

The logo for Smart Union, featuring the words "Smart Union" in a white, cursive font on a dark grey rectangular background with a horizontal line below it.

Smart Union

Smart Union Group (Holdings) Limited

(Provisional Liquidators Appointed)

合俊集團(控股)有限公司

(已委任臨時清盤人)

(incorporated in the Cayman Islands with limited liability)

(Stock Code : 2700)

INTERIM REPORT
2010

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Corporate Information

DIRECTORS

Executive Directors:

Mr. Wu Kam Bun (*Chairman*)

Mr. Ho Wai Wah

Mr. Wong Wai Chuen

QUALIFIED ACCOUNTANT

Mr. Wong Wai Chuen

FINANCIAL ADVISER

Asian Capital (Corporate Finance)
Limited

AUDITOR

PricewaterhouseCoopers

PRINCIPAL BANKERS

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

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG (Address of Provisional Liquidators)

20/F Henley Building
5 Queen's Road Central
Hong Kong

REGISTERED OFFICE

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

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

STOCK CODE

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

WEBSITE

www.smartunion.com.hk

Management Discussions and Analysis

BUSINESS REVIEW

On 1st September 2009, Smart Union Group (Holdings) Limited (Provisional Liquidators Appointed) (the “Company”) submitted a resumption proposal (the “Resumption Proposal”) to The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) with a view to seek the Stock Exchange’s approval for the resumption of trading in the shares of the Company. On 3rd May 2010, the Stock Exchange informed the Company that the Resumption Proposal did not satisfactorily demonstrate sufficiency of operations or assets under Rule 13.24 of the Rule Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”) and the Stock Exchange decided to place the Company in the second stage of delisting procedures with effect from 3rd May 2010. The Company is required to submit a viable resumption proposal before 2nd November 2010, the expiry of the six-month period from the date the Company was placed in the second stage of delisting procedures. At the end of the period, the Stock Exchange will determine whether it is appropriate to proceed to place the Company in the third stage of delisting procedures after considering any proposal made by the Company.

On 27th May 2010, Gold Bless International Invest Limited (the “Investor”), Mr. Yang Wang Jian (“Mr. Yang”), Mr. Ting Wai-min (“Mr. Ting”), the Company and the provisional liquidators of the Company (the “Provisional Liquidators”) entered into a supplemental agreement to extend the exclusivity period under the exclusivity agreement dated 12th May 2009 (the “Exclusivity Agreement”) to 31st December 2010. The exclusivity period may be further extended if the parties to the Exclusivity Agreement agree in writing.

Management Discussions and Analysis

On 27th May 2010, the Investor and Sino Front Limited (“Sino Front”), a wholly-owned subsidiary of the Company, entered into a supplemental working capital facility agreement (the “Supplemental Working Capital Facility Agreement”), pursuant to which the Investor agreed to increase the working capital facility from HK\$5,000,000 to HK\$55,000,000 on the terms and subject to the conditions as set out in the working capital facility agreement dated 17th June 2009 entered into by the Investor and Sino Front as supplemented by the Supplemental Working Capital Facility Agreement, for the Company and its subsidiaries (together the “Group”) to meet the costs required for business expansion and reactivation of its toys manufacturing business as part of the Resumption Proposal.

The Group has resurrected its toy trading business through Sino Front since June 2009, and has gradually expanded its customer base whilst subcontracted its manufacturing operations to OEM manufacturers in the People’s Republic of China (the “PRC”). With secured orders and to diversify Sino Front’s reliance on its outsourced sub-contractors, the Company has decided to resume the Group’s toy manufacturing business by acquiring production lines from an OEM manufacturer in the PRC.

On 6th July 2010, the Group completed an acquisition of five production lines (the “Five Production Lines”) pursuant to the acquisition agreement dated 8th June 2010 entered into between Sino Front and 藍宇玩具有限公司. The Five Production Lines are located in Dongguan, the PRC, with an aggregate annual production capacity of approximately 3 million units of toy products and are equipped with ancillary facilities and machineries including plastic injection moulding machines and assembling lines. The revival of the Group’s toy manufacturing business through the acquisition of the Five Production Lines is conducive to supporting a cohesive and sustaining resumption proposal to be submitted to the Stock Exchange in due course.

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

The hearing of the winding up petitions against the Company and the relevant subsidiaries, after several adjournments to allow time for the implementation of the proposed restructuring (the “Proposed Restructuring”) of the Group, is scheduled on 29th November 2010.

Management Discussions and Analysis

RESULTS

For the six months ended 30th June 2010, the Group's turnover was approximately HK\$94 million (30th June 2009: HK\$9 million), representing an increase of approximately 944% from the last financial year. Similar to last year, as the directors of the Company (the "Directors") and the Provisional Liquidators have not been able to gain access to certain books and records of Smart Union Industrial Limited (Provisional Liquidators Appointed) ("SU Industrial") and Smart Union (Qingyuan) Industrial Limited ("SU Qingyuan"), the financial statements of SU Industrial and its wholly-owned subsidiary, Perfect Design and Product Development Limited, have not been included in the condensed consolidated interim financial information of the Group. The results of SU Qingyuan, from the beginning of the year 2008, have also not been included in the condensed consolidated interim financial information of the Group.

The consolidated loss attributable to shareholders of the Company amounted to approximately HK\$4 million (30th June 2009: loss of HK\$10 million) for the six months ended 30th June 2010. The accrued finance costs for the six months ended 30th June 2010 of approximately HK\$11 million would become a part of the scheme of arrangement that the Company contemplates to implement as an element of the Proposed Restructuring.

Operating profit for the six months ended 30th June 2010 was approximately HK\$8 million compared to an operating loss of approximately HK\$5 million in the corresponding period in 2009. Allowing for the effects of the reversal of provision for legal claims for approximately HK\$5 million, the Group's operation generated a profit of approximately HK\$3 million during the first half of 2010.

