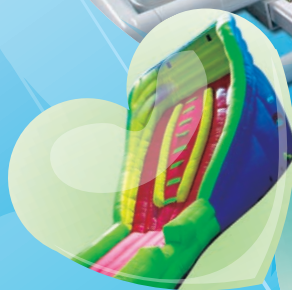
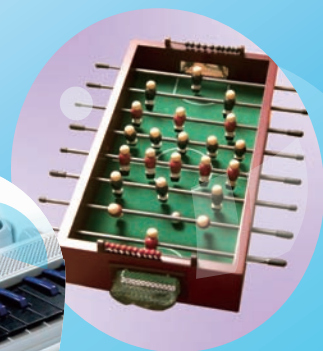


*Smart Union*

**Smart Union Group (Holdings) Limited**  
**合俊集團(控股)有限公司**

*(incorporated in the Cayman Islands with limited liability)*

(Stock Code : 2700)

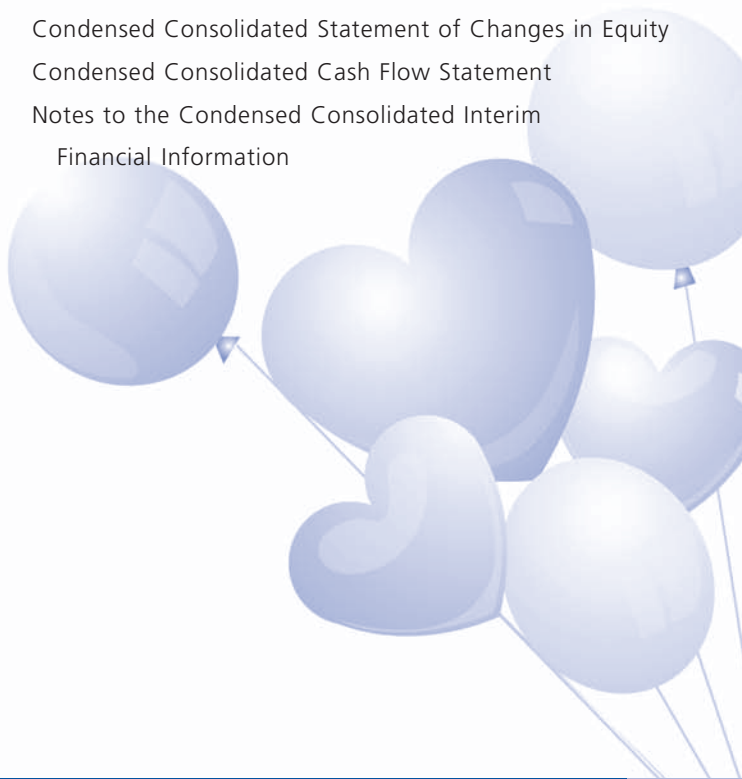


Interim Report

**08**

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## DIRECTORS

### Executive Directors:

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

### Independent Non-executive Directors:

Dr. Lui Sun Wing  
Mr. Li Chak Hung  
Mr. Tang Koon Yiu Thomas

## QUALIFIED ACCOUNTANT

Mr. Wong Wai Chuen

## COMPANY SECRETARY

Mr. Siu Wai Man

## SOLICITORS

Sidley Austin

## AUDITOR

PricewaterhouseCoopers

## PRINCIPAL BANKERS

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

## HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Rooms 217-222  
Advanced Technology Centre  
2 Choi Fat Street  
Sheung Shui  
New Territories  
Hong Kong

## REGISTERED OFFICE

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

**CAYMAN ISLANDS  
PRINCIPAL SHARE  
REGISTRAR AND  
TRANSFER OFFICE**

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

**STOCK CODE**

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

**WEBSITE**

[www.smartunion.com.hk](http://www.smartunion.com.hk)

**HONG KONG BRANCH SHARE  
REGISTRAR AND TRANSFER  
OFFICE**

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



## RESULTS AND BUSINESS REVIEW

The sales on the first six months in 2008 has a slight growth of approximately 2.9%, approximately HK\$387 million for the six months ended 30th June 2008 compared to HK\$376 million for the six months ended 30th June 2007. The Company suffered a loss before tax of approximately HK\$201 million for the six months ended 30th June 2008 (30th June 2007: approximately HK\$2.5 million) after taking account of the problems that the Company encountered in these six months.

In June 2008, our plant in Zhangmutau suffered damages on its inventory due to a flooding incident. It caused scrap of inventory material, interruption of our business and we spent almost one month to resume our normal production. This flooding incident also interrupted the stability of our material supply, cash flow planning and hence, efficiency of our operations. For the period ended 30th June 2008, inventories damaged due to flooding incident amounted to approximately HK\$67.5 million (2007: Nil).

The Company is going through consolidation of its customer base by putting its focus of resources, growth and business on two categories of customers: core customers base and strategic customer base. The Company has taken appropriate steps to evaluate the type of inventory and rationalize its inventory level so as to meet with the Company's strategy of moving to develop more licensed and new products. Also, during the six months ended 30th June 2008, the planning and production process were not operated smoothly and some of the inventories made were scrapped due to the quality do not meet customers' requirement, hence scrap material level increased during the period. For the period ended 30th June 2008, obsolete inventories written off amounted to approximately HK\$45.4 million (2007: Nil).

