SMART UNION GROUP (HOLDINGS) LIMITED

(Provisional Liquidators Appointed)

合俊集團(控股)有限公司

(已委任臨時清盤人)

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2700)

ANNUAL RESULTS FOR THE YEAR ENDED 31ST DECEMBER 2008

RESULTS

The board of directors (the "Directors") of Smart Union Group (Holdings) Limited (Provisional Liquidators Appointed) (the "Company") is pleased to announce the consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31st December 2008 with comparative figures for the year ended 31st December 2007 as follows:

CONSOLIDATED INCOME STATEMENT

For the year ended 31st December 2008

	Notes	2008 HK$'000	2007 HK$'000
Sales	4	**37,550**	953,623
Cost of sales	7	**(32,954)**	(839,734)
Gross profit		**4,596**	113,889
Other income	6	**10,171**	12,320
Other gains/(losses), net	6	**4,904**	(1,893)
Administrative expenses	7	**(38,251)**	(96,704)
Loss on deconsolidation of unconsolidated subsidiaries	3.2 & 8	**(63,393)**	–
Impairment loss on investments in unconsolidated subsidiaries	3.2 & 8	**(3,600)**	–
Gain on deconsolidation of a former subsidiary	3.2 & 8	**506**	–
Impairment loss on investment in a former subsidiary	3.2 & 8	**(30,000)**	–
Impairment loss on amounts due from unconsolidated subsidiaries	3.2	**(231,939)**	–
Impairment loss on amount due from a former subsidiary	3.2	**(43,307)**	–
Provision for financial guarantees to an unconsolidated subsidiary	17	**(154,537)**	–
Provision for legal claims	17	**(5,572)**	–
Impairment loss on interest in an associated company	9	**(257,555)**	–
Impairment loss of convertible bonds	10	**(40,000)**	–
Operating (loss)/profit		**(847,977)**	27,612
Finance costs	11	**(173)**	(19,035)
(Loss)/profit before tax		**(848,150)**	8,577
Income tax expense	12	**(6)**	(3,134)
(Loss)/profit for the year		**(848,156)**	5,443
Attributable to:			
Equity holders of the Company		**(846,786)**	4,680
Minority interest		**(1,370)**	763
		(848,156)	5,443
(Loss)/earnings per share for (loss)/profit attributable to the equity holders of the Company during the year			
– basic *(HK$)*	13	**(1.74)**	0.02
– diluted *(HK$)*	13	**(1.74)**	0.02
Dividends	14	**–**	14,400

CONSOLIDATED BALANCE SHEET

As at 31st December 2008

	Notes	2008 HK$'000	2007 HK$'000
ASSETS			
Non-current assets			
Property, plant and equipment		**158**	66,408
Land use rights		**–**	4,849
Intangible assets		**–**	2,967
Investments in unconsolidated subsidiaries	*3.2 & 8*	**–**	–
Investment in a former subsidiary	*3.2 & 8*	**–**	–
Investment in an associated company		**–**	–
Available-for-sale financial assets		**–**	2,342
Prepayments, deposits and other receivables		**–**	11,261
Deferred income tax assets		**–**	749
		158	88,576
Current assets			
Inventories		**–**	379,440
Trade receivables	*15*	**3,786**	165,438
Amounts due from unconsolidated subsidiaries	*3.2*	**–**	–
Amount due from a former subsidiary	*3.2*	**–**	–
Prepayments, deposits and other receivables		**976**	19,022
Derivative financial instruments		**–**	213
Convertible bonds		**–**	40,000
Current income tax recoverable		**706**	1,046
Pledged bank deposits		**–**	5,234
Cash and cash equivalents		**5,124**	101,584
		10,592	711,977
Total assets		**10,750**	800,553
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital		**55,259**	34,248
Share premium		**368,381**	177,137
Other reserves		**30,553**	29,293
(Accumulated losses)/retained earnings		**(769,787)**	76,112
		(315,594)	316,790
Minority interest		**–**	1,370
Total equity		**(315,594)**	318,160

	Notes	**2008** *HK$'000*	2007 *HK$'000*
LIABILITIES			
Non-current liabilities			
Borrowings		**–**	201
Provision for long service payment		**–**	1,104
		–	1,305
Current liabilities			
Trade payables	*16*	**5,487**	195,631
Other payables and accruals	*17*	**170,176**	43,333
Amounts due to unconsolidated subsidiaries		**112,362**	–
Borrowings		**38,303**	239,768
Derivative financial instruments		**–**	2,356
Deferred tax liabilities		**16**	–
		326,344	481,088
Total liabilities		**326,344**	482,393
Total equity and liabilities		**10,750**	800,553
Net current (liabilities)/assets		**(315,752)**	230,889
Total assets less current liabilities		**(315,594)**	319,465

Notes:

1. GENERAL INFORMATION

Smart Union Group (Holdings) Limited (Provisional Liquidators Appointed) 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") on 29th September 2006. The shares of the Company have been suspended for trading on the Stock Exchange since 15th October 2008. On 1st December 2008, the Stock Exchange informed the Company that in view of the prolonged suspension of trading in the shares of the Company, the delisting procedures pursuant to Practice Note 17 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") have been applied to the Company and the first stage of delisting procedures commenced on 15th October 2008.