PROSPECTS

It is the Investor's intention to continue the Group's trading and resurrect manufacturing of toys business through Sino Front, currently the only operating subsidiary of the Company.

It is anticipated that the financial position of the Group will be substantially improved upon completion of the Proposed Restructuring. As demonstrated by the interim results for 2010, with the support provided by the Investor to the Group in both business and financial aspects, the Group will be able to sustain its toy business.

Once the Stock Exchange has approved the Proposed Restructuring, and, amongst other things, with creditors and shareholders approving the elements of the Proposed Restructuring, the shares of the Company will be able to resume trading on the Stock Exchange.

Management Discussions and Analysis

LIQUIDITY, FINANCIAL RESOURCES AND FUNDING

Bank balances and cash as at 30th June 2010 was approximately HK\$17 million (31st December 2009: HK\$2 million). As at 30th June 2010, the total amount of banking facilities outstanding was approximately HK\$179 million (31st December 2009: HK\$168 million), which are currently in default and the Group is currently undergoing restructuring. The Group's gearing ratio, representing total bank borrowing less bank balances and cash (including pledged bank deposits) and divided by shareholders' equity was not applicable as the Group has negative shareholders' funds (31st December 2009: Nil).

CONTINGENT LIABILITIES

The relevant details are set out in Note 19 to the condensed consolidated interim financial information.

PLEDGE OF ASSETS

Details of pledge of assets are set out in Note 15 to the condensed consolidated interim financial information.

ASSETS AND LIABILITIES

As at 30th June 2010, the Group had total assets of approximately HK\$107 million (31st December 2009: HK\$51 million), total liabilities of approximately HK\$444 million (31st December 2009: HK\$384 million). The net liabilities of the Group as at 30th June 2010 were HK\$337 million (31st December 2009: net liabilities of HK\$333 million).

FOREIGN EXCHANGE EXPOSURE

The Group is exposed to foreign exchange risk, most of the Group's assets and liabilities, revenue and expenditure are denominated in Renminbi, United States dollar and Hong Kong dollar. As at 30th June 2010, the Group had insignificant exposure to foreign exchange risk as substantially all sales and purchases transactions, recognised assets and liabilities were primarily denominated in Hong Kong dollar and United States dollar.

Management Discussions and Analysis

EMPLOYEE

As at 30th June 2010, the Group had 19 full-time employees (31st December 2009: 13) 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. The Group operates a defined contribution benefits scheme under the Mandatory Provident Fund Schemes Ordinance (Chapter 485 of the Laws of Hong Kong) for all its employees in Hong Kong.

INTERIM DIVIDEND

The Directors do not recommend any dividend for the six months ended 30th June 2010 (2009: Nil).

DIRECTORS

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

Executive Directors:

Mr. Wu Kam Bun

Mr. Ho Wai Wah

Mr. Wong Wai Chuen

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

As at 30th June 2010, the interests of the Directors, the chief executives and their associates, in the Company's shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong) ("SFO")) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO) or, as recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transaction by Directors of Listed Companies, were as follows:

Management Discussions and Analysis

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

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

Notes:

- The 179,328,000 shares were owned by Smart Place Investments Limited, a company incorporated in the British Virgin Islands, the entire share capital of which is held as to 38.5% by Mr. Wu Kam Bun ("Mr. Wu"), 38.5% by Mr. Lai Chiu Tai (deceased) ("Mr. Lai"), 10% by Mr. Ho Wai Wah, 10% by Mr. Lo Kwok Choi, and 3% by Mr. Wong Wai Chuen, all being executive Directors and former executive Directors. Mr. Wu and Mr. Lai are deemed to be interested in the 173,328,000 shares held by Smart Place Investments Limited by virtue of the SFO.
- The interests represent 300,000 shares to be allotted and issued upon the exercise of the share options granted to Mr. Wu under the share option scheme of the Company.
- The 300,000 share options granted to Mr. Lai under the share option scheme of the Company were not exercised during the six months period after his death. Pursuant to the terms of the share option scheme as at 30 June 2010, the 300,000 share options granted to Mr. Lai have lapsed.

Management Discussions and Analysis

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

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

Save as disclosed above, none of the Directors, chief executive nor their respective associates had any interests or short positions in the shares and underlying shares of the Company or any of its associated corporations that was required to be recorded pursuant to section 352 of the SFO as at 30th June 2010.

INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS DISCLOSEABLE UNDER THE SECURITIES AND FUTURES ORDINANCE

As at 30th June 2010, other than the interests of certain Directors as disclosed under the section titled “Directors’ and Chief Executives’ Interests in Shares and Underlying Shares of the Company” above, the interests and short positions of persons in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO or, which is, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group, or substantial shareholders as recorded in the register of substantial shareholders required to be kept by the Company under Section 336 of the SFO were as follows:

Management Discussions and Analysis

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

Name of shareholder	Capacity	Number of issued ordinary shares held/ interested	Percentage of the issued share capital of the Company
Ip Chor Wan (<i>Note 1</i>)	Interest of spouse	179,628,000	32.50%
Chan Wai Ling (<i>Note 2</i>)	Interest of spouse	179,328,000	32.45%
Smart Place Investments Limited	Beneficial owner	179,328,000	32.45%
Tang Xue Jin (<i>Note 3</i>)	Beneficial owner	118,000,000	21.35%
Cheng Su Chen (<i>Note 4</i>)	Interest of corporation controlled	92,096,000	16.67%
Sky Metro Limited (<i>Note 4</i>)	Beneficial owner	92,096,000	16.67%

Notes:

