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 2009

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 2009 with comparative figures for the previous year, as follows:

CONSOLIDATED INCOME STATEMENT

For the year ended 31st December 2009

	Notes	2009 HK$'000	2008 HK$'000
Sales	4	**98,140**	37,550
Cost of sales	7	**(93,384)**	(32,954)
Gross profit		**4,756**	4,596
Other income	6	**11,251**	10,171
Other (losses)/gains, net	6	**(1,575)**	4,904
Administrative expenses	7	**(15,436)**	(38,251)
Loss on de-consolidation of unconsolidated subsidiaries	3	**–**	(63,393)
Impairment loss on investments in unconsolidated subsidiaries	3	**–**	(3,600)
Gain on de-consolidation of a former subsidiary	3	**–**	506
Impairment loss on investment in a former subsidiary	3	**–**	(30,000)
Impairment loss on amounts due from unconsolidated subsidiaries	3	**–**	(231,939)
Impairment loss on amount due from a former subsidiary	3	**–**	(43,307)
Provision for financial guarantees to an unconsolidated subsidiary		**(13,917)**	(154,537)
Reversal/(provision) for legal claims		**204**	(5,572)
Impairment loss on interest in an associated company		**–**	(257,555)
Impairment loss of convertible bonds		**–**	(40,000)
Operating loss		**(14,717)**	(847,977)
Finance costs	8	**(2,048)**	(173)
Loss before tax		**(16,765)**	(848,150)
Income tax expense	9	**(600)**	(6)
Loss for the year		**(17,365)**	(848,156)
Attributable to:			
Equity holders of the Company		**(17,365)**	(846,786)
Minority interest		**–**	(1,370)
		(17,365)	(848,156)
Loss per share for loss attributable to the equity holders of the Company during the year			
– Basic and diluted *(HK$)*	10	**(0.03)**	(1.74)
Dividends	11	**–**	–

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31st December 2009

	2009	2008
	HK$'000	*HK$'000*
Loss for the year	**(17,365)**	(848,156)
Reversal upon de-consolidation of certain unconsolidated subsidiaries	**–**	3,245
Deemed disposal of a former subsidiary	**–**	(1,910)
Other comprehensive income	**–**	1,335
Total comprehensive loss for the year	**(17,365)**	(846,821)
Attributable to:		
Equity holders of the Company	**(17,365)**	(845,451)
Minority interest	**–**	(1,370)
	(17,365)	(846,821)

CONSOLIDATED BALANCE SHEET

As at 31st December 2009

	Notes	2009 HK$'000	2008 HK$'000
ASSETS			
Non-current assets			
Property, plant and equipment		**10**	158
Land use rights		**–**	–
Intangible assets		**–**	–
Investments in unconsolidated subsidiaries		**–**	–
Investment in a former subsidiary		**–**	–
Investment in an associated company		**–**	–
Available-for-sale financial assets		**–**	–
Deferred income tax assets		**–**	–
		10	158
Current assets			
Inventories		**–**	–
Trade receivables	*12*	**47,015**	3,786
Amounts due from unconsolidated subsidiaries		**–**	–
Amount due from a former subsidiary		**–**	–
Prepayments, deposits and other receivables		**1,443**	976
Convertible bonds		**–**	–
Current income tax recoverable		**127**	706
Cash and cash equivalents		**2,388**	5,124
		50,973	10,592
Total assets		**50,983**	10,750

	Notes	**2009**	2008
		HK$'000	*HK$'000*
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital		**55,259**	55,259
Share premium		**368,381**	368,381
Other reserves		**30,553**	30,553
Accumulated losses		**(787,152)**	(769,787)
		(332,959)	(315,594)
Minority interest		**–**	–
Total equity		**(332,959)**	(315,594)
LIABILITIES			
Non-current liabilities			
Borrowings		**5,000**	–
Provision for long service payment		**–**	–
		5,000	–
Current liabilities			
Trade payables	*13*	**40,778**	5,487
Other payables and accruals	*14*	**187,250**	170,176
Amounts due to unconsolidated subsidiaries		**112,362**	112,362
Borrowings		**37,936**	38,303
Income tax payable		**600**	–
Deferred income tax liabilities		**16**	16
		378,942	326,344
Total liabilities		**383,942**	326,344
Total equity and liabilities		**50,983**	10,750
Net current liabilities		**(327,969)**	(315,752)
Total assets less current liabilities		**(327,959)**	(315,594)

Notes:

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 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 set out in Practice Note 17 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited have been applied to the Company and the first stage of delisting procedures commenced on 15th October 2008.