The Group was 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, a subsidiary, continued its trading business until 28th February 2009. The Group has reactivated its trading of toys business through Sino Front Limited, a newly incorporated wholly owned subsidiary of the Company, since June 2009.

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 consolidated financial statements are presented in Hong Kong dollars, unless otherwise stated. The consolidated financial statements have been approved for issue by the Directors on 22nd October 2009.

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

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

As a result of the applications, Messrs. John Robert Lees and Mat Ng have been appointed as the joint and several provisional liquidators of the Company ("Provisional Liquidators") and certain 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.

Pursuant to the orders of High Court dated 5th January 2009, the hearings of the winding-up petitions against the Company and the relevant subsidiaries were adjourned to 6th April 2009. The High Court then further adjourned the hearings of the winding-up petitions to 1st June 2009 pursuant to the hearings on 6th April 2009. At the hearings on 1st June 2009, the High Court further adjourned the hearings of the winding-up petitions of the Company and the relevant subsidiaries to 30th November 2009 to allow time for the implementation of the proposed restructuring of the Group.

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

(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, to be issued and allotted as fully paid to the Creditors.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

3.1 Basis of preparation

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

The Group sustained a loss attributable to equity holders of the Company of approximately HK$846,786,000 for the year ended 31st December 2008. As at 31st December 2008, the Group had net current liabilities of approximately HK$315,752,000 and net liabilities of approximately HK$315,594,000. 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 and the consolidated financial statements have been prepared on a going concern basis, the reason of which are disclosed in Note 2.

3.2 Subsidiaries not consolidated

The consolidated financial statements have been prepared based on the books and records maintained by the Company and its subsidiaries. However, due to the major assets and production facilities of a subsidiary of the Company, Smart Union Industrial Limited (Provisional Liquidators Appointed) ("SU Industrial"), have been subject to freezing orders obtained by its creditors in the PRC since October 2008, the Directors have not been able to get access to certain books and records of this subsidiary or to obtain sufficient documentary information to satisfy themselves regarding the treatment of the transactions during the year and various balances of SU Industrial as at 31st December 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 consolidated financial statements of the Group since 1st January 2008. 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 31st December 2008, the total amounts due from SU Industrial and its subsidiary to the Group and the Company of approximately HK$231,939,000 and HK$188,373,000 respectively are considered to be impaired and, accordingly, full impairment losses have been recognised in the consolidated financial statements.

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 consolidated financial statements 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 is included in the consolidated income statement for the year ended 31st December 2008. Moreover, as at 31st December 2008, 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.

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 of the Group as at 31st December 2008 and the results of the Group for the year then ended.

In the opinion of the Directors, the consolidated financial statements as at and for the year ended 31st December 2008 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 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".

3.3 Application of new/revised standards, amendments and interpretations

(a) The following amendments to standards and interpretations are mandatory for financial year beginning 1st January 2008.

HKAS 39 and HKFRS 7 (Amendments)	Reclassification of Financial Assets
HK(IFRIC)-Int 11	HKFRS 2 – Group and Treasury Share Transactions
HK(IFRIC)-Int 12	Service Concession Arrangements
HK(IFRIC)-Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

The adoption of the above amendments to standards and interpretations did not have any significant financial impact to the Group.

(b) The following new standards, amendments to standards and interpretations have been issued but are not effective for the period and have not been early adopted:

HKAS 1 (Revised)	Presentation of Financial Statements[1]
HKAS 23 (Revised)	Borrowing Costs[1]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[2]
HKAS 32 and HKAS 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation[1]
HKAS 39 (Amendment)	Eligible Hedged Items[2]
HKFRS 1 (Revised)	First-time Adoption of Hong Kong Financial Reporting Standards[2]
HKFRS 1 and HKAS 27 (Amendments)	Cost of Investments in a Subsidiary, Jointly Controlled Entities or Associates[2]
HKFRS 1 (Amendment)	Additional Exemptions for First-time Adopters[7]
HKFRS 2 (Amendment)	Share-based Payment Vesting Conditions and Cancellations[1]
HKFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions[7]
HKFRS 3 (Revised)	Business Combinations[2]
HKFRS 7 (Amendment)	Financial Instruments: Disclosures – Improving Disclosures about Financial Instruments[1]
HKFRS 8	Operating Segments[1]
HK(IFRIC)-Int 9 and HKAS 39	Embedded Derivatives[5]
HK(IFRIC)-Int 13	Customer Loyalty Programmes[3]
HK(IFRIC)-Int 15	Agreements for the Construction of Real Estate[1]
HK(IFRIC)-Int 16	Hedges of a Net Investment in a Foreign Operation[4]
HK(IFRIC)-Int 17	Distributions of Non-cash Assets to Owners[2]
HK(IFRIC)-Int 18	Transfers of Assets from Customers[6]