- Ms. Ip Chor Wan is the wife of Mr. Wu. She is deemed to be interested in all the shares in which Mr. Wu is interested by virtue of the SFO.
- Ms. Chan Wai Ling is the wife of Mr. Lai. She is deemed to be interested in all the shares in which Mr. Lai is interested by virtue of the SFO.
- On 14th January 2008, 118,000,000 new shares (the "Consideration Shares") were allotted to Mr. Tang Xue Jin ("Mr. Tang"), a shareholder of China Mining Corporation Limited ("China Mining"), being part of consideration for the acquisition of certain equity interest in China Mining. Due to the failure in fulfilling the undertakings pursuant to agreement of this acquisition by Mr. Tang, the certificates of the Consideration Shares will not be released to Mr. Tang and he will not be entitled to the Consideration Shares.
- 92,096,000 shares were beneficially held by Sky Metro Limited, a company incorporated in British Virgin Islands, and it is wholly controlled by Cheng Su Chen, accordingly, Cheng Su Chen is deemed to be interested in all 92,096,000 shares.

Management Discussions and Analysis

Other than as disclosed above, the Company has not been notified of any other interests or short position in the issued share capital of the Company as at 30th June 2010.

SHARE OPTION SCHEME

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

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

Name of grantee	Exercise price HK\$	Exercisable period	As at	Granted	Exercised/ lapsed	As at
			1st January 2010	during the six months ended 30th June 2010	during the six months ended 30th June 2010	30th June 2010
Wu Kam Bun	0.78	14.5.2008 to 26.4.2017	300,000	-	-	300,000
Lai Chiu Tai (Note)	0.78	14.5.2008 to 26.4.2017	300,000	-	(300,000)	-
Ho Wai Wah	0.78	14.5.2008 to 26.4.2017	500,000	-	-	500,000
Wong Wai Chuen	0.78	10.5.2008 to 26.4.2017	1,000,000	-	-	1,000,000
Li Chak Hung	0.78	23.5.2007 to 26.4.2017	80,000	-	-	80,000
Tang Koon Yiu Thomas	0.78	16.5.2007 to 26.4.2017	80,000	-	-	80,000
Other persons	0.78	14.5.2008 to 26.4.2017	3,800,000	-	-	3,800,000
			6,060,000	-	(300,000)	5,760,000

Note: The 300,000 share options granted to Mr. Lai under the share option scheme of the Company were not exercised during the six months period after his death. Pursuant to the terms of the share option scheme as at 30 June 2010, the 300,000 share options granted to Mr. Lai have lapsed.

Management Discussions and Analysis

PURCHASE, SALE OR REDEMPTION OF SECURITIES

To the best knowledge of the board of Directors (the “Board”), neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company’s shares during the six months ended 30th June 2010.

REVIEW OF INTERIM RESULTS

The unaudited condensed consolidated interim financial information for the six months ended 30th June 2010 have neither been reviewed by external auditors nor reviewed by an audit committee as no sufficient number of non-executive Directors have been appointed to constitute an audit committee.

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

Since the Provisional Liquidators were appointed on 16th October 2008 pursuant to an order of the High Court, the Directors and the Provisional Liquidators considered that compliance with the Code on Corporate Governance Practices contained in Appendix 14 to the Listing Rules is no longer practicable.

MODEL CODE FOR DIRECTORS’ SECURITIES TRANSACTIONS

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

Having made specific enquiry of all Directors, the Directors have confirmed that they have complied with the Securities Dealing Code during the period for the six months ended 30 June 2010.

THE AUDIT COMMITTEE

Following the resignation of the Company’s independent non-executive Directors in October 2008 up to the date of this report, there have been no replacement and no audit committee is therefore maintained as required by Rule 3.21 of the Listing Rules. As a result, the unaudited condensed consolidated interim financial information of the Group for the six months ended 30th June 2010 have not been reviewed by the audit committee.

By order of the Board
Smart Union Group (Holdings) Limited
(Provisional Liquidators Appointed)
Wu Kam Bun
Executive Director

Hong Kong, 30th August 2010

Condensed Consolidated Income Statement

For the six months ended 30th June 2010

	Notes	Six months ended 30th June 2010 HK\$'000 (Unaudited)	Six months ended 30th June 2009 HK\$'000 (Unaudited)
Sales	4	93,559	9,240
Cost of sales		(88,847)	(8,694)
Gross profit		4,712	546
Other income	7	2,315	400
Administrative expenses		(4,578)	(5,685)
Selling expenses		(83)	(409)
Reversal for legal claims	14	5,368	–
Operating profit/(loss)	6	7,734	(5,148)
Finance costs	8	(11,399)	(5,046)
Loss before tax		(3,665)	(10,194)
Income tax expense	9	(485)	–
Loss for the period		(4,150)	(10,194)
Attributable to:			
Equity holders of the Company		(4,150)	(10,194)
Non-controlling interest		–	–
		(4,150)	(10,194)
Loss per share for loss attributable to the equity holders of the Company during the period (HK\$ per share)			
– basic and diluted (HK\$)	11	0.01	0.02
Dividend	10	–	–

The notes on pages 19 to 44 are an integral part of this condensed consolidated financial information.

Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30th June 2010

	Six months ended 30th June 2010 HK\$'000 (Unaudited)	Six months ended 30th June 2009 HK\$'000 (Unaudited)
Loss for the period	(4,150)	(10,194)
Other comprehensive income	–	–
Total comprehensive income for the period	(4,150)	(10,194)
Total comprehensive income attributable to:		
Equity holders of the Company	(4,150)	(10,194)
Non-controlling interest	–	–
	(4,150)	(10,194)

The notes on pages 19 to 44 are an integral part of this condensed consolidated financial information.