The cost of manufacturing has continued increasing through out the last six months. The margin on some of the spring items are lowered as the cost on plastic material increased by 20%, the minimum wage increased by 12% and the Renminbi inflated by 7%. The Company continued its strategy of reducing seasonality on capacity utilization, and engaged a larger business commitment in first two quarters of 2008. Also throughout the second quarter of 2008, a lot of resources on material and manpower are used for the development, debugging, testing and preparation relating to the supply of products of a large movie license products. Despite various efforts were put in cost saving and price negotiations with the customers, the Group was still suffered from a gross loss of approximately HK\$26.2 million (six month ended 30th June 2007: gross profit HK\$50.4 million) excluding the abovementioned written off of obsolete inventories and damaged inventories.

## PROSPECT

The cost of material and labour are getting more stable. Most of the new prices for the new products to the customers have been reflected and accepted in the second half of the year. As many manufacturers in Pearl River Delta have moved out or closed down, production capacity in China was hence reduced and it enables the manufacturers to be in an improved balanced position on the demand and supply pendulum with the OEM customers.

However the financial crisis in the United States of America will weaken consumer spending and the climate of the market environment will still be uncertain. The tight money market will cause bigger strain to the industries.

The Group believes the continuous growth of it relies on cost efficiency control and increase utilisation of the labour force in its Qing Yuan plant. Additional working capital is required to be committed to improve the Group's balance sheet and invite the support from the Group's business parties.

## LIQUIDITY, FINANCIAL RESOURCES

As at 30th June 2008, the Group had bank balances and cash of approximately HK\$13.2 million (31st December 2007: HK\$101.6 million) and pledged bank deposit of approximately HK\$3.2 million (31st December 2007: HK\$5.2 million) secured for banking facilities granted. As at 30th June 2008, the total amount of banking facilities granted to the Group was approximately HK\$410 million being secured by fixed deposits, available-for-sale financial assets and corporate guarantee given by the Group. The Group's gearing ratio, representing total bank borrowing less bank balances and cash (including pledged bank deposits) and divided by shareholders' equity was approximately 71.8% (31st December 2007: 41.9%).

As at 30th June 2008, the Group had total assets of approximately HK\$835.9 million (31st December 2007: HK\$800.6 million), total liabilities of approximately HK\$532.3 million (31st December 2007: HK\$482.4 million). The net assets of the Group decreased by approximately 4.6% to approximately HK\$303.6 million at the year ended (31st December 2007: HK\$318.2 million).

## CAPITAL STRUCTURE

The share capital of the Company comprises only ordinary shares. At 30th June 2008, the Company had in issue 460,490,000 ordinary shares (31st December 2007: 342,480,000 shares). During the period, 118,000,000 new shares have been issued to Mr. Tang Xue Jin, as part of the consideration for the acquisition of an associate as referred to in the announcement dated 26th October 2007. The Company had also issued 10,000 new shares due to exercising of share options by a grantee.

## DETAILS OF MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND ASSOCIATED COMPANIES

Pursuant to the sales and purchase agreement dated 17th October 2007, the Group has acquired 45.51% equity interest of China Mining Corporation Limited ("China Mining") in January 2008 (the "Acquisition"). The principal asset of China Mining is its 95% beneficial interests in the registered capital of Fujian Tiancheng Mining Corporation ("Tiancheng"). Tiancheng is principally engaged in the exploration and exploitation of precious metal and mineral resources in the PRC. Tiancheng currently holds the exploration right of the Da An Silver Mine in the Fujian Province of the PRC.

Other than as disclosed above, there were no material acquisitions and disposals of subsidiaries and associated companies during the six months ended 30th June 2008.

## CONTINGENT LIABILITIES

As at 30th June 2008, the Group had no material contingent liabilities (31st December 2007: Nil).

## CHARGES

Secured bank borrowings are secured by available-for-sales financial assets amounting to approximately HK\$5,179,000 as at 30th June 2008 (31st December 2007: HK\$2,342,000), corporate guarantees executed by the Company and pledged bank deposits amounting to approximately HK\$3,169,000 as at 30th June 2008 (31st December 2007: HK\$5,234,000).

## FOREIGN EXCHANGE EXPOSURE

The Group is exposed to foreign currency risk. Most of the Group's assets and liabilities, revenues and expenditures are denominated in Hong Kong dollars, Renminbi and US dollars. During the period, the Group has foreign currency structured forward contracts to hedge against the above mentioned foreign currency risk. The Group will monitor its foreign currency risk exposure closely and will consider hedging significant foreign currency risk exposure should the need arise.

## EMPLOYEES

As at 30th June 2008, the Group had a total of approximately 2,000 (31st December 2007: 2,000) full-time employees based in Hong Kong and the PRC. Remuneration packages of the Group's employees are generally structured by reference to market terms and individual qualifications. Share options have also been granted to certain directors and employees of the Company and its subsidiaries. The Group operates a defined contribution benefits scheme under the Mandatory Provident Fund Schemes Ordinance (Chapter 485 of the Laws of Hong Kong) as well as medical insurance for all its employees in Hong Kong. Also, the Group provides its employees in the PRC with welfare schemes covering various insurance and social benefits.

## INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 30th June 2008 (2007: Nil).

## DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES AND UNDERLYING SHARES

As at 30th June 2008, the interests of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of the Securities and Futures Ordinance ("SFO")), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") were as follows:



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

Name	Notes	Capacity	Number of issued ordinary shares held	Percentage of the issued share capital of the Company
Wu Kam Bun	1	Interest of Controlled corporations	179,288,000	38.93%
	2	Benefit owner	3,154,000	0.69%
			182,442,000	39.62%
Lai Chiu Tai	1	Interest of Controlled corporations	179,288,000	38.93%
	3	Benefit owner	300,000	0.07%
			179,588,000	39.00%

### Notes:

- The 179,288,000 Shares were owned by Smart Place Investments Limited, a company incorporated in the British Virgin Islands, the entire issued share capital of which is held as to 38.5% by Mr. Wu Kam Bun, 38.5% by Mr. Lai Chiu Tai, 10% by Mr. Ho Wai Wah, 10% by Mr. Lo Kwok Choi, and 3% by Mr. Wong Wai Chuen, all being executive Directors. Mr. Wu and Mr. Lai are deemed to be interested in the 179,288,000 Shares held by Smart Place Investments Limited by virtue of the SFO.
- The interests in 3,154,000 Shares represent 2,854,000 Shares and 300,000 Shares to be allotted and issued upon the exercise of the share options granted to Mr. Wu Kam Bun under the share option scheme of the Company.
- The interests in 300,000 Shares represent 300,000 Shares to be allotted and issued upon the exercise of the share options granted to Mr. Lai Chiu Tai under the share option scheme of the Company.

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

Name	Capacity	Number of shares in the option	Exercise period	Price of grant HK\$	Subscription price per share HK\$
Wu Kam Bun	Beneficial owner	300,000	14.5.2008 to 26.4.2017	1.00	0.78
Lai Chiu Tai	Beneficial owner	300,000	14.5.2008 to 26.4.2017	1.00	0.78
Lo Kwok Choi	Beneficial owner	500,000	14.5.2008 to 26.4.2017	1.00	0.78
Ho Wai Wah	Beneficial owner	500,000	14.5.2008 to 26.4.2017	1.00	0.78
Wong Wai Chuen	Beneficial owner	1,000,000	10.5.2008 to 26.4.2017	1.00	0.78
Tang Koon Yiu Thomas	Beneficial owner	80,000	16.5.2007 to 26.4.2017	1.00	0.78
Li Chak Hung	Beneficial owner	80,000	23.5.2007 to 26.4.2017	1.00	0.78
Law Yuet Yee	Beneficial owner	1,000,000	14.5.2008 to 26.4.2017	1.00	0.78
Ho Chi Kwong	Beneficial owner	650,000	14.5.2008 to 26.4.2017	1.00	0.78
Chu Wai Fan	Beneficial owner	200,000	14.5.2008 to 26.4.2017	1.00	0.78

Save as disclosed above, none of the Company's Directors, chief executive nor their respective associates had any interests or short positions in the shares and underlying shares of the Company or any of its associated corporations that was required to be recorded pursuant to section 352 of the SF0 as at 30th June 2008.

## SHARE OPTION SCHEME

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

The movement of share options during the period are as follow:

Name of grantee	Exercise price HK\$	Exercisable period	Exercised/ Granted during Lapsed during the 6 months the 6 months As at period ended period ended 1st January 30th June 30th June 2008 2008 2008			As at 30th June 2008
			As at 1st January 2008	30th June 2008	30th June 2008	
Wu Kam Bun	0.78	14.5.2008 to 26.4.2017	300,000	-	-	300,000
Lai Chiu Tai	0.78	14.5.2008 to 26.4.2017	300,000	-	-	300,000
Ho Wai Wah	0.78	14.5.2008 to 26.4.2017	500,000	-	-	500,000
Lo Kwok Choi	0.78	14.5.2008 to 26.4.2017	500,000	-	-	500,000
Wong Wai Chuen	0.78	10.5.2008 to 26.4.2017	1,000,000	-	-	1,000,000
Li Chak Hung	0.78	23.5.2007 to 26.4.2017	80,000	-	-	80,000
Tang Koon Yiu Thomas	0.78	16.5.2007 to 26.4.2017	80,000	-	-	80,000
Law Yuet Yee	0.78	14.5.2008 to 26.4.2017	1,000,000	-	-	1,000,000
Ho Chi Kwong	0.78	14.5.2008 to 26.4.2017	650,000	-	-	650,000
Chu Wai Fan	0.78	14.5.2008 to 26.4.2017	200,000	-	-	200,000
Other persons	0.78	14.5.2008 to 26.4.2017	5,170,000	-	(90,000)	5,080,000
			<u>9,780,000</u>	<u>-</u>	<u>(90,000)</u>	<u>9,690,000</u>

The fair value of the options determined at the date of grant using the Black-Scholes option pricing model (the “Model”) was HK\$0.33 per share.

The Company has used the Model to value the share option granted. The model is one of the commonly used models to estimate the fair value of an option. The value of an option varies with different variables of certain subjective assumptions as shown below. Expected volatility is based on annualized historical volatility of the closing price of the shares of the Company from 29th September 2006 to date of grant. Any change in the variables so adopted may materially affect the estimation of the fair value of an option.