[1] Effective for annual periods beginning on or after 1st January 2009
[2] Effective for annual periods beginning on or after 1st July 2009
[3] Effective for annual periods beginning on or after 1st July 2008
[4] Effective for annual periods beginning on or after 1st October 2008
[5] Effective for annual periods ending on or after 30th June 2009
[6] Effective for transfer of assets from customers received on or after 1st July 2009
[7] Effective for annual periods beginning on or after 1st January 2010

The effect that the adoption of HKFRS 3 (Revised), HKAS 27 (Revised) and HK(IFRIC)-Int 17 on the results and financial position of the Group will depend on the incidence and timing of transactions within the scope of these standards and interpretations occurring on or after 1st January 2010.

The Directors anticipate that the adoption of other new standards, amendments to standards and interpretations in future periods will have no significant financial impact to the Group.

In addition, Hong Kong Institute of Certified Public Accountants also published a number of amendments for the existing standards under its annual improvement project. These amendments are also not expected to have a significant financial impact to the Group.

4. TURNOVER

	2008	2007
	HK$'000	*HK$'000*
Sales of goods	**37,550**	953,623

5. SEGMENT INFORMATION

Primary reporting format – business segments

The products and services provided by the Group are all related to the manufacturing and trading of recreational and educational toys and equipment and subject to similar business risk. No business segment information has been prepared by the Group for the year ended 31st December 2008.

Secondary reporting format – geographical segments

The Group primarily operates in Hong Kong and the PRC.

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

	2008	2007
	HK$'000	*HK$'000*
America	**34,101**	638,708
Europe	**–**	208,916
Others	**3,449**	105,999
	37,550	953,623

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:

	2008	2007
	HK$'000	*HK$'000*
Hong Kong	**10,750**	264,356
The PRC	**–**	536,197
	10,750	800,553

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

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

	2008	2007
	HK$'000	*HK$'000*
Hong Kong	**113**	952
The PRC	**–**	28,153
	113	29,105

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

6. OTHER INCOME AND OTHER GAINS/(LOSSES), NET

	2008	2007
	HK$'000	*HK$'000*
Other income:		
– Management fee income from an unconsolidated subsidiary	**9,153**	–
– Sales of scrap materials	**–**	7,294
– Interest income on bank deposits	**1**	1,345
– Compensation income from a customer	**–**	3,600
– Sundry income	**1,017**	81
	10,171	12,320
Other gains/(losses), net:		
– Unrealised losses on derivative financial instruments	**–**	(3,390)
– Realised gains on derivative financial instruments	**–**	1,497
– Exchange gain, net	**4,904**	–
	4,904	(1,893)

7. EXPENSES BY NATURE

	2008	2007
	HK$'000	*HK$'000*
Auditor's remuneration	**790**	1,500
Depreciation of property, plant and equipment	**259**	8,784
Impairment of property, plant and equipment	**661**	–
Amortisation of land use rights	**–**	69
Amortisation of intangible assets	**1,440**	567
Impairment of intangible assets	**3,898**	350
Raw materials used	**–**	597,359
Changes in inventories of finished goods and work in progress	**23,429**	(81,431)
Employee benefit expenses	**17,331**	233,283
Operating lease rentals for land and buildings	**2,189**	11,024
Exchange losses, net	**–**	5,511
Impairment of trade receivables	**1,618**	335
Inventory write-down	**3,129**	3,781
Others	**16,461**	155,306
Total cost of sales and administrative expenses	**71,205**	936,438

8. LOSS ON DECONSOLIDATION OF UNCONSOLIDATED SUBSIDIARIES, GAIN ON DECONSOLIDATION OF A FORMER SUBSIDIARY AND IMPAIRMENT LOSSES ON INVESTMENTS IN UNCONSOLIDATED SUBSIDIARIES AND A FORMER SUBSIDIARY