Condensed Consolidated Statement of Financial Position

As at 30th June 2010

		30th June 2010	31st December 2009
	<i>Notes</i>	HK\$'000 (Unaudited)	<i>HK\$'000</i> <i>(Audited)</i>
ASSETS			
Non-current assets			
Property, plant and equipment		16	10
Land use rights		–	–
Intangible assets		–	–
Investments in unconsolidated subsidiaries		–	–
Investment in a former subsidiary		–	–
Investment in an associated company		–	–
		16	10
Current assets			
Inventories		7,575	–
Trade receivables	12	80,134	47,015
Amount due from unconsolidated subsidiaries		–	–
Amount due from a former subsidiary		–	–
Prepayments, deposits and other receivables		1,531	1,443
Convertible bonds		–	–
Current income tax recoverable		127	127
Cash and cash equivalents	13	17,284	2,388
		106,651	50,973
Total assets		106,667	50,983

Condensed Consolidated Statement of Financial Position

As at 30th June 2010

	Notes	30th June 2010 HK\$'000 (Unaudited)	31st December 2009 HK\$'000 (Audited)
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	16	55,259	55,259
Share premium		368,381	368,381
Other reserves		30,553	30,553
Accumulated losses		(791,302)	(787,152)
		(337,109)	(332,959)
Non-controlling interest			
		-	-
Total equity		(337,109)	(332,959)
LIABILITIES			
Non-current liabilities			
Borrowings	15	35,000	5,000
Provision for long service payment		-	-
		35,000	5,000
Current liabilities			
Trade payables	14	64,238	40,778
Other payables and accruals	14	193,139	187,250
Amounts due to unconsolidated subsidiaries		112,362	112,362
Borrowings	15	37,936	37,936
Income tax payable		1,085	600
Deferred income tax liabilities		16	16
		408,776	378,942
Total liabilities		443,776	383,942
Total equity and liabilities		106,667	50,983
Net current liabilities		(302,125)	(327,969)
Total assets less current liabilities		(302,109)	(327,959)

The notes on pages 19 to 44 are an integral part of this condensed consolidated financial information.

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30th June 2010

	Attributable to the equity holders of the Company				Total HK\$'000	Non- Controlling interest HK\$'000	Total equity HK\$'000
	Share capital HK\$'000	Share premium HK\$'000	Other reserves HK\$'000	Accumulated losses HK\$'000			
Balance at 1st January 2009	55,259	368,381	30,553	(769,787)	(315,594)	-	(315,594)
Loss for the period	-	-	-	(10,194)	(10,194)	-	(10,194)
Total recognised income for 2009	-	-	-	(10,194)	(10,194)	-	(10,194)
Balance at 30th June 2009	55,259	368,381	30,553	(779,981)	(325,788)	-	(325,788)
Balance at 1st January 2010	55,259	368,381	30,553	(787,152)	(332,959)	-	(332,959)
Loss for the period	-	-	-	(4,150)	(4,150)	-	(4,150)
Total recognised income for 2010	-	-	-	(4,150)	(4,150)	-	(4,150)
Balance at 30th June 2010	55,259	368,381	30,553	(791,302)	(337,109)	-	(337,109)

The notes on pages 19 to 44 are an integral part of this condensed consolidated financial information.

Condensed Consolidated Cash Flow Statement

For the six months ended 30th June 2010

	<i>Notes</i>	Six months ended 30th June	
		2010	2009
		HK\$'000 (Unaudited)	HK\$'000 (Unaudited)
Net cash used in operating activities		(15,099)	(1,779)
Net cash used in investing activities		(5)	(5)
Net cash generated from financing activities		30,000	3,750
Net increase in cash and cash equivalents		14,896	1,966
Cash and cash equivalents at the beginning of the period		1,987	4,356
Exchange loss on cash and cash equivalents		–	(18)
Cash and cash equivalents at the end of the period		16,883	6,304
Analysis of the balances of cash and cash equivalents			
Bank balances and cash	13	17,284	6,706
Bank overdrafts	13	(401)	(402)
		16,883	6,304

The notes on pages 19 to 44 are an integral part of this condensed consolidated financial information.

Notes to the Condensed Consolidated Interim Financial Information

For the six months ended 30th June 2010

1. GENERAL INFORMATION

Smart Union Group (Holdings) Limited (Provisional Liquidators Appointed) (the “Company”) was incorporated in the Cayman Islands on 8th March 2006 as an exempted company with limited liability. The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. The shares of the Company were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) in 2006. The shares of the Company have been suspended for trading on the Stock Exchange since 15th October 2008. On 3rd May 2010, the Stock Exchange informed the Company that it has decided to place the Company in the second stage of delisting procedures with effect from 3rd May 2010 pursuant to Practice Note 17 to the Rules Governing the Listing of Securities on The Stock Exchange (the “Listing Rules”).

The Company and its subsidiaries (together the “Group”) were principally engaged in manufacturing and trading of recreational and educational toys and equipment. The operations of the Group have substantially ceased after the major assets and production facilities of certain subsidiaries have been subject to freezing orders obtained by certain creditors in the People’s Republic of China (the “PRC”) since October 2008, except that Dream Link Limited (In Liquidation) (“Dream Link”), a subsidiary of the Company, continued its trading business until 28th February 2009. The Group has reactivated its trading of toys business through Sino Front Limited (“Sino Front”), a wholly-owned subsidiary of the Company, since June 2009.

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

The condensed consolidated interim financial information is presented in units of thousands of Hong Kong dollars (HK\$’000), unless otherwise stated. The condensed consolidated interim financial information has been approved for issue by the Directors on 30th August 2010.

