30% of the samples for pulp duplicates as internal checking. Both of measures are qualified based on Chinese regulations. Overall qualification rate of the check samples was above 95%.

SRK undertook a limited program of check sampling at Dashu-Pandi project to provide additional confidence in the overall grade. Four samples were submitted to the Langfang laboratory at the Institute of Geochemical and Geophysical Exploration, Ministry of Land and Resources, a well regarded analytical laboratory which is used by many Canadian public mining companies. Atomic Absorption Spectrometry (AAS) was used to assay gold, Inductively Coupled Plasma Spectrometry (ICP-MS) was used to assay silver and molybdenum, and Atomic Fluorescence Spectrometry was used for assay arsenic. Table 4-3 shows the assay results of the check samples.

Table 4-3: SRK check grab sample assays of Dashu-Pandi project

Sample #	Location	Au(g/t)	Ag(g/t)	As(ppm)	Mo(%)	Remarks
SJK-1	Shanjikeng	9.57	240.8	1290	0.03	Chipping, outcrop
SJK-2	Shanjikeng	0.87	17.3	325	0.05	Chipping, outcrop
DA-1	Da’an	—	17.5	501	—	Grab, waste dump
LD-1	Tieguping	0.17	164.7	268	—	Chipping, old tunnel
PD3Y3-1	Tieguping-8	0.21	97.3	112	—	Chipping, new tunnel
PD3Y3-2	Tieguping-8	0.46	15.7	12	—	Chipping, new tunnel
PD3Y3-3	Tieguping-8	0.25	169.7	85	—	Chipping, new tunnel

In Table 4-3, the chip samples were taken from an adit, and the outcrop at the surface, the grab sample was taken on the dump site of an ancient working. The results from the check audit assays indicate that the Dashu-Pandi project contains consistent grades of silver, gold, and molybdenum as reported, and a low amount of arsenic.

4.5 **Mineral resources**

Cut-off grades

No. 4 Geological Brigade prepared a resource estimate of the Dashu-Pandi project based on the database accumulated in prior exploration programs. According to the specifications for geological exploration of Ag deposits in China, and considering the geological features of mineralization in the Project area, the Brigade used the following technical parameters in its resource estimate:

- Cut-off grade: 80g/t Ag;
- Minimum industrial grade (average block grade): 100g/t Ag;
- Minimum mineable thickness: 0.80m; and
- Maximum waste band thickness: 2.00m.

Method used for the estimate

Geological block method was applied for resource estimation. Parameters used are defined as follows:

- The length of a mineralized body determined by consideration of the length of the controlled body, length of old underground working, and the anomalies defined in geochemical surveys;
- The width of a mineralized body is the average width of different intercepts of the body;
- Average grade of an intercept was the average grade weighted by sample lengths;
- The dip extent is extrapolated as 1/4 of the length of the body;
- Average grade of a block is the average grade weighted by true thickness of each intercept;
- Block volume is simply the product of length multiplied by the average width multiplied by the dip extent;
- Specific gravity: 2.8 t/m^3 used in the resource estimate.

Resources

No. 4 Geological Brigade estimated the mineral resources of mineralized veins in the Project area as in Table 4-4. The table also gives the information about the estimate of the resources mined in ancient mining activities.

Table 4-4: Chinese 334 Resources of Some Mineralized Veins in Dashu-Pandi Project

Prospect	Vein No.	Metal Ag Contained (t)	Ag (g/t)	Mined Ag Metal (t)	Remained Ag Metal (t)	Remained Mineralised material (t)
Da'an	I-1	22	120	1	21	175,000
	I-2	69	120	1	68	567,000
	Subtotal	91	120	2	89	742,000
Tieguping	①	27	190	4	23	121,000
	④	47	190	3	44	232,000
	⑧	50	160	0	50	312,500
	Subtotal	124	178	7	117	658,000
Wailou	III	115	180	10	105	583,000
Shanjikeng	③	72	200	0	72	360,000
Fuji	③	45	183	1	44	240,000
	④	32	150	0	32	213,000
	Subtotal	77	169	1	76	449,000
Fengyangting	①	50	100	0	50	500,000
Total/Average		529	155	20	509	3,292,000

Prior to 1999 China used a letter system to categorise reserves/resources. This has been replaced by a three number system. However, both Chinese systems use different criteria from those used in defining resources under the Australian Joint Ore Reserves Committee (JORC) code. Comparison of the Chinese and JORC systems is provided in Appendix 1. In general, Category 334 shown in Table 4-4 usually cannot be translated into a JORC resource class. SRK is of the opinion that the 334 resource category is insufficient to define a Mineral Resource and can only be considered as a potential exploration target size of the Dashu-Pandi silver-gold project, and the potential quantity and grade is conceptual in nature. It is uncertain whether further exploration will result in the definition of a Mineral Resource.