(a) Deconsolidation of unconsolidated subsidiaries

	2008
	HK$'000
Net assets deconsolidated as at 1st January 2008	
Property, plant and equipment	**16,512**
Available-for-sale financial assets	**2,342**
Deferred income tax assets	**765**
Inventories	**376,368**
Trade receivables	**163,993**
Prepayments, deposits and other receivables	**15,951**
Amounts due from fellow subsidiaries	**80,217**
Current income tax recoverable	**878**
Pledged bank deposits	**5,234**
Cash and cash equivalents	**56,363**
Trade payables	**(192,027)**
Other payables and accruals	**(29,408)**
Borrowings (including bank overdrafts of HK$7,768,000)	**(239,906)**
Derivative financial instruments	**(2,143)**
Provision for long service payment	**(697)**
Amounts due to intermediate holding companies	**(166,364)**
Amount due to immediate holding company	**(15,942)**
Amounts due to fellow subsidiaries	**(8,388)**
	63,748
Release of available-for-sale financial assets reserves	**(342)**
Release of merger reserve	**3,587**
	66,993
Loss on deconsolidation of unconsolidated subsidiaries	**63,393**
Impairment loss on investments in unconsolidated subsidiaries	**3,600**
	66,993

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

	HK$'000
Bank balances and cash of unconsolidated subsidiaries	56,363
Less: bank overdrafts of unconsolidated subsidiaries	(7,768)
Cash and cash equivalents of unconsolidated subsidiaries	48,595

As disclosed in Note 3.2, the Directors have not been able to access certain books and records of a subsidiary, SU Industrial. Accordingly, the Group has not consolidated SU Industrial and its subsidiary in the consolidated financial statements of the Group and they are recorded as investments in unconsolidated subsidiaries.

(b) Deconsolidation of a former subsidiary

	2008
	HK$'000
Net assets deconsolidated as at 1st January 2008	
Property, plant and equipment	**48,931**
Land use rights	**4,849**
Inventories	**243**
Prepayment, deposits and other receivables	**1,048**
Cash and cash equivalents	**112**
Amount due from a fellow subsidiary	**1,292**
Trade payables	**(1,711)**
Other payables and accruals	**(8,532)**
Amount due to immediate holding company	**(14,828)**
	31,404
Release of exchange reserves	**(1,910)**
	29,494
Gain on deconsolidation of a former subsidiary	**506**
Impairment loss on investment in a former subsidiary	**(30,000)**
	29,494

As disclosed in Note 3.2, the Group lost its control in a former subsidiary, SU Qingyuan, during the year. As such, the financial results, assets and liabilities and cash flows of the subsidiary were deconsolidated from the consolidated financial statements of the Group.

9. IMPAIRMENT LOSS ON INTEREST IN AN ASSOCIATED COMPANY

The Directors are of the view that the investment in China Mining Corporation Limited ("China Mining"), an associated company, is impaired. As such, a fair impairment provision of approximately HK$257,555,000 has been made in respect of this associated company.

10. IMPAIRMENT LOSS OF CONVERTIBLE BONDS

The Group held convertible bonds issued by China Mining of HK$40,000,000 as at 31st December 2008. The Directors consider the carrying value of these convertible bonds have been totally impaired and, accordingly, an impairment loss of HK$40,000,000 has been recognised in the consolidated income statement.

11. FINANCE COSTS

	2008	2007
	HK$'000	*HK$'000*
Interest expense:		
– Bank borrowings and overdrafts	**148**	14,678
– Factoring facilities	**25**	4,664
– Finance lease liabilities	**–**	110
	173	19,452
Less: interest capitalised	**–**	(417)
	173	19,035

12. INCOME TAX EXPENSE

Hong Kong profits tax has been provided at the rate of 16.5% (2007: 17.5%) on the estimated assessable profit during the year.

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

	2008	2007
	HK$'000	*HK$'000*
Current taxation:		
– Hong Kong profits tax	**24**	2,315
– PRC enterprise income tax	**–**	1,497
– Over-provision in prior years	**(18)**	(63)
Deferred income tax relating to the origination and reversal of temporary differences	**–**	(615)
	6	3,134

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

	2008	2007
	HK$'000	*HK$'000*
(Loss)/profit before tax	**(848,150)**	8,577
Calculated at a tax rate of 16.5% (2007: 17.5%)	**(139,945)**	1,501
Effect of different taxation rates in other countries	**–**	1,497
Income not subject to taxation	**(998)**	(435)
Expenses not deductible for taxation purposes	**137,983**	375
Unrecognised tax losses	**2,984**	341
Utilisation of previously unrecognised tax losses	**–**	(82)
Over-provision in prior years	**(18)**	(63)
Income tax expense	**6**	3,134

13. (LOSSES)/EARNINGS PER SHARE

Basic

The calculation of basic (losses)/earnings per share is based on the consolidated loss attributable to equity holders of the Company of approximately HK$846,786,000 (2007: profit of HK$4,680,000) and on the weighted average number of 486,057,000 (2007: 265,157,000) ordinary shares in issue during the year.