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

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

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

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

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

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

On 12th May 2009, an exclusivity agreement (the "Exclusivity Agreement") was entered into among the Company, Gold Bless International Invest Limited (the "Investor"), Mr. Yang Wang Jian, Mr. 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 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 hearing of the winding-up petitions against the Company and the relevant subsidiaries, after several adjournment to allow time for the implementation of the Proposed Restructuring of the Group, is scheduled on 31st May 2010.

3. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

The consolidated results have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants except for the non-consolidation of certain subsidiaries of the Group as explained in Note 3.1 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 results have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets.

3.1 Subsidiaries not consolidated

The consolidated results have been prepared based on the books and records maintained by the Company and its subsidiaries. However, due to the major assets and production facilities of a subsidiary of the Company, Smart Union Industrial Limited (Provisional Liquidators Appointed) ("SU Industrial"), have been subject to freezing orders obtained by its creditors in the PRC since October 2008, the directors have not been able to get access to certain books and records of this subsidiary or to obtain sufficient documentary information to satisfy themselves regarding the treatment of the transactions since 2008. As such, the results, assets and liabilities of SU Industrial and its subsidiary, Perfect Design and Product Development Limited, have not been included into the consolidated results 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 2009 and 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 results. In addition, there was a total amount due to SU Industrial and Perfect Design and Product Development Limited of approximately HK$112,362,000 as at 31st December 2009 and 2008.

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 de-consolidated from the consolidated results since 14th October 2008. Due to the lack of complete books and records of SU Qingyuan, it was deemed disposed of and de-consolidated from the consolidated results 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 31st December 2009 and 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 results.

Due to the significance of the operation of SU Industrial and SU Qingyuan, any changes to the status or possible outcome of the freezing orders against SU Industrial and SU Qingyuan may have a significant consequential effect on the net liabilities of the Group as at 31st December 2009.

In the opinion of the directors the consolidated results as at and for the year ended 31st December 2009 and 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 Product Development Limited, 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".

3.2 Application of new/revised standards, amendments and interpretations

(a) New standards, revised standards and amendments to existing standards adopted by the Group

The Group has adopted the following new and amended HKFRS since 1st January 2009:

- HKFRS 2 (amendment) 'Share-based payment'. The amendment deals with vesting conditions and cancellations. It clarifies that vesting conditions are service conditions and performance conditions only. Other features of a share-based payment are not vesting conditions. These features would need to be included in the grant date fair value for transactions with employees and others providing similar services; they would not impact the number of awards expected to vest or valuation thereof subsequent to grant date. All cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The amendment does not have a material impact on the Group's consolidated financial statements.

- HKFRS 7 'Financial instruments – Disclosures' (amendment). The amendment requires enhanced disclosures about fair value measurement and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of a fair value measurement hierarchy. As the change in accounting policy only results in additional disclosures, there is no impact on earnings per share.

- HKFRS 8, 'Operating segments'. HKFRS 8 replaces HKAS 14 'Segment reporting'. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. There is no change in the operating segments for the Group.

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

- HKAS 1 (revised) 'Presentation of financial statements'. The revised standard required 'non-owner changes in equity' to be presented separately from owner changes in equity. As a result the Group presents all owner changes in equity in the consolidated statement of changes in equity, whereas all 'non-owner changes in equity' are presented in a performance statement.

  Entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the income statement and statement of comprehensive income). The Group has elected to present two statements: an income statement and a statement of comprehensive income. The consolidated financial statements have been prepared under the revised disclosure requirements.

- HKAS 23 (amendment) 'Borrowing costs'. The amendment requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs has been removed. This amendment does not have a material impact on the Group's consolidated financial statements.