4.6 **Potential of further exploration**

Tiancheng currently contracts No. 4 Geological Brigade to conduct exploration programs at Wailou-Tieguping-Shanjikeng prospects. The programs include drilling at Wailou prospect, and soil survey in the prospects area.

Although previous exploration has not defined any mineralisation that can be reported as a Mineral Resource, considering the large area of the exploration permit, SRK believes that the Dashu-Pandi project possesses favourable geological conditions to host potentially economic mineral deposits, such as faults, volcanic and magmatic intrusive activity, and showings of mineralization, as well as the occurrences of silver-gold-lead-zinc deposits in the region. Although the current exploration has identified a number of veins, the grade of most veins is quite low, especially for an underground mining option. However, because there are a large number of veins that have not yet been explored, and most of previous exploration was on and near the surface, the project warrants further exploration. SRK recommends that a comprehensive study should be done to better understand the structures, controls of silver-gold mineralization, and possible patterns of ore body distribution in vein systems. This study should also focus on controls of the highest grade veins, so that future exploration can focus on the highest-grade parts of the mineral system. The focus of further exploration should be to discover some economic mineralised bodies which have a larger size and higher grade and may be suitable for an underground operation, as well as the bodies with poly-metallic mineralization, such as gold-silver-lead-zinc-copper, which may occur in the geological background of the Project, because most of the mineralised bodies found so far in the Property contain relatively low grades of silver and gold, and in SRK's opinion, the bodies cannot support an underground mining operation in current economic and technical conditions.

5 CONCLUSIONS AND RECOMMENDATIONS

5.1 Conclusions

Geology and Resources

In the Dashu-Pandi region, some hydrothermal Ag-Au mineralization showings have been discovered in ancient and new underground workings, surface trenches, and drilling. The mineralised bodies occur in fault zones in Jurassic strata. There are more than 80 mineralized-altered vein systems that have been defined in previous exploration programs which include trenching and pitting, drilling and tunnelling, as well as mapping of ancient workings, geochemical surveys.

Some vein systems were explored in details, and others are still to be explored. No. 4 Geological Brigade used samples and their assays obtained so far to estimate the mineral resources of some mineralized veins in the project. The resources are in the category of 334 of the Chinese resource classification system, and have no-equivalent in JORC resource category.

SRK carried out a limited sampling program to check the overall grades of mineralization. The samples returned some assays consistent with grade reported, with some potentially economic gold and silver grade, which may indicate a potential to define some economic ore bodies in the area.

In SRK's opinion, the project is still in its early stage of exploration. More exploration programs to discover economic mineralised bodies are warranted.

5.2 Recommendations

Geology and Resources

SRK recommends additional exploration on the project to discover potentially economic mineralised bodies. SRK recommends that a comprehensive study should be done to better understand the structures, controls of silver-gold mineralization, and possible patterns of ore body distribution in vein systems. Remote sensing data may help to understand the regional structures, and ground magnetic survey may assist in determining the local structures. SRK suggests that further exploration should focus on the larger vein systems to guide discovery of thicker and higher grade mineralized bodies in the system.

SRK recommends that the sampling and QA/QC issues be dealt with professionally to ensure establishment of a resource and reserve estimate that complies with international standards.

6 REFERENCES

No. 4 Fujian Geological Brigade, 2006. *The Geological Report on Mineral Resources in General Prospecting of Silver-polymetallic deposits at Dashu-Pandi Prospecting Area, Shouning County, Fujian Province.*

No. 4 Fujian Geological Brigade, 2006a. *The Report on the Resource Estimatse of Silver-polymetallic deposits at Dashu-Pandi Prospecting Area, Shouning County, Fujian Province.*

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No. 4 Fujian Geological Brigade, 2006c. *Instructions on the Mapping of Geology and Distribution of Alteration-mineralization Zones (Veins) of Silver-polymetallic deposits at Dashu-Pandi Prospecting Area, Shouning County, Fujian Province.*

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Seeley, John B, 2006. *Report on the Mineral Deposits in the Da'an District, Fujian Province, China.*

7 ABBREVIATIONS AND GLOSSARY

ABBREVIATIONS

JORC	Australian Joint Ore Reserves Committee
No. 4 Geological Brigade	No. 4 Geological Brigade, Fujian Bureau of Geology and Resources; a qualified unit of doing exploration work in China
SEHK	Stock Exchange of Hong Kong Limited
SRK	SRK Consulting
Dashu-Pandi project	The exploration permit owned by Tiancheng in Da'an township, Shouning County, Fujian Province
The Company	Smart Union Group (Holdings) Limited
The Project	Ditto
The Property	Ditto
Tiancheng	Fujian Tiancheng Mining Co. Ltd.