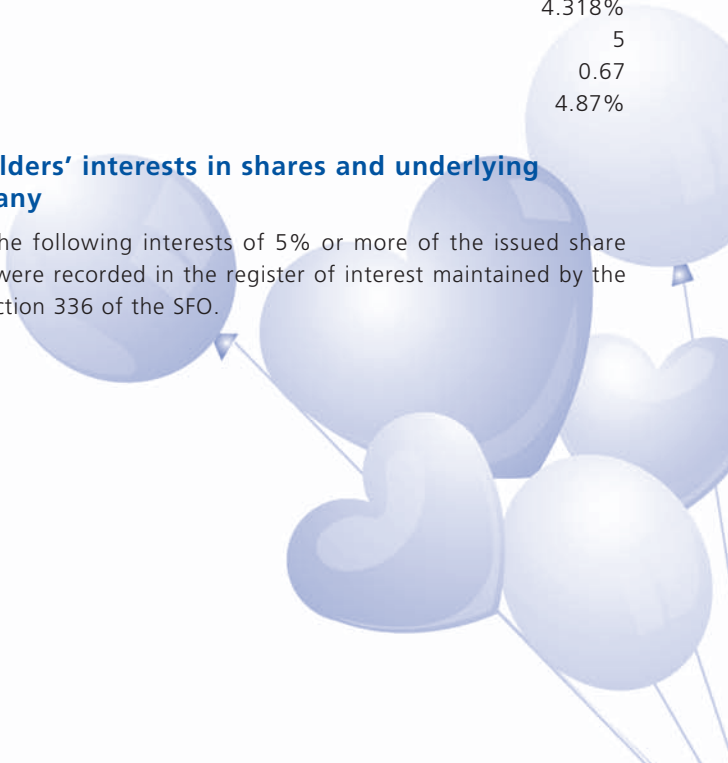
**Date of grant**

**27th April 2007**

Share price at grant date	HK\$0.78
Exercise price	HK\$0.78
Risk free interest rate	4.318%
Expected life (in years)	5
Volatility	0.67
Expected dividend yield	4.87%

**Substantial shareholders’ interests in shares and underlying shares of the Company**

As at 30th June 2008, the following interests of 5% or more of the issued share capital of the Company were recorded in the register of interest maintained by the Company pursuant to Section 336 of the SFO.



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

Name	Capacity	Number of Issued ordinary shares held	Percentage of the issued share capital of the Company
Ip Chor Wan (note 1)	Interest of spouse	182,442,000	39.62%
Chan Wai Ling (note 2)	Interest of spouse	179,588,000	39.00%
Smart Place Investments Limited	Beneficial owner	179,288,000	38.93%
Tang Xue Jin	Beneficial owner	118,000,000	25.62%
Miao Jun Lin (note 3)	Interest of spouse	43,000,000	9.34%
Zhong Sheng Jian (note 3)	Interest of corporation controlled	43,000,000	9.34%
Yanlord Holdings Pte Limited (note 3)	Interest of corporation controlled	40,000,000	8.69%
Yanlord Capital Pte Limited (note 3)	Beneficial owner	40,000,000	8.69%
Rosy Prospects Holdings Limited (note 4)	Person having a security interest in shares	168,000,000	36.48%
Chim Sandy Chun Kwan (note 4)	Person having a security interest in shares	168,000,000	36.48%

*Notes:*

1. Ms. Ip Chor Wan is the wife of Mr. Wu Karn Bun. She is deemed to be interested in all the shares in which Mr. Wu Kam Bun is interested by virtue of the SFO.
2. Ms. Chan Wai Ling is the wife to Mr. Lai Chiu Tai. She is deemed to be interested in all the shares in which Mr. Lai Chiu Tai is interested by virtue of SFO.
3. 40,000,000 Shares were beneficially held by Yanlord Capital Pte Limited, a company incorporated in Singapore, which is wholly controlled by Yanlord Holdings Pte Limited. Zhong Sheng Jian is the controlling shareholder of Yanlord Holdings Pte Limited and Miao Jun Lin is the spouse of Zhong Sheng Jian, accordingly, Zhong Sheng Jian and Miao Jun Lin are deemed to be interested in all 40,000,000 Shares.
4. Rosy Prospects Holdings Limited has a security interest in 168,000,000 Shares and it is wholly controlled by Chim Sandy Chun Kwan, accordingly, Chim Sandy Chun Kwan is deemed to be interested in all 168,000,000 Shares.

Other than as disclosed above, the Company has not been notified of any other interests or short position in the issued share capital of the Company as at 30th June 2008.

## **PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES**

During the six months ended 30th June 2008, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

## **CORPORATE GOVERNANCE**

The Company is committed to maintaining a high standard of corporate governance with a view to enhancing the management of the Company as well as preserving the interests of the shareholders as a whole. The Board is of the view that the Company has met the code provisions set out in the Code on Corporate Governance Practices (the "CG Code") contained in Appendix 14 of the Listing Rules.

## MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS

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

Having made specific enquiry of all directors, the Directors have confirmed that they have complied with the Securities Dealing Code during the period under review.

## AUDIT COMMITTEE

The Audit Committee has reviewed the Group's unaudited interim results for the six months ended 30th June 2008. The Audit Committee comprises all of the three independent non-executive directors, namely, Dr. Lui Sun Wing, Mr. Li Chak Hung and Mr. Tang Koon Yiu Thomas.