Notes to the Condensed Consolidated Interim Financial Information

For the six months ended 30th June 2010

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

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

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

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

The Provisional Liquidators have secured an investor and are now implementing restructuring plans to revitalise the Company. On 12th May 2009, an exclusivity agreement (the “Exclusivity Agreement”) was entered into amongst Gold Bless International Invest Limited (the “Investor”), Mr. Yang Wang Jian (“Mr. Yang”), Mr. Ting Wai-min (“Mr. Ting”), the Company and the Provisional Liquidators to grant the Investor exclusivity to (i) prepare a resumption proposal, and (ii) negotiate in good faith and enter into a legally binding agreement for the implementation of the restructuring proposal in connection with the restructuring of the Company (the “Proposed Restructuring”).

As part of the Proposed Restructuring, Sino Front was set up by the Company as a wholly-owned subsidiary in June 2009 to continue the Group’s trading, and possibly, manufacturing of toys business.

Notes to the Condensed Consolidated Interim Financial Information

For the six months ended 30th June 2010

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

Pursuant to the Exclusivity Agreement, the Investor has provided a loan of HK\$5,000,000 to Sino Front, which is secured by a debenture, to enable it to meet its working capital needs. The Company has since resumed its trading of toy business through Sino Front.

Asian Capital (Corporate Finance) Limited was appointed as the financial adviser to the Company with a view to restructuring the Company and submitting a viable resumption proposal to the Stock Exchange.

On 1st September 2009, the Company submitted a resumption proposal to the Stock Exchange which embraces the Proposed Restructuring and contemplates, among other things, the following:

- (a) a restructuring of the share capital of the Company (the “Capital Restructuring”) that involves, inter alia, reduction of the nominal value of the existing shares of the Company from HK\$0.10 to HK\$0.01 (the “Capital Reduction”), cancellation of existing un-issued share capital of the Company after the Capital Reduction, and increase in the authorised share capital of the Company;
- (b) proposed subscription of new ordinary shares of the Company (the “Subscription Shares”) with a par value of HK\$0.01 each (“New Shares”) to be issued by the Company following the Capital Restructuring by the Investor for a sum of HK\$170 million; and
- (c) all the creditors of the Company (the “Creditors”) will be compromised and discharged by the arrangements contemplated under the scheme of arrangement to be made between the Company and its creditors pursuant to section 166 of the Hong Kong Companies Ordinance for a cash payment of up to HK\$50 million, together with New Shares for the Creditors (the “Creditors Shares”) representing approximately 5% of the issued share capital of the Company as enlarged by the issue of the Subscription Shares and the Creditors Shares will be issued and allotted as fully paid to the Creditors.

The Directors unanimously support the Proposed Restructuring.

Notes to the Condensed Consolidated Interim Financial Information

For the six months ended 30th June 2010

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

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

At the latest hearing on 14th June 2010, the High Court adjourned the winding-up petitions of the Company and six of its subsidiaries to 29th November 2010 to give the Provisional Liquidators more time for the implementation of the Proposed Restructuring.

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

Notes to the Condensed Consolidated Interim Financial Information

For the six months ended 30th June 2010

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of the condensed consolidated interim financial information is set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

3.1 Basis of preparation

The condensed consolidated interim financial information of the Company has been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRS”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) except for the non-consolidation of certain subsidiaries of the Group as explained in Note 3.2 and the non-consolidation of the results of a former subsidiary, and an associated company, which has not been properly equity accounted for. The condensed consolidated interim financial information has been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets.

The Group sustained a loss attributable to equity holders of the Company of approximately HK\$4,150,000 for the six months ended 30th June 2010. As at 30th June 2010, the Group had net current liabilities of approximately HK\$302,125,000 and net liabilities of approximately HK\$337,109,000. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Group’s ability to continue as a going concern. The condensed consolidated interim financial information has been prepared on a going concern basis, the reasons of which are discussed in Note 2 above.

Notes to the Condensed Consolidated Interim Financial Information

For the six months ended 30th June 2010

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

3.2 Subsidiaries not consolidated

The condensed consolidated interim financial information has been prepared based on the books and records maintained by the Company and its subsidiaries. However, due to the major assets and production facilities of a subsidiary of the Company, Smart Union Industrial Limited (Provisional Liquidators Appointed) (“SU Industrial”), have been subject to freezing orders obtained by its creditors in the PRC since October 2008, the Directors have not been able to gain access to certain books and records of this subsidiary or to obtain sufficient documentary information to satisfy themselves regarding the treatment of the transactions since 2008. As such, the results, assets and liabilities of SU Industrial and its subsidiary, Perfect Design and Product Development Limited (“Perfect Design”), have not been included into the condensed consolidated interim financial information of the Group for the six months ended 30th June 2010. The resulting de-consolidation loss, which is determined based on the net asset value of these subsidiaries as at 1st January 2008, and the impairment loss of the investment in SU Industrial of approximately HK\$63,393,000 and HK\$3,600,000 respectively have been recognised in the consolidated income statement during the year ended 31st December 2008. Moreover, as at 30th June 2010 and 31st December 2009, the total amounts due from SU Industrial and its subsidiary to the Group and the Company of approximately HK\$231,939,000 and HK\$188,373,000 respectively are considered to be impaired and, accordingly, full impairment losses have been recognised in the condensed consolidated financial information. In addition, there was a total amount due to SU Industrial and Perfect Design of approximately HK\$112,362,000 as at 30th June 2010 and 31st December 2009.

Notes to the Condensed Consolidated Interim Financial Information

For the six months ended 30th June 2010

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.2 Subsidiaries not consolidated (Continued)

Similar to SU Industrial, the major assets and production facilities of Smart Union (Qingyuan) Industrial Limited (“SU Qingyuan”), another subsidiary of the Group, have been subject to freezing orders issued since 14th October 2008. The local authorities have also taken over the control of SU Qingyuan itself. The Directors consider that, due to the loss of control in SU Qingyuan, it should no longer be regarded as a subsidiary of the Group and be deconsolidated from the condensed consolidated interim financial information since 14th October 2008. Due to the lack of complete books and records of SU Qingyuan, it was deemed disposed of and deconsolidated from the consolidated financial statements of the Group only based on its net asset value as at 31st December 2007, resulting in a gain of HK\$506,000 which was included in the consolidated income statement for the year ended 31st December 2008. Moreover, as at 30th June 2010, the investment in SU Qingyuan and the amount due from SU Qingyuan of approximately HK\$30,000,000 and HK\$43,307,000 respectively are considered not recoverable and, accordingly, full impairment losses have been recognised in the consolidated financial statements for the year ended 31st December 2008.