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

The following standards and amendments and interpretations to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1st January 2010 or later periods, but the Group has not early adopted them:

HKFRS (amendments)	Improvements to HKFRS 2009
HKFRS 1 (revised)	First-time adoption of HKFRS
HKFRS 1 (amendment)	Additional exemptions for first-time adopters
HKFRS 2 (amendments)	Group cash-settled share-based payment transaction
HKFRS 3 (revised)	Business combinations
HKFRS 9	Financial instruments
HKAS 24 (amendment)	Related party disclosures
HKAS 27 (revised)	Consolidated and separate financial statements
HKAS 32 (amendment)	Classification of right issues
HKAS 39 (amendment)	Eligible hedged items
HK(IFRIC) 14 (amendments)	Prepayment of a minimum funding requirement
HK(IFRIC) 17	Distributions of non-cash assets to owners
HK(IFRIC) 18	Transfers of assets from customers
HK(IFRIC) 19	Extinguishing financial liabilities with equity instruments

4. TURNOVER

	2009 ***HK$'000***	2008 *HK$'000*
Sales of goods	**98,140**	37,550

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:

	2009 ***HK$'000***	2008 *HK$'000*
America	**–**	34,101
Hong Kong	**97,527**	–
Others	**613**	3,449
	98,140	37,550

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

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

	2009	2008
	HK$'000	*HK$'000*
Hong Kong	**50,921**	10,750
The PRC	**62**	–
	50,983	10,750

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

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

	2009	2008
	HK$'000	*HK$'000*
Hong Kong	**10**	113

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

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

	2009	2008
	HK$'000	*HK$'000*
Other income		
– Management fee income from an unconsolidated subsidiary	**–**	9,153
– Interest income on bank deposits	**2**	1
– Non-refundable income *(Note (i))*	**8,620**	–
– Sundry income	**2,629**	1,017
	11,251	10,171
Other (losses)/gains, net:		
– Impairment on assets	**(1,575)**	–
– Exchange gain, net	**–**	4,904
	(1,575)	4,904

Note:

(i) During the year ended 31 December 2009, the Company incurred a sum of approximately HK$8,620,000 for the fees, charges, costs and expenses in connection with the implementation of the Proposed Restructuring. Out of the total, the Investor paid a sum of HK$7,500,000 to the Company as required under the Exclusivity Agreement. The remaining amount of approximately HK$1,120,000 will subject to further payment of the Investor in accordance with the terms of the Exclusivity Agreement.

The restructuring costs are non-refundable under all circumstances.

7. EXPENSES BY NATURE

	2009	2008
	HK$'000	*HK$'000*
Auditor's remuneration	**500**	790
Depreciation of property, plant and equipment	**14**	259
Impairment of property, plant and equipment	**144**	661
Amortisation of intangible assets	**–**	1,440
Impairment of intangible assets	**–**	3,898
Cost of inventories sold	**93,140**	23,429
Employee benefit expenses	**2,756**	17,331
Operating lease rentals for land and buildings	**664**	2,189
Exchange losses, net	**19**	–
Impairment of trade receivables	**–**	1,618
Inventory write-down	**322**	3,129
Costs incurred for the Proposed Restructuring	**8,620**	–
Others	**2,641**	16,461
Total cost of sales and administrative expenses	**108,820**	71,205

8. FINANCE COSTS

	2009	2008
	HK$'000	*HK$'000*
Interest expense:		
– Other borrowings	**2,048**	–
– Bank borrowings and overdrafts	**–**	148
– Factoring facilities	**–**	25
	2,048	173

9. INCOME TAX EXPENSE

Hong Kong profits tax has been provided at the rate of 16.5% (2008: 16.5%) on the estimated assessable profits during the year.

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

	2009	2008
	HK$'000	*HK$'000*
Current income tax:		
– Hong Kong profits tax	**600**	24
– Over-provision in prior years	**–**	(18)
	600	6

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

	2009	2008
	HK$'000	*HK$'000*
Loss before tax	**(16,765)**	(848,150)
Calculated at a tax rate of 16.5% (2008: 16.5%)	**(2,766)**	(139,945)
Income not subject to taxation	**–**	(998)
Expenses not deductible for taxation purposes	**–**	137,983
Unrecognised tax losses	**3,366**	2,984
Over-provision in prior years	**–**	(18)
Income tax expense	**600**	6

10. LOSS PER SHARE

Basic

The calculation of basic loss per share is based on the consolidated loss attributable to equity holders of the Company of approximately HK$17,365,000 (2008: HK$846,786,000) and on the weighted average number of 552,586,000 (2008: 468,057,000) ordinary shares in issue during the year.