	2008	2007
(Loss)/profit attributable to equity holders of the Company *(HK$'000)*	**(846,786)**	4,680
Weighted average number of ordinary shares in issue *(thousands)*	**486,057**	265,157
Basic (losses)/earnings per share *(HK$)* per share	**(1.74)**	0.02

Diluted

Diluted (losses)/earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has one category of dilutive potential ordinary shares: share options. For the share options, a calculation is made in order to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

	2008	2007
(Loss)/profit attributable to equity holders of the Company *(HK$'000)*	**(846,786)**	4,680
Weighted average number of ordinary shares in issue *(thousands)*	**486,057**	265,157
Adjustments for share options *(thousands)*	**–**	3,564
Weighted average number of ordinary shares for diluted (losses)/ earnings per share *(thousands)*	**486,057**	268,721
Diluted (losses)/earnings per share *(HK$)* per share	**(1.74)**	0.02

14. DIVIDENDS

The dividends paid in 2007 were HK$14,400,000 (HK$0.06 per share). No dividend in respect of the year ended 31st December 2008 is to be proposed at the forthcoming Annual General Meeting.

15. TRADE RECEIVABLES

	Group	
	2008	2007
	HK$'000	*HK$'000*
Trade receivables	**5,619**	166,445
Less: provision for impairment of receivables	**(1,833)**	(1,007)
Trade receivables – net	**3,786**	165,438

The Group's trade receivables from its customers are generally with credit periods of less than 75 days. 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 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 31st December 2008 and 2007 are as follows:

	Group	
	2008	2007
	HK$'000	*HK$'000*
0 – 30 days	**481**	112,063
31 – 60 days	**1,439**	19,890
61 – 90 days	**3,067**	15,201
91 days – 1 year	**359**	17,226
Over 1 year	**273**	2,065
	5,619	166,445

16. TRADE PAYABLES

The ageing analysis of trade payables as at 31st December 2008 and 2007 are as follows:

	Group	
	2008	2007
	HK$'000	*HK$'000*
0 – 30 days	**4,430**	79,381
31 – 60 days	**541**	39,323
61 – 90 days	**324**	40,624
91 days – 1 year	**141**	28,420
1 – 2 years	**26**	4,186
Over 2 years	**25**	3,697
	5,487	195,631

The carrying amounts of trade payables approximate their fair values.

17. OTHER PAYABLES AND ACCRUALS

	Group	
	2008	2007
	HK$'000	*HK$'000*
Accruals	**8,685**	41,066
Receipts in advance	**216**	2,267
Other payables	**1,166**	–
Provision for financial guarantees to an unconsolidated subsidiary *(Note (i))*	**154,537**	–
Provision for legal claims *(Note (ii))*	**5,572**	–
	170,176	43,333

Notes:

(i) During the year ended 31st December 2008, SU Industrial, an unconsolidated subsidiary, defaulted on the repayment for loans from certain banks and a finance lease provider with total outstanding principal and interest thereon of approximately HK$152,748,000 and HK$1,789,000, respectively. As the Company has provided corporate guarantees for these loans, full provisions for such financial guarantees have been made by the Company and the Group as at 31st December 2008.

(ii) On 22nd October 2008, the Municipal Court of Dongguan (廣東省東莞市人民法院) accepted the legal claims from certain creditors in the PRC against SU Industrial, an unconsolidated subsidiary, and the Company, primarily in respect of the outstanding wages and severance pay for employees in the factories of SU Industrial in the PRC. On 13th December 2008, the Municipal Court of Dongguan made judgements such that SU Industrial and the Company were determined to be liable for the legal claims from these creditors in the PRC for a total amount of approximately RMB24,925,000. This amount has been partially settled and reduced by an insurance claim of RMB10,000,000 (received by the Municipal Court of Dongguan in December 2008) and the proceeds from auctions of the assets in the factories of SU Industrial held in 2009 of RMB10,020,000. The remaining amount of the legal claims of approximately RMB4,905,000 (equivalent to approximately HK$5,572,000) may be further reduced by the disposal of the remaining assets in the factories of SU Industrial. However, as there is a major uncertainty as to the amount to be recovered from the auction of the remaining assets, the Group and the Company have made full provision for the unsettled amount of the legal claims of approximately HK$5,572,000 as at 31st December 2008.

EXTRACT OF INDEPENDENT AUDITOR'S REPORT

Basis for disclaimer of opinion

Investments in unconsolidated subsidiaries

As further explained in Note 3.2 to the consolidated financial statements, the Directors are unable to get access to certain books and records of SU Industrial, a subsidiary of the Company, for the year ended 31st December 2008. Due to the insufficiency in accounting information of SU Industrial, the financial statements of SU Industrial and its subsidiary, Perfect Design, have not been consolidated in the Group's consolidated financial statements for the year ended 31st December 2008.