Due to the significance of the operations of SU Industrial and SU Qingyuan, any changes to the status or possible outcome of the freezing orders against SU Industrial and SU Qingyuan may have a significant consequential effect on the net liabilities and the results of the Group for the six months ended 30th June 2010.

In the opinion of the Directors, the condensed consolidated interim financial information as at and for the six months ended 30th June 2010 prepared on the aforementioned basis present more fairly the results and state of affairs of the Group as a whole in light of the aforesaid freezing orders against SU Industrial and SU Qingyuan. However, the non-consolidation of SU Industrial and Perfect Design, and the non-consolidation of the results of SU Qingyuan from the beginning of the year 2008 till the date of the deemed disposal of SU Qingyuan on 14th October 2008, are not in compliance with the requirements of Hong Kong Accounting Standard 27 “Consolidated and Separate Financial Statements”.

Notes to the Condensed Consolidated Interim Financial Information

For the six months ended 30th June 2010

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(Continued)

3.3 Accounting policies

The accounting policies and method of computation used in the preparation of the condensed consolidated interim financial information are consistent with those used in the annual financial statements for the period ended 31st December 2009, except as mentioned below.

(a) *Effect of adopting new standards and amendments to standards*

The following amendments to standards and interpretations are mandatory for financial year beginning 1st January 2010:

HKFRSs (Amendment)	Improvements to HKFRS 2008 ²
HKFRSs (Amendment)	Improvements to HKFRS 2009 ¹
HKAS 27 (Revised)	Consolidated and Separate Financial Statements ¹
HKAS 39 (Amendment)	Eligible Hedged Items ¹
HKFRS 1 (Revised)	First-time Adoption of Hong Kong Financial Reporting Standards ¹
HKFRS 1 (Amendment)	Additional Exemptions for First-time Adopters ¹
HKFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions ¹
HKFRS 3 (Revised)	Business Combinations ¹
HK(IFRIC)–Int 17	Distributions of Non-cash Assets to Owners ¹
HK(IFRIC)–Int 18	Transfer of Assets from Customers ²

¹ Effective for the Group for annual period beginning 1st January 2010

² Effective for the Group for annual period on or after 1st July 2009

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

Notes to the Condensed Consolidated Interim Financial Information

For the six months ended 30th June 2010

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.3 Accounting policies (Continued)

(b) *Amendments to standards and interpretations that have been issued but are not effective*

The following amendments to standards and interpretations have been issued but are not effective and have not been early adopted.

HKFRS 9	Financial Instruments ³
HKAS 1(Amendment)	Limited exemption from comparative HKFRS7 disclosures for first-time adopters ²
HKAS 24(Revised)	Related party disclosures ¹
HKAS 32 (Amendment)	Classification of rights issues ⁴
HK (IFRIC) 14 (Amendment)	Prepayments of a minimum funding requirement ¹
HK (IFRIC)-Int 19	Extinguishing financial liabilities with equity instruments ²
HKFRSs	Third improvements issued in May 2010 ⁵

¹ Effective for the Group for annual period beginning 1st January 2011

² Effective for transfer of assets received on or after 1st July 2010

³ Effective for the Group for annual period beginning 1st January 2013

⁴ Effective for the Group for annual period beginning 1st February 2010

⁵ All improvements are effective in the financial year of 2011

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

4. TURNOVER

	Six months ended 30th June	
	2010	2009
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Sales of goods	93,559	9,240

Notes to the Condensed Consolidated Interim Financial Information

For the six months ended 30th June 2010

5. SEGMENT INFORMATION

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker.

The Group is principally engaged in the trading of recreational and educational toys and subject to similar business risk.

The Group primarily operates in Hong Kong and the PRC.

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

	Six months ended 30th June	
	2010 <i>HK\$'000</i> (Unaudited)	2009 <i>HK\$'000</i> (Unaudited)
Hong Kong	93,559	8,628
Others	-	612
	93,559	9,240

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

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

	30th June 2010 <i>HK\$'000</i> (Unaudited)	31st December 2009 <i>HK\$'000</i> (Audited)
	Hong Kong	98,081
The PRC	8,586	62
	106,667	50,983

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

Notes to the Condensed Consolidated Interim Financial Information

For the six months ended 30th June 2010

5. SEGMENT INFORMATION *(Continued)*

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

	Six months ended 30th June	
	2010	2009
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Hong Kong	5	14

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

6. OPERATING PROFIT/(LOSS)

Operating profit/(loss) is stated after charging the following during the period:

	Six months ended 30th June	
	2010	2009
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Cost of inventory	88,847	8,450
Depreciation of property, plant and equipment	–	50
Amortisation of intangible assets	–	244
Write-off of obsolete inventories	–	322

Notes to the Condensed Consolidated Interim Financial Information

For the six months ended 30th June 2010

7. OTHER INCOME

	Six months ended 30th June	
	2010	2009
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Other income:		
– Interest income on bank deposits	–	2
– Other income (<i>Note (i)</i>)	2,315	398
	2,315	400

Note:

- (i) During the six months ended 30th June 2010, the Company incurred a sum of HK\$2,315,000 for the fees, charges, costs, expenses in connection with the implementation of the Proposed Restructuring. Out of the total, the Investor paid a sum of HK\$71,000 to the Company as required under the Exclusivity Agreement. The remaining amount of approximately HK\$2,244,000 will be subject to further payment by the Investor in accordance with the terms of the Exclusivity Agreement.