	2009	2008
Loss attributable to equity holders of the Company *(HK$'000)*	**(17,365)**	(846,786)
Weighted average number of ordinary shares in issue *(thousands)*	**552,586**	486,057
Basic loss per share *(HK$)*	**(0.03)**	(1.74)

There is no dilutive effect on the loss per share.

11. DIVIDENDS

No dividend in respect of the year ended 31st December 2009 (2008: Nil) is to be proposed at the forthcoming Annual General Meeting.

12. TRADE RECEIVABLES

	2009	2008
	HK$'000	*HK$'000*
Trade receivables	**47,015**	5,619
Less: Provision for impairment of receivables	**–**	(1,833)
Trade receivables – net	**47,015**	3,786

The Group's trade receivables from its customers are generally with credit periods of less than 90 days.

The carrying amounts of trade receivables approximate their fair values.

The ageing analysis of trade receivables as at 31st December 2009 and 2008 are as follows:

	2009	2008
	HK$'000	*HK$'000*
0 – 30 days	**25,619**	481
31 – 60 days	**15,190**	1,439
61 – 90 days	**6,206**	3,067
91 days – 1 year	**–**	359
Over 1 year	**–**	273
	47,015	5,619

13. TRADE PAYABLES

The ageing analysis of trade payables as at 31st December 2009 and 2008 are as follows:

	2009	2008
	HK$'000	*HK$'000*
0 – 30 days	**24,280**	4,430
31 – 60 days	**14,419**	541
61 – 90 days	**–**	324
91 days – 1 year	**1,157**	141
Over 1 years	**922**	51
	40,778	5,487

The carrying amounts of trade payables approximate their fair values.

14. OTHER PAYABLES AND ACCRUALS

	2009	2008
	HK$'000	*HK$'000*
Accruals	**12,024**	8,685
Receipts in advance	**238**	216
Other payables	**1,166**	1,166
Provision for financial guarantees to an unconsolidated subsidiary *(Note (i))*	**168,454**	154,537
Provision for legal claims *(Note (ii))*	**5,368**	5,572
	187,250	170,176

Notes:

(i) SU Industrial, an unconsolidated subsidiary, defaulted on the repayment for loans from certain banks and a finance-lease provider. As at 31st December 2009, the total outstanding principal and interest thereon amounted to approximately HK$152,748,000 and HK$15,706,000 respectively (2008 outstanding principal and interest: HK$152,748,000 and HK$1,789,000). 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 2009.

(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 held in 2009 and 2010 of the assets in the factories of SU Industrial of RMB10,200,000. The remaining amount of the legal claims of approximately RMB4,725,000 (equivalent to approximately HK$5,368,000) 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$5,368,000 as at 31st December 2009 (2008: HK$5,572,000).

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 Smart Union Industrial Limited (Provisional Liquidators Appointed) ("SU Industrial"), a subsidiary of the Company, for the year ended 31st December 2009. Due to the insufficiency in accounting information of SU Industrial, the financial statements of SU Industrial and its subsidiary, Perfect Design and Product Development Limited ("Perfect Design"), have not been consolidated in the Group's consolidated financial statements for the year ended 31st December 2009.

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

Due to the lack of complete books and records of SU Industrial, we have not been able to obtain sufficient appropriate audit evidence and explanations to assess the carrying values of the investment in SU Industrial and its subsidiary. Any adjustment that would be required may have a consequential significant effect on net liabilities of the Group as at 31st December 2009 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, Smart Union (Qingyuan) Industrial Limited ("SU Qingyuan"), a former subsidiary, was deemed disposed of by the Group due to the loss of control on 14th October 2008. The directors are of the view that the investment in this former subsidiary of approximately HK$30,000,000 cannot be recovered and have made a full provision of impairment loss for this former subsidiary.