GLOSSARY

acid-intermediate rocks	Magmas are grouped into compositional categories based on silica content: ultramafic (<45% silica), mafic (45-52% silica), intermediate (53-65% silica), and acid (>65% silica). Igneous rocks formed from each category of magma are called ultramafic rocks, mafic rocks, intermediate rocks and acid rocks.
adit	A horizontal or nearly horizontal passage driven from the surface. If driven through the hill or mountain to the surface on the opposite side, it would be a tunnel.
breccia	Clastic rock made up of angular fragments of such size that an appreciable percentage of rock volume consists of particles of granule size or larger.
chlorite	is a mineral, Iron Aluminum Magnesium Silicate Hydroxide with the general formula (Fe, Mg, Al)6(Si, Al)4O10(OH)8.
dip	Acute angle that a rock surface makes with a horizontal plane. Direction of dip is always perpendicular to strike.
fault	Surface of rock rupture along which has been differential movement.
gangue	Commercially valueless material remaining after ore-mineral extraction from rock.
grade	The relative quantity or the percentage of ore-mineral or metal content in an orebody.

granite	Coarse-grained igneous rock dominated by light-colored minerals, consisting of about 50 percent orthoclase, 25 percent quartz, and balance of plagioclase feldspars and ferromagnesian silicates. Granites and granodiorites comprise 95% of all intrusive rocks.
limonite	Iron oxide with no fixed composition or atomic structure; a mineraloid. Always of secondary origin, not a true mineral.
magmatic	Pertaining to magma, the naturally occurring molten rock, generated within the Earth and capable of intrusion and extrusion, from which igneous rocks are derived through solidification and related processes.
pyrite	A sulphide mineral, iron sulphide, FeS_2.
pyrophyllite	A mineral, Aluminum Silicate Hydroxide, with a formula AlSi2O5OH.
quartz	A silicate mineral, SiO_2, composed exclusively of silicon-oxygen tetrahedra, with all oxygens joined in a three-dimensional network. Crystal form is six-sided prism tapering at end, with prism faces striated transversely. An important rock-forming mineral.
sedimentary	Formed by the deposition of sediment.
strike	The course or bearing of the outcrop of an inclined bed, vein, or fault plane on a level surface; the direction of a horizontal line perpendicular to the direction of the dip.
tectonic	Associated with the regional assembly of structural or deformational features.
sericite	A white, fine-grained potassium mica occurring in small scales as an alteration product of various aluminosilicate minerals, having a silky luster, and found in various metamorphic rocks (esp. in schists and phyllites) or in the wall rocks, fault gouge, and vein fillings of many ore deposits. It is commonly muscovite or very close to muscovite in composition, but may also include paragonite and illite.
VALMIN Code:	Code adopted by the Australasian Institute of Mining and Metallurgy and the Australian Institute of Geoscientists. The standard is binding upon all AusIMM and AIG members. The Valmin code incorporates the JORC Code for the reporting of Mineral Resources and Ore Reserves.

APPENDIX 1 — RESOURCE AND RESERVE STANDARDS

Categorisation of Mineral Resources and Ore Reserves

The system for the categorising mineral resources and ore reserves in China is in a period of transition that commenced in 1999. The traditional system, derived from the former Soviet system, uses five categories based on decreasing levels of geological confidence - Categories A, B, C, D and E. The new system (Rule 66) promulgated by the Ministry of Land and Resources ("MLR") in 1999 uses three-dimensional matrices, based on economic, feasibility/mine design and geological degrees of confidence. These are categorised by a three number code of the form "123". This new system is derived from the United Nations Framework Classification proposed for international use. All new projects in China must comply with the new system. However, estimates and feasibility studies carried out before 1999 will have used the old system.