The restructuring costs are non-refundable under all circumstances.

Notes to the Condensed Consolidated Interim Financial Information

For the six months ended 30th June 2010

8. FINANCE COSTS

	Six months ended 30th June	
	2010	2009
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Interest expense:		
– Bank borrowings and overdrafts	–	24
– Other borrowings	1,165	–
– Provision for financial guarantees to an unconsolidated subsidiary	10,234	5,022
	11,399	5,046

9. INCOME TAX EXPENSE

	Six months ended 30th June	
	2010	2009
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Current taxation:		
– Hong Kong profits tax	485	–

10. DIVIDEND

The Directors do not recommend the payment of an interim dividend for the six months ended 30th June 2010 (2009: Nil).

Notes to the Condensed Consolidated Interim Financial Information

For the six months ended 30th June 2010

11. LOSS PER SHARE

Basic

The calculation of basic loss per share is based on the loss attributable to equity holders of the Company of approximately HK\$4,150,000 (30th June 2009: loss of HK\$10,194,000) and on the weighted average number of 552,586,000 (30th June 2009: 552,586,000) ordinary shares in issue during the period.

	Six months ended 30th June	
	2010 (Unaudited)	2009 (Unaudited)
Loss attributable to equity holders of the Company (HK\$'000)	4,150	10,194
Weighted average number of ordinary shares in issue (thousands)	552,586	552,586
Basic loss per share (HK\$)	0.01	0.02

There is no dilutive effect on the loss per share.

12. TRADE RECEIVABLES

	30th June 2010 HK\$'000 (Unaudited)	31st December 2009 <i>HK\$'000</i> (Audited)
Trade receivables	80,134	47,015
Less: provision for impairment of receivables	–	–
Trade receivables – net	80,134	47,015

Notes to the Condensed Consolidated Interim Financial Information

For the six months ended 30th June 2010

12. TRADE RECEIVABLES *(Continued)*

The Group's trade receivables from its customers are generally with credit periods of less than 90 days. The customers with good repayment history comprise a significant proportion of the Group's sales. The Group has policies in place to ensure that sales of products are made to customers with an appropriate credit history to minimise the credit risk.

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

The carrying amounts of trade receivables approximate their fair values. The ageing analysis of trade receivables as at 30th June 2010 and 31st December 2009 were as follows:

	30th June 2010 HK\$'000 (Unaudited)	31st December 2009 HK\$'000 (Audited)
0 – 30 days	23,010	25,619
31 – 60 days	13,769	15,190
61 – 90 days	16,808	6,206
91 days – 1 year	26,547	–
	80,134	47,015

Notes to the Condensed Consolidated Interim Financial Information

For the six months ended 30th June 2010

13. CASH AND CASH EQUIVALENTS

	30th June 2010 HK\$'000 (Unaudited)	31st December 2009 HK\$'000 (Audited)
Cash at bank and on hand	17,284	2,388
Maximum exposure to credit risk	17,284	2,388

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

	30th June 2010 HK\$'000 (Unaudited)	31st December 2009 HK\$'000 (Audited)
Bank balance and cash	17,284	2,388
Less: bank overdrafts	(401)	(401)
Cash and cash equivalents	16,883	1,987

Notes to the Condensed Consolidated Interim Financial Information

For the six months ended 30th June 2010

14. TRADE AND OTHER PAYABLES AND ACCRUALS

	30th June 2010 HK\$'000 (Unaudited)	31st December 2009 HK\$'000 (Audited)
Trade payables	64,238	40,778
Other payables and accruals <i>(Note (i))</i>	193,139	187,250
	257,377	228,028

Note:

- (i) On 13th December 2008, the Municipal Court of Dongguan (廣東省東莞市人民法院) made judgements such that SU Industrial and the Company were determined to be liable for the legal claims in respect of the outstanding wages and severance pay for employees in the factories of SU Industrial in the PRC for a total amount of approximately RMB24,925,000. This amount has been fully settled by an insurance claim of RMB10,000,000 (received by the Municipal Court of Dongguan in December 2008) and the proceeds from auctions held in 2009 and 2010 of the assets in the factories of SU Industrial. The Group and the Company no longer required to make any provision for such legal claims as at 30th June 2010 (31st December 2009: HK\$5,368,000).

The ageing analysis of trade payables as at 30th June 2010 and 31st December 2009 are as follows:

	30th June 2010 HK\$'000 (Unaudited)	31st December 2009 HK\$'000 (Audited)
0 – 30 days	21,836	24,280
31 – 60 days	13,058	14,419
61 – 90 days	11,452	–
91 days – 1 year	15,813	1,157
Over 1 year	2,079	922
	64,238	40,778

The carrying amounts of trade payables approximate their fair values.

Notes to the Condensed Consolidated Interim Financial Information

For the six months ended 30th June 2010

15. BORROWINGS

	30th June 2010 HK\$'000 (Unaudited)	31st December 2009 HK\$'000 (Audited)
Non-current		
Other borrowing, secured (Note (i))	35,000	5,000
	35,000	5,000
Current		
Bank overdrafts (Note (ii) and 13)	401	401
Factoring facilities utilised	1,022	1,022
Other borrowings, secured (Note (iii))	36,513	36,513
	37,936	37,936
Total borrowings	72,936	42,936

Notes:

- (i) Pursuant to the Supplemental Working Capital Facility Agreement dated 27th May 2010 entered into by the Investor and Sino Front, the Investor agreed to increase the working capital facility to HK\$55,000,000, which is secured by a debenture, to enable the Group to meet its working capital needs. As at 30th June 2010, HK\$35,000,000 has been drawn by Sino Front. The facility bears interest at 2% per annum and is repayable on or before 16th June 2011.
- (ii) Secured bank borrowings at 30th June 2010 were secured by corporate guarantees executed by the Company.