Due to the lack of complete books and records of SU Qingyuan, we have not been able to obtain sufficient appropriate audit evidence to assess the carrying value of the investment in SU Qingyuan at 31st December 2009. Any adjustment that would be required may have a consequential significant effect on the net liabilities of the Group as at 31st December 2009 and the 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 2009. The directors are of the view that the carrying values of these amounts are not recoverable and full provisions have been made for all the above receivable balances. In addition, there was a total amount due to SU Industrial and Perfect Design, of approximately HK$112,362,000 as at 31st December 2009.

Due to the lack of complete books and records of these companies, we have not been able to obtain sufficient appropriate audit evidence to determine whether the balances with the above companies are free from material misstatements. Any adjustment to the figure may have a consequential significant effect on the net liabilities of the Group as at 31st December 2009 and the 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 (In Liquidation), or to represent that all transactions entered into by this subsidiary for the year ended 31st December 2009 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 2009 and the 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 Corporation Limited, an associated company, of approximately HK$257,555,000 has been fully impaired and, accordingly, an impairment loss has been made as at 31st December 2009. However, due to the lack of sufficient financial information on the associated company, we have not been able to obtain sufficient appropriate audit evidence or to carry out alternative audit procedures that we considered necessary to assess the valuation of the investment in the associated company. Any adjustment to the investment in associated company would have a consequential effect on the net liabilities of the Group as at 31st December 2009 and the loss attributable to the equity holders for the year then ended.

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

Convertible bonds from an associated company

As explained in Note 16 to the consolidated financial statements, the Group held convertible bonds issued by China Mining Corporation Limited of HK$40,000,000. The directors consider the carrying value of these convertible bonds has been totally impaired and, accordingly, an impairment loss has been made as at 31st December 2009. 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 2009 and the loss attributable to the equity holders for the year then ended.

Going concern basis of accounting

As further explained in Note 2 to the consolidated financial statements, the operations of certain subsidiaries of the Group, which represent a substantial portion of the Group's business, have ceased. The provisional liquidators of the Company are currently undertaking a number of measures to reactivate the businesses of the Group via the establishment of 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, will, among other things, result in a full discharge of the Company's indebtedness.

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 20 and 24 to the consolidated financial statements, as at 31st December 2009, the Group had other secured borrowings and provision for financial guarantees to an unconsolidated subsidiary, including related accrued interest, of approximately HK$38,537,000 and HK$168,454,000 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 2009.

Contingent liabilities

As disclosed in Note 38 to the consolidated financial statements, no provision was made for the contingent liabilities in respect of the disposal of a property by a former subsidiary and the assumption of certain debts of another subsidiary by the Group, in the amounts of approximately HK$17,000,000 and HK$30,753,000 respectively. The directors, based on legal advice obtained, are of the view that such transactions are not enforceable or invalid and, accordingly, no provision in respect of these transactions has been made in respect of such contingent liabilities.

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

Disclaimer of opinion

Because of the significance of the matters described in the basis for disclaimer of opinion paragraphs, we 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 2009 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 2009, the Group's turnover was approximately HK$98.1 million (2008: HK$37.6 million), representing an increase of approximately 161% from the last financial year. As in last year, the Directors and the Provisional Liquidators of the Company have not been able to gain access to certain books and records of SU Industrial and SU Qingyuan, the financial statements of SU Industrial and its wholly-owned subsidiary, Perfect Design and Product Development Limited, have not been included in the consolidated financial statements of the Group. The results of SU Qingyuan, from the beginning of the year 2008, have also not been included in the consolidated income statement of the Group.

Affected by the provision for financial guarantees to an de-consolidated subsidiary for approximately HK$13.9 million, the loss attributable to shareholders of the Company amounted to approximately HK$17.4 million (2008: HK$846.8 million) for the year. Loss per share for the year ended 31st December 2009 was approximately HK$0.03 as compared with loss per share of approximately HK$1.74 for the preceding year.

LIQUIDITY, FINANCIAL RESOURCES AND FUNDING

Bank balances and cash as at 31st December 2009 was approximately HK$2.4 million (2008: HK$5.1 million). As at 31st December 2009, the total amount of banking facilities outstanding was approximately HK$168 million (2008: HK$156 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 in 2009 and 2008.