The resulting deconsolidation loss and impairment on investment in SU Industrial and Perfect Design of approximately HK$63,393,000 and HK$3,600,000 respectively have been recognised in the consolidated income statement.

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

Due to the lack of complete books and records of SU Industrial, we have not been able to obtain sufficient appropriate audit evidence and explanations to assess the carrying values of the investment in SU Industrial and its subsidiary and the loss on the deconsolidation. Any adjustment that would be required may have a consequential significant effect on net liabilities of the Group as at 31st December 2008 and the loss attributable to the equity holders for the year then ended.

Investment in a former subsidiary

As further explained in Note 3.2 to the consolidated financial statements, SU Qingyuan, a former subsidiary, was deemed disposed of by the Group due to the loss of control on 14th October 2008 and a corresponding disposal gain, based on the net asset value of SU Qingyuan as at 1st January 2008, of approximately HK$506,000 has been recognised in the consolidated income statement. The Directors are of the view that the investment in this former subsidiary of approximately HK$30,000,000 cannot be recovered and, accordingly, an impairment loss of the same amount has been recognised in the consolidated income statement.

However, the results of SU Qingyuan from 1st January 2008 to 14th October 2008, the date of deemed disposal, have not been consolidated into the Group's consolidated income statement which is not in compliance with the requirements of HKAS 27.

Due to the lack of complete books and records of SU Qingyuan, we have not been able to obtain sufficient appropriate audit evidence to assess (i) the net asset value of SU Qingyuan at the deemed disposal date and, hence, the gain on deemed disposal arising therefrom; and (ii) the carrying value of the investment in SU Qingyuan at 31st December 2008. Any adjustment that would be required may have a consequential significant effect on the net liabilities of the Group as at 31st December 2008 and loss attributable to the equity holders for the year then ended.

Balances with unconsolidated subsidiaries and a former subsidiary

As further explained in Note 3.2 to the consolidated financial statements, the Group and the Company had a total amount due from SU Industrial and Perfect Design, of approximately HK$231,939,000 and HK$188,373,000 respectively and the Group had an amount due from SU Qingyuan, of approximately HK$43,307,000 as at 31st December 2008. The Directors are of the view that the carrying values of these amounts are not recoverable and, accordingly, impairment losses of the same amount have been recognised in the consolidated and the Company's income statement. In addition, there was a total amount due to SU Industrial and Perfect Design of approximately HK$112,362,000 as at 31st December 2008.

Due to the lack of complete books and records of these companies, we have not been able to obtain sufficient appropriate audit evidence to determine whether the balances with the above companies and the impairment losses as mentioned in the aforesaid paragraph are free from material misstatements. Any adjustment to the figure may have a consequential significant effect on the net liabilities of the Group as at 31st December 2008 and loss attributable to the equity holders for the year then ended.

Lack of complete books and records of a subsidiary

As further explained in Note 10 to the consolidated financial statements, the Directors have not been able to obtain sufficient information to satisfy themselves regarding the completeness and accuracy of the books and records of a subsidiary, Dream Link Limited, or to represent that all transactions entered into by this subsidiary for the year ended 31st December 2008 have been properly reflected in the consolidated financial statements. Accordingly, we have also not been able to obtain sufficient appropriate audit evidence to determine whether the recorded transactions and balances are free from material misstatements. Any adjustment to the above mentioned financial information may have a significant effect on the net liabilities of the Group as at 31st December 2008 and loss attributable to the equity holders for the year then ended.

Investment in an associated company

As further explained in Note 11 to the consolidated financial statements, the Directors are of the view that the carrying value of the investment in China Mining, an associated company, of approximately HK$257,555,000 as at 31st December 2008 has been fully impaired and, accordingly, an impairment loss has been made and charged to the consolidated income statement. However, due to the lack of sufficient financial information on the associated company, we have not been able to obtain sufficient appropriate audit evidence or to carry out alternative audit procedures that we considered necessary to assess the valuation of the investment in the associated company and the impairment loss charged for the year. Any adjustment to the investment in associated company would have a consequential effect on the net liabilities of the Group as at 31st December 2008 and the loss attributable to equity holders for the year then ended.

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

Convertible bonds from an associated company

As explained in Note 16 to the consolidated financial statements, the Group held convertible bonds issued by China Mining of HK$40,000,000 as at 31st December 2008. The Directors consider the carrying value of these convertible bonds has been totally impaired and, accordingly, an impairment loss of HK$40,000,000 has been recognised in the consolidated income statement. Due to the lack of financial information on the associated company, we have not been able to obtain sufficient appropriate audit evidence and explanations to assess the carrying value of the investment in an associated company and the convertible bonds. Any adjustment to the valuation of the investment in the associated company and, accordingly, the convertible bonds would have a consequential effect on the net liabilities of the Group as at 31st December 2008 and for loss attributable to equity holders for the year then ended.