Notes to the Condensed Consolidated Interim Financial Information

For the six months ended 30th June 2010

15. BORROWINGS *(Continued)*

- (iii) As at 30th June 2010, other secured borrowings comprised loans from two independent third parties amounting to approximately HK\$36,513,000 (31st December 2009: HK\$36,513,000). An amount of HK\$18,913,000 (31st December 2009: HK\$18,913,000) bears interest at 7% per annum and repayable on demand, whilst the remaining balance of HK\$17,600,000 (31st December 2009: HK\$17,600,000) bears interest at 3% per annum above the Hong Kong Interbank Offer Rate and repayable on demand. As at 30th June 2010, the total outstanding interest thereon amounted to approximately HK\$3,005,000.

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

16. SHARE CAPITAL

(a) Authorised and issued capital

	Number of shares	Nominal value <i>HK\$'000</i>
Authorised – ordinary shares of HK\$0.1 each		
As at 31st December 2009 and 30th June 2010	2,000,000,000	200,000
Issued and fully paid – ordinary shares of HK0.1 each		
As at 1st January 2009 and 31st December 2009	552,586,000	55,259
As at 1st January 2010 and 30th June 2010	552,586,000	55,259

Notes to the Condensed Consolidated Interim Financial Information

For the six months ended 30th June 2010

16. SHARE CAPITAL (Continued)

(b) Share option scheme

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

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

During the year ended 31st December 2008, 3,710,000 share options had been lapsed due to the termination of employment for certain employees of the Company. There was 300,000 share options lapsed during the period for the six months ended 30th June 2010 (2009: Nil).

Movements in the share options are as follows:

	2010		2009	
	Exercise price per share HK\$	Number of share options	Exercise price per share HK\$	Number of share options
As at 1st January	0.78	6,060,000	0.78	6,060,000
Lapsed	0.78	(300,000)	-	-
As at 30th June	0.78	5,760,000	0.78	6,060,000

5,760,000 (30th June 2009: 6,060,000) outstanding options as at 30th June 2010 were exercisable. No option has been exercised during the six month ended 30th June 2010.

Notes to the Condensed Consolidated Interim Financial Information

For the six months ended 30th June 2010

17. COMMITMENTS

(a) Capital commitments

Capital expenditures at the end of the reporting period but not yet incurred are as follows:

	30th June 2010 HK\$'000 (Unaudited)	31st December 2009 HK\$'000 (Audited)
Contracted but not provided for – Property, plant and equipment	3,407	–

(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:

	30th June 2010 HK\$'000 (Unaudited)	31st December 2009 HK\$'000 (Audited)
Not later than one year	1,613	354
Later than 1 year and not later than 5 years	5,337	–
	6,950	354

Notes to the Condensed Consolidated Interim Financial Information

For the six months ended 30th June 2010

18. SIGNIFICANT RELATED PARTY TRANSACTIONS

The Group had the following significant transactions carried out with related parties during the six months ended 30th June 2010.

(a) Key management compensation

	30th June 2010 HK\$'000 (Unaudited)	30th June 2009 HK\$'000 (Unaudited)
Salaries and other short-term employee benefits	–	–
Pension costs – defined contribution plans	–	–
Share-based compensation	–	–
	–	–

Notes to the Condensed Consolidated Interim Financial Information

For the six months ended 30th June 2010

18. SIGNIFICANT RELATED PARTY TRANSACTIONS

(Continued)

(b) Balances with unconsolidated subsidiaries and a former subsidiary

	30th June 2010 HK\$'000 (Unaudited)	31st December 2009 HK\$'000 (Audited)
Amounts due from unconsolidated subsidiaries		
– SU Industrial	231,937	231,937
– Perfect Design	2	2
	231,939	231,939
Less: Accumulated impairment losses	(231,939)	(231,939)
	–	–
Amount due from a former subsidiary		
– SU Qingyuan	43,307	43,307
Less: Accumulated impairment losses	(43,307)	(43,307)
	–	–
Amounts due to unconsolidated subsidiaries:		
– SU Industrial	(111,051)	(111,051)
– Perfect Design	(1,311)	(1,311)
	(112,362)	(112,362)

Notes to the Condensed Consolidated Interim Financial Information

For the six months ended 30th June 2010

18. SIGNIFICANT RELATED PARTY TRANSACTIONS

(Continued)

(b) Balances with unconsolidated subsidiaries and a former subsidiary *(Continued)*

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

Due to the freezing orders on certain major assets and production facilities of SU Industrial and SU Qingyuan as discussed in Note 3.2, the Group has not been able to recover the amounts due from SU Industrial and its subsidiary, Perfect Design and SU Qingyuan. As a result, full provisions of HK\$231,939,000 and HK\$43,307,000 have been made in respect of the outstanding balances due from the unconsolidated subsidiaries and a former subsidiary respectively.

19. CONTINGENT LIABILITIES

(a) Transaction with Top Bright Investments Limited

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

Notes to the Condensed Consolidated Interim Financial Information

For the six months ended 30th June 2010

19. CONTINGENT LIABILITIES *(Continued)*

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

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

As explained in Note 3.2, the financial information of SU Industrial have not been consolidated in the condensed consolidated interim financial information of the Group because the Directors have not been able to get access to certain books and records of SU Industrial. Accordingly, no provision has been made in respect of any liability that may result from the above transaction in the condensed consolidated interim financial information as at 30th June 2010 and 2009.

Notes to the Condensed Consolidated Interim Financial Information

For the six months ended 30th June 2010

19. CONTINGENT LIABILITIES *(Continued)*

(b) Deeds of novation

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

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

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