ASSETS AND LIABILITIES

As at 31st December 2009, the Group had total assets of approximately HK$50.9 million (2008: HK$10.8 million), total liabilities of approximately HK$383.9 million (2008: HK$326.3 million). The net liabilities of the Group as at 31st December 2009 were HK$333.0 million (2008: HK$315.6 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 United States dollar and Hong Kong dollar. As at 31st December 2009, the Group had insignificant exposure to foreign exchange risk as substantially all sales and purchases transactions, recognised assets and liabilities were primarily denominated in United States dollar.

DIVIDENDS

The Directors do not recommend any dividend for the year ended 31st December 2009 (2008: nil).

BUSINESS REVIEW

Appointment of Provisional Liquidators

Following creditors' action in the PRC which resulted in the major assets and production facilities of certain subsidiaries being subject to freezing orders, on 15th October 2008, the board of Directors (the "Board") presented petitions to the High Court for the appointment of provisional liquidators. At the request of the Company, trading in the shares of the Company (the "Share(s)") was suspended on the Stock Exchange on 15th October 2008 which remains suspended.

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

The High Court appointed Messrs. John Robert Lees and Mat Ng as the Provisional Liquidators and four of its subsidiaries on 16th October 2008 and two other subsidiaries on 17th October 2008.

On 9th November 2009, one of the employees of Dream Link presented petition to the High Court for the winding up of Dream Link as it could not meet demands for the repayment of outstanding debts. Upon the order made by the High Court on 13th January 2010, Dream Link was wound up under the provisions of the Companies Ordinance. Subsequently, Messrs. John Robert Lees and Mat Ng were appointed as the joint and several provisional liquidators of Dream Link by the Official Receiver on the same day.

Proposed Restructuring of the Group after the appointment of Provisional Liquidators

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

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

On 12th May 2009, an 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, with the approval of the High Court, Sino Front was set up by the Company as a wholly-owned subsidiary in June 2009 to continue the Group's trading and manufacturing of toys business.

Pursuant to the Exclusivity Agreement, the Investor has provided a loan of HK$5,000,000 to Sino Front, 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 summitted a resumption proposal to the Stock Exchange which embraces the Proposed Restructuring.

The Directors unanimously support the Proposed Restructuring.

Sino Front has been able to gradually establish and rebuild the Group's clientele despite its holding company being in provisional liquidation. Since the commencement of its operations, Sino Front has signed a master purchase agreement with a customer in Hong Kong in June 2009 pursuant to which certain minimum annual orders are guaranteed for a term of one year. The master purchase agreement has recently been extended for a further year to May 2011, with its annual order amount being increased by 50%. Furthermore, Sino Front has since January 2010 secured monthly orders from other customers. As the Group's manufacturing facilities are still under the custody of the PRC local authorities, and some of which were auctioned and sold in 2009 and 2010. Sino Front has, so far, been subcontracting the manufacturing of its products with OEM manufacturers in the PRC.

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

Pursuant to the order of High Court dated 5th January 2009, the hearing 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 hearing of the winding-up petitions to 1st June 2009 pursuant to the hearing on 6th April 2009. At the hearing on 1st June 2009, the High Court further adjourned the hearing of the winding-up petitions of the Company and the relevant subsidiaries to 30th November 2009. At the hearing on 30th November 2009, the High Court further adjourned the hearing of the winding-up petitions of the Company and the relevant subsidiaries to 31st May 2010 to allow time for the implementation of the proposed restructuring of the Group.

PROSPECTS

It is the Investor's intention to continue the Group's trading and 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. 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 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 has purchased or sold any of the Company's shares during the year ended 31st December 2009.

CODE ON CORPORATE GOVERNANCE PRACTICES

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 is no longer practicable.

REVIEW BY THE AUDIT COMMITTEE

Following the resignation of the Company's independent non-executive Directors in October 2008, up to the date of this 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 2009 have not been reviewed by the audit committee. The figures contained in the financial information set out in page 2 to 17 of this announcement of the Group's results for the year ended 31st December 2009 have been agreed by the Group's auditor, PricewaterhouseCoopers, to the amounts set out in the Group's consolidated financial statements for the year as approved by the Board. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by PricewaterhouseCoopers on the preliminary announcement.

GENERAL INFORMATION

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

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

Hong Kong, 23rd April 2010