Both the new and old systems are quoted in this report, because it is common for Chinese mining assets to be classified according to both systems. Wherever possible, the Chinese Resource and Reserve estimates have been reassigned by SRK to categories similar to those used by the JORC Code to standardize categorization. Although similar terms have been used, SRK does not mean to imply that in their present format they are necessarily classified as 'Mineral Resources' as defined by the Australasian Code for the Reporting of Exploration Results, Mineral Resources and Ore Reserves (the "JORC Code").

A broad comparison guide between the Chinese classification scheme and the JORC Code is presented in the following table.

JORC Code Resource Category	Chinese "Reserve" Category: Previous system	Chinese "Reserve" Category: Current system
Measured	A	111, 111b, 121, 121b, 2M11, 2M21, 2S11, 2S21, 331
	B	
Indicated	C	122, 122b, 2M22, 2S22, 332
Inferred	D	333
Non-equivalent	E	334

Relationship between JORC Code and the Chinese Reserves System

In China, the methods used to estimate the resources and reserves are generally prescribed by the relevant Government authority, and are based on the level of knowledge for that particular geological style of deposit. The parameters and computational methods prescribed by the relevant authority include cut-off grades, minimum thickness of mineralisation, maximum thickness of internal waste, and average minimum 'industrial' or 'economic' grades required. The resource classification categories are assigned largely on the basis of the spacing of sampling, trenching, underground tunnels and drill holes.

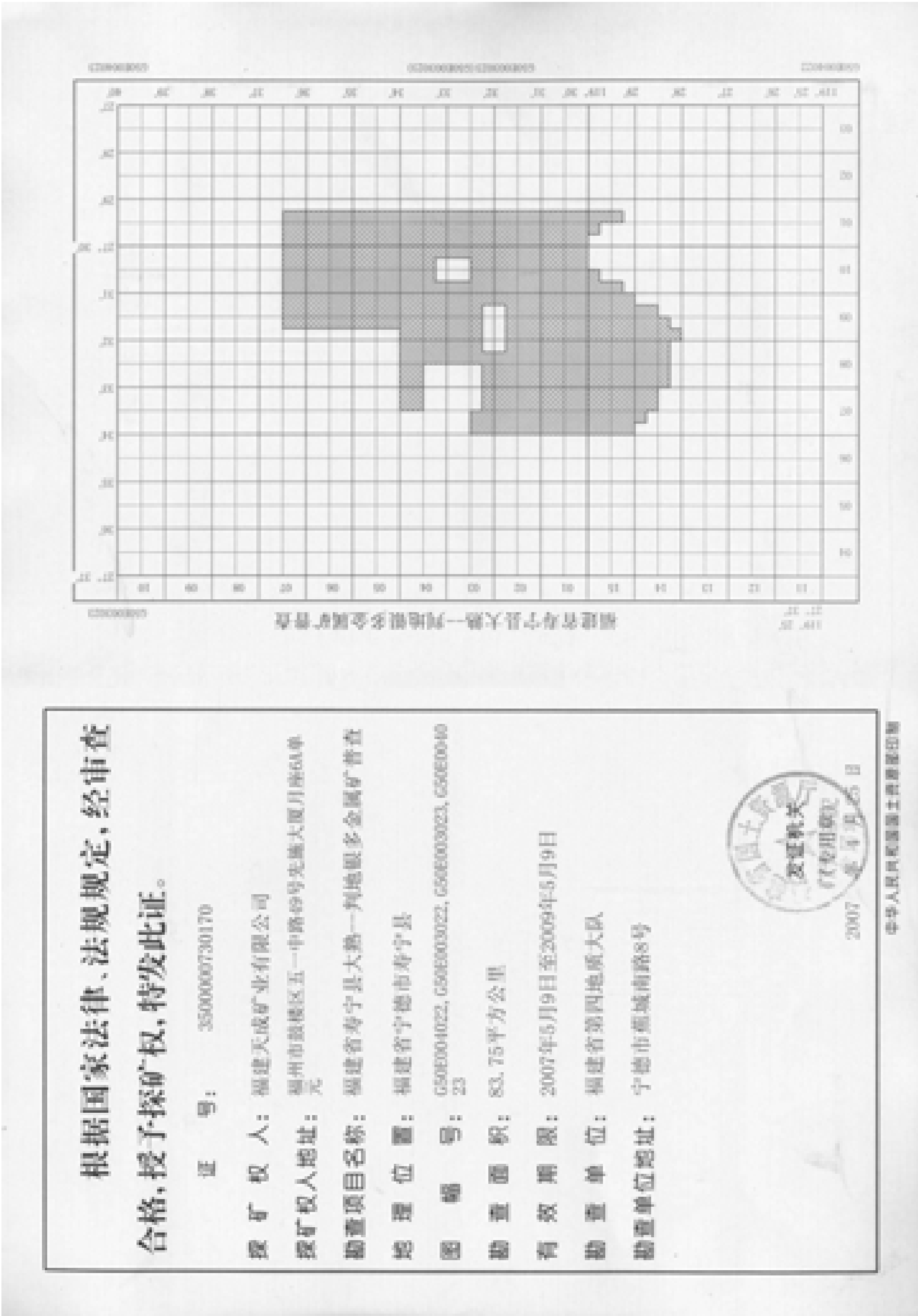
In the pre-1999 system, Category A generally included the highest level of detail possible, such as grade control information. However, the content of each category B, C & D may vary from deposit to deposit in China, and therefore must be carefully reviewed before assigning to an equivalent "JORC Code type" category. The traditional Categories B, C and D are broadly equivalent to the 'Measured', 'Indicated', and 'Inferred' categories that are provided by the JORC Code and USBM/USGS systems used widely elsewhere in the world. In the JORC Code system the 'Measured Resource' category has the most confidence and the 'Inferred' category has the least confidence, based on increasing levels of geological knowledge and continuity of mineralisation.