On behalf of the Board

**Wu Kam Bun**

*Chairman*

Hong Kong, 24th September 2008



# Condensed Consolidated Income Statement

Smart Union

For the six months ended 30th June 2008

	Notes	Six months ended 30th June	
		2008 HK\$'000 (Unaudited)	2007 HK\$'000 (Unaudited)
Sales	4	386,809	375,793
Cost of sales	6	(525,936)	(325,397)
<b>Gross (loss)/profit</b>		<b>(139,127)</b>	50,396
Other income and gains/(losses), net	7	2,863	586
Administrative expenses	6	(55,551)	(46,484)
<b>Operating (loss)/profit</b>		<b>(191,815)</b>	4,498
Finance costs	8	(8,694)	(6,956)
Share of loss of associate		(479)	–
<b>Loss before tax</b>		<b>(200,988)</b>	(2,458)
Income tax credit/(expense)	9	427	(345)
<b>Loss for the period</b>		<b>(200,561)</b>	(2,803)
<b>Attributable to:</b>			
Equity holders of the Company		(200,133)	(3,157)
Minority interest		(428)	354
		<b>(200,561)</b>	(2,803)
<b>Loss per share for loss attributable to the equity holders of the Company during the period (HK\$ per share)</b>			
– basic	11	(0.44)	(0.01)
– diluted	11	N/A	N/A
<b>Dividend</b>	10	–	–



At 30th June 2008

	Notes	<b>30th June 2008 HK\$'000 (Unaudited)</b>	31st December 2007 HK\$'000 (Audited)
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment		<b>80,084</b>	66,408
Land use rights		<b>4,867</b>	4,849
Intangible assets		<b>4,673</b>	2,967
Interest in an associate		<b>257,076</b>	–
Available-for-sale financial assets		<b>5,179</b>	2,342
Prepayments, deposits and other receivables		<b>2,877</b>	11,261
Deferred income tax assets		<b>749</b>	749
		<b>355,505</b>	88,576
<b>Current assets</b>			
Inventories		<b>301,649</b>	379,440
Trade receivables	12	<b>103,215</b>	165,438
Prepayments, deposits and other receivables		<b>12,888</b>	19,022
Derivative financial instruments		–	213
Convertible bonds		<b>43,706</b>	40,000
Current income tax recoverable		<b>2,551</b>	1,046
Pledged bank deposits		<b>3,169</b>	5,234
Bank balances and cash		<b>13,207</b>	101,584
		<b>480,385</b>	711,977
<b>Total assets</b>		<b>835,890</b>	800,553

At 30th June 2008

	Notes	<b>30th June 2008 HK\$'000 (Unaudited)</b>	31st December 2007 HK\$'000 (Audited)
<b>EQUITY</b>			
<b>Capital and reserves attributable to the Company's equity holders</b>			
Share capital	15	46,049	34,248
Share premium		350,607	177,137
Other reserves		30,004	29,293
(Accumulated deficit)/retained earnings		<b>(124,021)</b>	76,112
		<b>302,639</b>	316,790
<b>Minority interest</b>		<b>942</b>	1,370
<b>Total equity</b>		<b>303,581</b>	318,160
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Borrowings	14	1,020	201
Provision for long service payment		1,135	1,104
		<b>2,155</b>	1,305
<b>Current liabilities</b>			
Trade payables	13	218,252	195,631
Other payables and accruals		76,254	43,333
Borrowings	14	233,447	239,768
Derivative financial instruments		2,201	2,356
		<b>530,154</b>	481,088
<b>Total liabilities</b>		<b>532,309</b>	482,393
<b>Total equity and liabilities</b>		<b>835,890</b>	800,553
<b>Net current (liabilities)/assets</b>		<b>(49,769)</b>	230,889
<b>Total assets less current liabilities</b>		<b>305,736</b>	319,465

## Condensed Consolidated Statement of Changes in Equity

For the six months ended 30th June 2008

	Attributable to the equity holders of the Company							Total equity
	Share capital	Share premium	Share equity reserves	Other reserves	Retained earnings/ (accumulated deficit)	Total	Minority interest	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Balance at 1st January 2007	24,000	30,742	-	25,830	85,832	166,404	607	167,011
Currency translation differences	-	-	-	1,161	-	1,161	-	1,161
Revaluation of available-for-sale financial assets	-	-	-	205	-	205	-	205
Loss for the period	-	-	-	-	(3,157)	(3,157)	354	(2,803)
Total recognised income/(loss) for the period	-	-	-	1,366	(3,157)	(1,791)	354	(1,437)
Issue of shares	3,240	39,852	-	-	-	43,092	-	43,092
Share-based compensation	-	-	297	-	-	297	-	297
Issue of shares upon exercise of shares options	8	81	(26)	-	-	63	-	63
Dividend relating to 2006	-	-	-	-	(14,400)	(14,400)	-	(14,400)
	3,248	39,933	271	-	(14,400)	29,052	-	29,052
Balance at 30th June 2007	27,248	70,675	271	27,196	68,275	193,665	961	194,626