Going concern basis of accounting

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

A proposal for the resumption of trading in the Company's shares and the restructuring of the Group (the "Resumption Proposal") was submitted to The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 1st September 2009. The Resumption Proposal involves, inter alia, capital restructuring, debt restructuring, share subscription and group reorganisation. The Resumption Proposal, if successfully implemented, would, among other things, result in a full discharge of the Company's indebtedness.

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

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

Other secured borrowings and provision for financial guarantees to a subsidiary

As further explained in Notes 21 and 25 to the consolidated financial statements, as at 31st December 2008, the Group had other secured borrowings and provision for financial guarantees to an unconsolidated subsidiary, including related accrued interest, of approximately HK$36,513,000 and HK$154,537,000 respectively. Since confirmations of such balances have not been received from the respective creditors, we have not been able to assess the accuracy and completeness of the above liabilities. There are no other satisfactory alternative procedures that we could perform to satisfy ourselves that these balances and the related disclosures have been properly recorded and reflected in the consolidated financial statements as at 31st December 2008.

Contingent liabilities

As disclosed in Note 40 to the consolidated financial statements, no provision was made for the contingent liabilities in respect of a disposal of a property by a former subsidiary and the assumption of certain debts of another subsidiary by the Group, in the amounts of approximately HK$17,000,000 and HK$30,753,000 respectively. The Directors, based on legal advice obtained, are of the view that such transactions are not enforceable or invalid and, accordingly, no provision in respect of these transactions was made for the year ended 31st December 2008.

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

Events after the balance sheet date

We have not been able to obtain the latest management financial information of the Group as the underlying books and records of certain companies in the Group have not been updated subsequent to the balance sheet date up to the date of this report. Hence, we are not able to complete our review of subsequent events from the balance sheet date up to the date of this report. Such procedures might have resulted in the identification of adjustments and/or disclosures to the consolidated financial statements.

Disclaimer of opinion

Because of the significance of the matters described in the basis for disclaimer of opinion paragraphs, we do not express an opinion on the consolidated financial statements as to whether they give a true and fair view of the state of affairs of the Company and of the Group as at 31st December 2008 and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and as to whether they have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS

For the year ended 31st December 2008, the Group's turnover was approximately HK$37.6 million (2007: HK$953.6 million), representing a decrease of approximately 96.1% from the last financial year. As the Directors and the Provisional Liquidators have not been able to gain access to certain books and records of SU Industrial and SU Qingyuan, the financial statements of SU Industrial and its wholly owned subsidiary, Perfect Design, have not been included in the consolidated financial statement of the Group, while the results of SU Qingyuan, from the beginning of the year till the date of deemed disposal, have not been included in the consolidated income statement of the Group.

The consolidated loss attributable to shareholders of the Company amounted to approximately HK$846.8 million (2007: profit of HK$4.7 million) for the year. Loss per share for the year ended 31st December 2008 was approximately HK$1.74 as compared with earning per share of approximately HK$0.02 for the preceding year.

LIQUIDITY, FINANCIAL RESOURCES AND FUNDING

Bank balances and cash as at 31st December 2008 was approximately HK$5.1 million (2007: HK$101.6 million). As at 31st December 2008, the total amount of banking facilities outstanding was approximately HK$156 million (2007: HK$377 million), which are currently in default and the Group is currently undergoing restructuring.

ASSETS AND LIABILITIES

As at 31st December 2008, the Group had total assets of approximately HK$10.8 million (2007: HK$800.6 million), total liabilities of approximately HK$326.3 million (2007: HK$482.4 million). The net liabilities of the Group as at 31st December 2008 were HK$315.6 million (2007: net assets of HK$318.2 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 RMB, USD and HKD.

DIVIDENDS

The Directors do not recommend any dividend for the year ended 31st December 2008 (2007: nil).

BUSINESS REVIEW

Appointment of Provisional Liquidators

2008 was a devastated year for the Group. The shortage of cash flow, caused by tightened credit lines in response to the credit crunch coupled with eroded confidence from suppliers hindered the Company's effort to implement any meaningful turn-around plans. Moreover, two of the main plants in the PRC were damaged by floods during the year, which caused over RMB85.9 million of damages and suspended production for a month. The situation further worsened the Company's financial and operation during the peak season of 2008, which significantly deterred the Company from meeting its production targets.