According to the new Chinese Category Scheme, as shown in the following table, the three numbers refer to economic, feasibility/mine design and geological degrees of confidence.

Definition of the new Chinese Resource Category Scheme

Category	Denoted	Comments
Economic	1	Full Feasibility Study considering economic factors has been conducted
	2	Pre-feasibility to scoping study which generally considers economic factors has been conducted
	3	No pre-feasibility or scoping study conducted to consider economic analysis
Feasibility	1	Further analysis of data collected in "2" by an external technical department
	2	More detailed feasibility work including more trenches, tunnels, drilling, detailed mapping etc
	3	Preliminary evaluation of feasibility with some mapping and trenches
Geologically controlled	1	Strong geological control
	2	Moderate geological control via closely-spaced data points (e.g. small-scale mapping)
	3	Minor work which projected throughout the area
	4	Review stage

APPENDIX 2 — EXPLORATION PERMIT



根据国家法律、法规规定，经审查合格，授予探矿权，特发此证。

证　　号：3500000730170

探 矿 权 人：福建天成矿业有限公司

探矿权人地址：福州市鼓楼区五一中路49号先施大厦月座6A单元

勘查项目名称：福建省寿宁县大熟一判地银多金属矿普查

地 理 位 置：福建省宁德市寿宁县

图　幅　号：G50E004022, G50E003022, G50E003023, G50E004023

勘 查 面 积：83.75平方公里

有 效 期 限：2007年5月9日至2009年5月9日

勘 查 单 位：福建省第四地质大队

勘查单位地址：宁德市蕉城南路8号

发证机关

2007 年 5 月 25 日

中华人民共和国国土资源部印制

Dashu-Pandi Exploration Permit

SRK REPORT DISTRIBUTION RECORD

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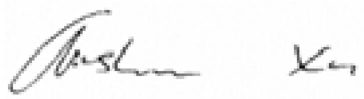
Approval Signature:



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1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular concerning the Company and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts not contained in this circular the omission of which would make any statement herein misleading.

2. SHARE CAPITAL

As at the Latest Practicable Date, the authorised and issued share capital of the Company were as follows:

Authorised:	*HK$*
2,000,000,000 ordinary Shares	200,000,000
Issued and fully paid:	*HK$*
342,480,000 ordinary Shares	34,248,000

3. DISCLOSURE OF INTERESTS

(a) Director's interests and short positions in the securities of the Company and its associated corporations

As at the Latest Practicable Date, the interests and short positions of the Directors and the chief executives of the Company and their respective associates in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the director is taken or deemed to have under such provisions of the SFO, (b) the Model Code for Securities Transactions by Directors of Listed Issuers or (c) which were required to be entered into the register pursuant to section 352 of the SFO were as follows:

Name of Shareholder	Number or attributable number of Shares held or short positions	Capacity: Interest of controlled corporations	Capacity: Beneficial Owner	Approximate percentage or attributable percentage of shareholding (%)
Wu Kam Bun	177,142,000 (L)	173,988,000 (L) *(Note 1)*	3,154,000 (L) *(Note 2)*	51.72
Lai Chiu Tai	174,288,000 (L)	173,988,000 (L) *(Note 1)*	300,000 (L) *(Note 3)*	50.89
Lo Kwok Choi	500,000 (L)	—	500,000 (L) *(Note 4)*	0.15
Ho Wai Wah	500,000 (L)	—	500,000 (L) *(Note 4)*	0.15
Wong Wai Chuen	1,000,000 (L)	—	1,000,000 (L) *(Note 4)*	0.29
Tang Koon Yiu Thomas	80,000 (L)	—	80,000 (L) *(Note 4)*	0.02
Li Chak Hung	80,000 (L)	—	80,000 (L) *(Note 4)*	0.02
Law Yuet Yee	1,000,000 (L)	—	1,000,000 (L) *(Note 5)*	0.29
Ho Chi Kwong	650,000 (L)	—	650,000 (L) *(Note 5)*	0.19
Chu Wai Fan	200,000 (L)	—	200,000 (L) *(Note 5)*	0.06

L: Long Position

Notes:

1. The 173,988,000 Shares were owned by Smart Place Investments Limited, a company incorporated in the British Virgin Islands, the entire issues share capital of which is held as to 38.5% by Mr. Wu Kam Bun, 38.5% by Mr. Lai Chiu Tai, 10% by Mr. Ho Wai Wah, 10% by Mr. Lo Kwok Choi, and 3% by Mr. Wong Wai Chuen, all being executive Directors. Mr. Wu and Mr. Lai are deemed to be interested in the 173,988,000 Shares held by Smart Place Investments Limited by virtue of the SFO.

2. The interests in 3,154,000 Shares represent 2,854,000 Shares and 300,000 Shares to be allotted and issued upon the exercise of the share options granted to Mr. Wu Kam Bun under the share option scheme of the Company.

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

4. The interests in Shares represent Shares to be allotted and issued upon the exercise of the share options granted to Directors under the share option scheme of the Company.

5. The interests in Shares represent Shares to be allotted and issued upon the exercise of the share options granted to chief executives under the share option scheme of the Company.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors nor the chief executive of the Company had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) (i) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules.

(b) **Persons who have an interest or short position which is discloseable under Divisions 2 and 3 of Part XV of the SFO**

So far as is known to the Directors and the chief executive of the Company, as at the Latest Practicable Date, the following persons (not being Directors or chief executive of the Company) had, or were deemed to have, interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Name of Shareholder	**Capacity**	**Number or attributable number of Shares held or short positions**	**Approximate percentage or attributable percentage of shareholding** *(%)*
Ip Chor Wan *(Note 1)*	Interest of spouse	177,142,000 (L)	51.72
Chan Wai Ling *(Note 2)*	Interest of spouse	174,288,000 (L)	50.89
Smart Place Investments Limited	Beneficial owner	173,988,000 (L)	50.80

L: Long Position

Notes:

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

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

(c) **Substantial shareholders of other members of the Group**

As at the Latest Practicable Date, save as disclosed, the Directors and the chief executive of the Company were not aware of any other person (other than the Directors and the chief executive of the Company) who had, or was deemed to have, interests or short positions in the Shares or underlying Shares, which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group.

As at the Latest Practicable Date, save as disclosed, none of the Directors was a director or employee of a company which had, or was deemed to have, an interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO.

4. MATERIAL CONTRACTS

The following contracts (not being contracts in the ordinary course of business) have been entered into by the Company or any of its subsidiaries within the two years immediately preceding the date of this circular and are or may be material:

(a) the sale and purchase agreement dated 1 September 2006 entered into between (i) Wu Kam Bun, Lai Chiu Tai, Ho Wai Wah and Lo Kwok Choi and (ii) the Company whereby Wu Kam Bun, Lai Chiu Tai, Ho Wai Wah and Lo Kwok Choi agreed to transfer the entire issued share capital of Smart Union Investments Limited to the Company, and the Company in return allotted and issued, credited as fully paid, an aggregate of 14,999,999 Shares to Smart Place Investments Limited as directed by Wu Kam Bun, Lai Chiu Tai, Ho Wai Wah and Lo Kwok Choi;

(b) the deed of indemnity dated 18 September 2006 given by Smart Place Investments Limited, Wu Kam Bun and Lai Chiu Tai in favour of the Company and its subsidiaries being the deed of indemnity containing indemnities in respect of, inter alia, Hong Kong estate duty, taxation and other liabilities which might be payable by an member of the Group;