# Condensed Consolidated Statement of Changes in Equity

Smart Union

For the six months ended 30th June 2008

	Attributable to the equity holders of the Company							Total equity
	Share capital	Share premium	Share equity reserves	Other reserves	Retained earnings/ (accumulated deficit)	Total	Minority interest	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Balance at 1st January 2008	34,248	177,137	1,521	27,772	76,112	316,790	1,370	318,160
Currency translation differences	-	-	-	65	-	65	-	65
Revaluation of available-for-sale financial assets	-	-	-	(166)	-	(166)	-	(166)
Loss for the period	-	-	-	-	(200,133)	(200,133)	(428)	(200,561)
Total recognised loss for the period	-	-	-	(101)	(200,133)	(200,234)	(428)	(200,662)
Issue of shares	11,800	173,460	-	-	-	185,260	-	185,260
Share based compensation	-	-	815	-	-	815	-	815
Issue of shares upon exercise of shares options	1	10	(3)	-	-	8	-	8
	11,801	173,470	812	-	-	186,083	-	186,083
Balance at 30th June 2008	46,049	350,607	2,333	27,671	(124,021)	302,639	942	303,581

## Condensed Consolidated Cash Flow Statement

For the six months ended 30th June 2008

	Six months ended 30th June	
	2008 HK\$'000 (Unaudited)	2007 HK\$'000 (Unaudited)
Net cash flows from operating activities	2,298	(128,474)
Net cash flows from investing activities	(21,053)	(23,492)
Net cash flows from financing activities	(66,459)	140,623
Net decrease in cash and cash equivalents	(85,214)	(11,343)
Cash and cash equivalents at beginning of the period	93,753	56,738
Exchange gains on cash and cash equivalents	167	106
Cash and cash equivalents at the end of the period	8,706	45,501
Analysis of the balances of cash and cash equivalents		
Bank balances and cash	13,207	55,329
Bank overdrafts	(4,501)	(9,828)
	8,706	45,501

For the six months ended 30th June 2008

## 1. GENERAL INFORMATION

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

This condensed interim consolidated financial information is presented in Hong Kong dollars, unless otherwise stated. This condensed consolidated financial information has been approved by the Board of Directors on 24th September 2008.

## 2. BASIS OF PREPARATION

This condensed interim consolidated financial information for the period ended 30th June 2008 have been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and should be read in conjunction with the audited financial statements for the year ended 31st December 2007, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS").

In preparing this condensed consolidated interim financial information, the Directors have taken into account all information presently available and expect that the Group will be able to obtain adequate financial resources to support the Group to continue in operational existence for the foreseeable future. Under these circumstances, the Directors consider that it is proper to prepare this condensed consolidated interim financial information on a going concern basis on the basis that continue support from our existing banks can be maintained notwithstanding that at 30th June 2008, the Group's current liabilities exceeded its current assets by approximately HK\$49,769,000.

For the six months ended 30th June 2008

### 3. PRINCIPAL ACCOUNTING POLICIES

The accounting policies adopted in the preparation of this condensed consolidated interim financial information are consistent with those of the annual financial statements for the year ended 31st December 2007, except that the following new interpretations are mandatory for the financial year beginning 1st January 2008:

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 interpretations did not result in any significant impact to the Group.

The following new standards, amendments to standards and interpretations have been issued but are not effective for the financial year beginning 1st January 2008 and have not been early adopted.

HKAS 1 (Revised)	Presentation of Financial Statements
HKAS 23 (Revised)	Borrowing Costs
HKAS 27 (Revised)	Consolidated and Separate Financial Statements
HKAS 32 and HKAS 1 (Amendment)	Puttable Financial Instruments and Obligations Arising on Liquidation
HKFRS 2 (Amendment)	Share-based Payment
HKFRS 3 (Revised)	Business Combinations
HKFRS 8	Operating Segments
HK(IFRIC) – Int 13	Customer Loyalty Programmes
HK(IFRIC) – Int 15	Agreements for the Construction of Real Estate
HK(IFRIC) – Int 16	Hedges of a Net Investment in a Foreign Operation

The effect that the adoption of HKFRS 3 (Revised) and HKAS 27 (Revised) will have on the results and financial position of the Group will depend on the incidence and timing of business combinations 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.

For the six months ended 30th June 2008

#### 4. TURNOVER

	Six months ended 30th June	
	2008 HK\$'000 (Unaudited)	2007 HK\$'000 (Unaudited)
Sales of goods	<b>386,809</b>	375,793

#### 5. SEGMENT INFORMATION

##### Primary reporting format – business segments

The products and services provided by the Group are substantially 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 period ended 30th June 2008.

##### Secondary reporting format – geographical segments

The Group primarily operates in Hong Kong and the People's Republic of China (the "PRC"). Sales are mainly made to customers in America and Europe.