The Company's dire results and downfall were further worsen by the adverse business environment in the toy industry, the appreciation of Renminbi in the first half of 2008, against the Group's overexpansion of business and diversification of business scope during the past few years.

Despite efforts of the management team in exploring ways to revive the business by such means as raising cash from new investors, sale of some of the Company's assets, borrowing from the Company's customer by mean of advance shipment payment, collaborating with strong financial backed company for strategic partnership for cash flow arrangement for orders on-hand, we failed to turn the Company around. The labor turmoil at two key plants in the PRC during mid-October placed the last straw and sank all our rescue attempts.

On 15th October 2008, the Board found no other alternative and resolved, unanimously, to apply to the High Court for the appointment of provisional liquidators after the major assets and production facilities of certain subsidiaries have been subject to freezing orders obtained by certain creditors in the PRC. At the request of the Company, trading in the shares of the Company (the "Share(s)") was suspended on the Main Board of the Stock Exchange on 15th October 2008 and remains suspended.

On 16th and 17th October 2008, the Company and six of its subsidiaries petitioned and applied to the High Court to seek their own winding up and for the appointment of provisional liquidators. The High Court appointed Messrs. John Robert Lees and Mat Ng as the joint and several provisional liquidators of the Company and four of its subsidiaries on 16th October 2008 and two other subsidiaries on 17th October 2008.

On 1st December 2008, the Stock Exchange informed the Company that in view of the prolonged suspension of trading in the Shares, it has placed the Company in the first stage of the delisting procedures pursuant to Practice Note 17 to the Listing Rules on 15th October 2008. The Company is required to submit a viable resumption proposal to address the issues pertaining to the suspension of trading in the Shares and demonstrate that the Company has a sufficient level of operations or has assets of sufficient value as required under Rule 13.24 of the Listing Rules.

Asian Capital (Corporate Finance) Limited has been 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.

The Provisional Liquidators have secured an investor and are now implementing restructuring plans for the Company to revitalise the Company.

Proposed Restructuring of the Group after the Appointment of Provisional Liquidators

On 12th May 2009, an exclusivity agreement (the "Exclusivity Agreement") was entered into amongst the Investor, Mr. Yang Wang Jian, Mr. Ting Wai-min, 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 Proposed Restructuring.

As part of the Proposed Restructuring, Sino Front Limited ("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.

Sino Front has signed a master purchase agreement with a buyer in Hong Kong pursuant to which certain minimum annual orders is guaranteed for a term of one year. As the Group's manufacturing facilities are still under the custody of the PRC local authorities, Sino Front has subcontracted the manufacturing through a processing agreement with an OEM factory in the PRC. Accordingly manufacturing capabilities for annual orders of the Group for a certain minimum amount are also secured. The Group will continue to explore and develop alliances with both manufacturers and customers in the next two years with an aim to establishing a comprehensive production chain in line with its business development strategies.

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.

As disclosed in Note 2, on 1st September 2009, the Company submitted a resumption proposal to the Stock Exchange which embraces the Proposed Restructuring.

The Directors unanimously support the Proposed Restructuring.

PROSPECTS

It is anticipated that the financial position of the Group will be substantially improved upon completion of the Proposed Restructuring.

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

With the strong support provided by the Investor to the Group in terms of both business and financial aspects, the Group will be able to sustain its toy business.

Subject to, among other things, the approvals of the shareholders of the Company and the Listing Division of the Stock Exchange upon the completion of the Proposed Restructuring, the Company's shares will resume trading on the Stock Exchange.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

To the best knowledge of the Board, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 31st December 2008.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Company had adopted the code provision set out in the Code on Corporate Governance Practices (the "Code on Corporate Governance Practices") contained in Appendix 14 to the Listing Rules and the Directors confirm that the Company complied with the Code on Corporate Governance Practices from 1st January 2008 to 15th October 2008. Since the Provisional Liquidators were appointed on 16th October 2008 pursuant to an order of the High Court, the Directors and the Provisional Liquidators consider that compliance with the Code on Corporate Governance Practices is no longer practicable.

REVIEW OF FINANCIAL STATEMENTS

Following the resignation of the Company's independent non-executive Directors in October 2008, up to the date of this announcement, 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 financial results of the Group for the year ended 31st December 2008 have not been reviewed by the audit committee.

GENERAL INFORMATION

As at the date of this announcement, the Board comprises of four executive Directors: Mr. Wu Kam Bun, Mr. Lai Chiu Tai, Mr. Ho Wai Wah and Mr. Wong Wai Chuen.

In October 2008, one of the executive Directors Mr. Lo Kwok Choi and three independent non-executive Directors: Dr. Lui Sun Wing, Mr. Li Chak Hung and Mr. Tang Koon Yiu, Thomas have resigned.

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

Hong Kong, 23rd October 2009