(c) the conditional underwriting agreement dated 18 September 2006 entered into between the Company, Smart Place Investments Limited, the executive Directors, Sun Hung Kai Investments Limited, GT Capital Limited, China Merchants Securities (HK) Co., Ltd., Christfund Securities Limited, IFN-GT Securities Limited and Phillip Securities (HK) Limited relating to the offer of 7,200,000 new Shares for subscription by members of the public in Hong Kong for cash and the placing of 64,800,000 Shares to selected professional, institutional and private investors;

(d) the placing agreement dated 12 June 2007 between Smart Place Investments Limited and Sun Hung Kai International Limited in relation to the placing of 32,400,000 existing Shares beneficially owned by Smart Place Investments Limited at a placing price of HK$1.33 per Share;

(e) the subscription agreement dated 12 June 2007 between Smart Place Investments Limited and the Company in relation to the subscription of 32,400,000 new Shares at a subscription price of HK$1.33 per Share;

(f) the placing agreement dated 17 July 2007 between the Company and the Placing Agent in relation to the Placing of the Placing Shares; and

(g) the Formal Agreement.

5. DIRECTORS' SERVICE CONTRACTS

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

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

6. LITIGATION

So far as the Directors are aware, no member of the Group is engaged in any litigation, arbitration or claim of material importance and no litigation, arbitration or claim of material importance is known to the Directors to be pending or threatened against any member of the Group as at the Latest Practicable Date.

7. COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors or the management Shareholders (as defined in the Listing Rules) or substantial Shareholder or any of their respective associates has any interest in business which competes with or may compete with the business of the Group or has any other conflict of interests which any person has or may have with the Group.

8. INTERESTS IN CONTRACTS AND ASSETS

As at the Latest Practicable Date, no contract or arrangement of significance in relation to the Group's business to which the Company or any of its subsidiaries was a party and in which any of the Directors had a material interest, whether directly or indirectly, subsisted as at the Latest Practicable Date.

None of the Directors nor expert referred to in paragraph 9 has any direct or indirect interests in any assets which had been acquired or disposed of by or leased to, or which are proposed to be acquired or disposed of by or leased to, the Company or any of its subsidiaries within the two years immediately preceding the issue of this circular.

None of the Directors nor SRK Consulting have any interest, direct or indirect, in the promotion of, or in any assets which had been within two years immediately preceding the issue of this circular acquired or disposed of by or leased to, any member of the Group.

None of the experts referred to in paragraph 9 any shareholding, directly or indirectly, in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

9. EXPERTS

The following is the qualifications of the experts who have given an opinion or advice contained in this circular:

Name	Qualification
SHINEWING	Certified Public Accountants
SRK Consulting	Independent Technical Advisers

As at the Latest Practicable Date, each of SHINEWING and SRK Consulting did not have any interests, either direct or indirect, in any assets which have been acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2006, the date to which the latest published audited consolidated financial statements of the Group were made up.

As at the Latest Practicable Date, each of SHINEWING and SRK Consulting was not interested beneficially or non-beneficially in any Shares in the Company or any of its subsidiaries or any right or option (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

Each of SHINEWING and SRK Consulting has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its respective letter and/or report and/or reference to its name in the form and context in which it respectively appears.

10. MISCELLANEOUS

(a) There is no contract or arrangement entered into by any member of the Group subsisting at the date of this circular in which any Director is materially interested and which is significant to the business of the Group.

(b) As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any assets which had been acquired, disposed of by or leased to, or which were proposed to be acquired, disposed of by or leased to, any member of the Group since 31 December 2006, the date to which the latest published audited consolidated financial statements of the Group were made up.

(c) The principal share registrar and transfer office of the Company is Bank of Bermuda (Cayman) Limited whose address is at PO Box 513GT, Strathvale House, North Church Street, George Town, Grand Cayman, Cayman Islands, British West Indies.

(d) The branch share registrar and transfer office of the Company in Hong Kong is Tricor Investor Services Limited whose address is at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.

(e) The qualified accountant of the Company is Mr. Wong Wai Chuen. Mr. Wong is a fellow member of Association of Chartered Certified Accountants in the United Kingdom and an associate of Hong Kong Institute of Certified Public Accountants. Mr. Wong obtained a master degree of science in information systems in 1998 and a master degree of science in finance in 2002 from the Hong Kong Polytechnic University and City University of Hong Kong respectively; and

(f) The company secretary of the Company is Mr. Siu Wai Man. He holds a master degree of arts in arbitration and dispute resolution from City University of Hong Kong and a master degree of science in financial management from the University of London. He is a member of the Chartered Institute of Arbitrators in the United Kingdom, a fellow of The Association of Chartered Certified Accountants in the United Kingdom and an associate of the Hong Kong Institute of Certified Public Accountants.