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

	Six months ended 30th June	
	2008 HK\$'000 (Unaudited)	2007 HK\$'000 (Unaudited)
America	<b>284,825</b>	276,570
Europe	<b>49,103</b>	72,852
Others	<b>52,881</b>	26,371
	<b>386,809</b>	375,793

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



For the six months ended 30th June 2008

## 5. SEGMENT INFORMATION (Continued)

### Secondary reporting format – geographical segments (Continued)

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

	<b>30th June 2008 HK\$'000 (Unaudited)</b>	31st December 2007 HK\$'000 (Audited)
Hong Kong	<b>181,237</b>	264,356
The PRC	<b>654,653</b>	536,197
	<b>835,890</b>	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:

	<b>Six months ended 30th June 2008 HK\$'000 (Unaudited)</b>	2007 HK\$'000 (Unaudited)
Hong Kong	<b>2,115</b>	4,499
The PRC	<b>275,624</b>	17,241
	<b>277,739</b>	21,740

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

For the six months ended 30th June 2008

**6. OPERATING (LOSS)/PROFIT**

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

	<b>Six months ended 30th June</b>	
	<b>2008</b> <i>HK\$'000</i> <b>(Unaudited)</b>	2007 <i>HK\$'000</i> (Unaudited)
Cost of inventories ( <i>Note c</i> )	<b>394,498</b>	321,299
Depreciation of property, plant and equipment	<b>4,955</b>	4,219
Amortisation of land use rights	<b>33</b>	48
Amortisation of intangible assets	<b>365</b>	346
Write-off of obsolete inventories ( <i>Note a</i> )	<b>45,381</b>	–
Write-off of damaged inventories on flood ( <i>Note b</i> )	<b>67,512</b>	–

*Note (a)* The Company is going through consolidation of our customer base by focusing our resources, growth and business onto two categories of customers: core customers base and strategic customer base. The Company has taken appropriate steps to evaluate the type of inventory and rationalize its inventory level so as to meet with the Company's strategy of moving to develop more licensed and new products. Also, during the six months ended 30th June 2008, the planning and production process were not operated smoothly and some of the inventories made were scrapped due to the quality do not meet customers' requirement, hence scrap material level increased during the period. Obsolete inventories were hence written off.

*Note (b)* In June 2008, a production plant in Zhangmutau suffered damages on its inventory due to a flooding incident. It caused scrap of damaged inventory material.

*Note (c)* The cost of manufacturing has continued increasing through out the last six months. The margin on some of the spring items are lowered as the cost on plastic material increased by 20%, the minimum wage increased by 12% and the Renminbi inflated by 7%. The Company continued its strategy of reducing seasonality on capacity utilization and engaged a larger business commitment in these first two quarters of 2008. Also throughout the second quarter of 2008, a lot of resources on material and manpower are used for the development, debugging, testing and preparation relating to the supply of products of a large movie license products. Despite various efforts were put in cost saving and price negotiations with the customers, the Group was still suffered from a gross loss of approximately HK\$26.2 million (six months ended 30th June 2007: gross profit HK\$50.4 million) excluding the written off of obsolete inventories and damaged inventories.

For the six months ended 30th June 2008

**7. OTHER INCOME AND GAINS/(LOSSES), NET**

	<b>Six months ended 30th June</b>	
	<b>2008</b> <i>HK\$'000</i> <b>(Unaudited)</b>	<b>2007</b> <i>HK\$'000</i> <b>(Unaudited)</b>
Sales of scrap materials	1,532	2,570
Unrealised loss on derivative financial instruments	<b>(58)</b>	(3,225)
Realised (loss)/gain on derivative financial instruments	<b>(2,501)</b>	710
Fair value gain on convertible bonds	<b>3,706</b>	–
Interest income	<b>61</b>	333
Other handling income	<b>123</b>	198
	<b>2,863</b>	586

**8. FINANCE COSTS**

	<b>Six months ended 30th June</b>	
	<b>2008</b> <i>HK\$'000</i> <b>(Unaudited)</b>	<b>2007</b> <i>HK\$'000</i> <b>(Unaudited)</b>
Interest expense		
– Bank borrowings and overdrafts	<b>7,024</b>	4,795
– Factoring facilities	<b>1,620</b>	2,107
– Finance lease liabilities	<b>50</b>	54
	<b>8,694</b>	6,956

For the six months ended 30th June 2008

**9. INCOME TAX (CREDIT)/EXPENSE**

	<b>Six months ended 30th June</b>	
	<b>2008</b> <b>HK\$'000</b> <b>(Unaudited)</b>	2007 <b>HK\$'000</b> (Unaudited)
Current taxation		
– Hong Kong profits tax	–	23
– PRC enterprise income tax	–	277
– (Over)/under provision in prior years	<b>(427)</b>	45
	<b>(427)</b>	345

Hong Kong profits tax has been provided at the rate of 16.5% (2007: 17.5%) on the estimated assessable profit during the period. Taxation on overseas profits has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the countries in which the Group operates.

**10. DIVIDENDS**

The Board of Directors does not recommend the payment of an interim dividend for the six months ended 30th June 2008 (2007: Nil).

**11. LOSS PER SHARE**

Basic loss per share is calculated by dividing the loss attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the period.

	<b>Six months ended 30th June</b>	
	<b>2008</b> <b>(Unaudited)</b>	2007 (Unaudited)
Loss attributable to equity holder of the Company (HK\$'000)	<b>200,133</b>	3,157
Weighted average number of ordinary shares in issue (Shares in thousands)	<b>452,053</b>	241,083
Basic loss per share (HK\$ per share)	<b>0.44</b>	0.01

For the six months ended 30th June 2008

## 11. LOSS PER SHARE *(Continued)*

Diluted loss per share for the six months ended 30th June 2008 and 30th June 2007 has not been disclosed as the share options outstanding during these periods had anti-dilutive effects on the basic loss per share for these periods.