11. DOCUMENTS FOR INSPECTION

Copies of the following documents are available for inspection at the principal place of business of the Company in Hong Kong at Rooms 217-222, Advanced Technology Centre, 2 Choi Fat Street, Sheung Shui, New Territories, Hong Kong during normal business hours on any Business Day from the date of this circular up to and including the date of the EGM:

(a) the memorandum and articles of association of the Company;

(b) the prospectus of the Company dated 19 September 2006;

(c) the annual report of the Company for the financial year ended 31 December 2006;

(d) the written consent from the experts referred to under the paragraph headed "Experts" in this appendix;

(e) the accountants' report prepared by SHINEWING on the Target Group, the text of which is set out in appendix I of this circular;

(f) the independent technical advisors' report prepared by SRK Consulting on the Mine, the text of which is set out in appendix IV of this circular;

(g) the material contracts referred to under the paragraph "Material contracts" in this appendix;

(h) the service contracts referred to under the paragraph "Directors' service contracts" in this appendix;

(i) the circular of the Company dated 30 July 2007 in relation to the Placing; and

(j) this circular.

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**)

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the "**Meeting**") of Smart Union Group (Holdings) Limited (the "**Company**") will be held at Pacific Place Conference Centre, Vinson Room, Level 5, One Pacific Place, 88 Queensway, Hong Kong on Friday, 28 December 2007 at 10:00 a.m. for the purpose of considering and, if thought fit, passing the following resolution with or without amendments as an ordinary resolution:

ORDINARY RESOLUTION

"**THAT**

(a) the conditional agreement (the "**Agreement**") dated 17 October 2007 entered into among Smart Union Mining Investments Limited, formerly known as Queen Glory Limited (the "**Purchaser**"), a wholly owned subsidiary of the Company, Mr. Tang Xue Jin (the "**Vendor**") and China Mining Corporation Limited (the "**Target**") in relation to, among other matters, the sale and purchase of 22,755 shares of US$1.00 each in the issued share capital of the Target and the subscription of the convertible bonds (the "**Convertible Bonds**") with principal amount of HK$40,000,000 to be issued by the Target to the Purchaser (a copy of which is marked "A" and produced to the EGM and signed by the chairman of the EGM for identification purpose) be and is hereby ratified, confirmed and approved and the directors (the "**Directors**") of the Company be and are hereby authorised to do all such acts and things and execute all such documents which they consider necessary, desirable or expedient for the implementation of and giving effect to the Agreement and the transactions contemplated thereunder;

(b) the allotment and issue of 118,000,000 ordinary shares (the "**Consideration Shares**" and each a "**Consideration Share**") of HK$0.10 each of the Company credited as fully paid at an issue price of HK$1.67 per Consideration Share to the Vendor pursuant to the Agreement be and is hereby approved and any Director be and is hereby authorised to allot and issue the Consideration Shares in accordance with the terms of the Agreement and to take all steps necessary, desirable or expedient in his opinion to implement or give effect to the allotment and issue of the Consideration Shares; and

(c) the conversion of the Convertible Bonds into 3,379 shares of US$1.00 each in the share capital of the Target by the Purchaser pursuant to the terms of the Agreement and the Convertible Bonds be and is hereby approved and any Director be and is hereby authorised to do all such acts and things and execute all such documents which they consider necessary, desirable or expedient in his opinion to effect the conversion of the Convertible Bonds."

By order of the Board
Smart Union Group (Holdings) Limited
Wu Kam Bun
Chairman

Hong Kong, 10 December 2007

Registered office:
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Hutchins Drive
P.O. Box 2681
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Cayman Islands

Head office and principal place of business in Hong Kong:
Rooms 217 - 222
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2 Choi Fat Street
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Notes:

1. Any member entitled to attend and vote at the meeting convened by the above notice is entitled to appoint one or more proxies .to attend and, in the event of a poll, vote in his/her stead. A proxy needs not be a member of the Company.

2. In order to be valid, the form of proxy must be duly lodged at the Company's branch registrar in Hong Kong, Tricor Investor Services Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong together with a power of attorney or other authority, if any, under which it is duly signed or a notarially certified copy of that power of attorney or authority, not less than 48 hours before the time for holding the meeting or any adjourned meeting.

3. Completion and return of a form of proxy will not preclude a member from attending in person and voting at the above meeting or any adjournment thereof, should he so wish, and in such event, the form of proxy shall be deemed to be revoked.