## 12. TRADE RECEIVABLES

	<b>30th June 2008 HK\$'000 (Unaudited)</b>	31st December 2007 HK\$'000 (Audited)
Trade receivables	<b>104,222</b>	166,445
Less: provision for impairment of receivables	<b>(1,007)</b>	(1,007)
	<b>103,215</b>	165,438

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

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

The aging analysis of trade receivables as at 30th June 2008 and 31st December 2007 are as follows:

	<b>30th June 2008 HK\$'000 (Unaudited)</b>	31st December 2007 HK\$'000 (Audited)
0 – 30 days	<b>78,254</b>	112,063
31 – 60 days	<b>9,841</b>	19,890
61 – 90 days	<b>1,573</b>	15,201
91 days – 1 year	<b>11,204</b>	17,226
1 – 2 years	<b>3,350</b>	2,065
	<b>104,222</b>	166,445

For the six months ended 30th June 2008

**12. TRADE RECEIVABLES** *(Continued)*

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.

**13. TRADE PAYABLES**

The ageing analysis of trade payables as at 30th June 2008 and 31st December 2007 are as follows:

	<b>30th June 2008 HK\$'000 (Unaudited)</b>	31st December 2007 HK\$'000 (Audited)
0 – 30 days	<b>114,933</b>	79,381
31 – 60 days	<b>28,300</b>	39,323
61 – 90 days	<b>22,250</b>	40,624
91 days – 1 year	<b>51,200</b>	28,420
1 – 2 years	<b>1,563</b>	4,186
Over 2 years	<b>6</b>	3,697
	<b>218,252</b>	195,631

The carrying amounts of trade payables approximate their fair values.

For the six months ended 30th June 2008

**14. BORROWINGS**

	<b>30th June 2008 HK\$'000 (Unaudited)</b>	31st December 2007 HK\$'000 (Audited)
<b>Non-current</b>		
Finance lease liabilities	<b>1,020</b>	201
<b>Current</b>		
Bank overdrafts	<b>4,501</b>	7,831
Short-term bank loans, secured	<b>35,000</b>	35,000
Trust receipt bank loans, secured	<b>141,473</b>	136,197
Current portion of non-current bank borrowings, secured	<b>900</b>	2,650
Factoring and accounts receivable financing facilities utilised	<b>50,281</b>	57,929
Finance lease liabilities	<b>1,292</b>	161
	<b>233,447</b>	239,768
	<b>234,467</b>	239,969

Secured bank borrowings are secure by available-for-sale financial assets amounting to HK\$5,179,000 as at 30th June 2008 (31st December 2007: HK\$2,342,000), corporate guarantees executed by the Company and pledged bank deposits, amounting to HK\$3,169,000 as at 30th June 2008 (31st December 2007: HK\$5,234,000).

The carrying amounts of borrowings approximate their fair values.

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

For the six months ended 30th June 2008

**15. SHARE CAPITAL**

	<b>Number of shares</b>	<b>Nominal value HK\$'000</b>
Authorised – ordinary shares of HK\$0.1 each As at 30th June 2008 and 31st December 2007	<u>2,000,000,000</u>	<u>200,000</u>
Issued and fully paid – ordinary shares of HK\$0.1 each As at 1st January 2008	342,480,000	34,248
Issue of shares for acquisition of an associate (a)	118,000,000	11,800
Issue of shares upon exercise of share options (b)	<u>10,000</u>	<u>1</u>
As at 30th June 2008	<u>460,490,000</u>	<u>46,049</u>

*Notes:*

- (a) On 14th January 2008, 118,000,000 new shares were allotted to Mr Tang Xue Jin as part of the consideration for the acquisition of an associate as referred to in the announcement dated 26th October 2007.
- (b) On 27th April 2007, the Company has granted 10,100,000 share options with an exercise price of HK\$0.78 to selected persons under the Company's share option scheme. 10,000 share options were exercised during the period.



For the six months ended 30th June 2008

**16. COMMITMENTS****(a) Capital commitments**

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

	<b>30th June 2008 HK\$'000 (Unaudited)</b>	31st December 2007 HK\$'000 (Audited)
Property, plant and equipment – contracted but not provided for	<b>2,632</b>	1,780
Investment in China Mining Corporation Limited – contracted but not provided for	–	261,355

**(b) Commitments under operating leases**

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

	<b>30th June 2008 HK\$'000 (Unaudited)</b>	31st December 2007 HK\$'000 (Audited)
Not later than one year	<b>1,622</b>	1,911
Later than 1 year and not later than 5 years	<b>954</b>	1,463
	<b>2,576</b>	3,374

For the six months ended 30th June 2008

**17. RELATED PARTY TRANSACTIONS****Key management compensation**

	<b>Six months ended 30th June</b>	
	<b>2008</b>	2007
	<b>HK\$'000</b>	HK\$'000
	<b>(Unaudited)</b>	(Unaudited)
Salary and other short-term employee benefits	<b>3,207</b>	3,434
Pension costs – defined contribution plans	<b>30</b>	30
Share-based compensation	<b>210</b>	52
	<b>3,447</b>	3,516

**18. SEASONALITY**

The Group's sales are subject to seasonal fluctuations of traditional toy industry, with peak demand in the third and fourth quarters of the year. This is due to the holiday periods. The Group has changed the landscape of seasonality factor in traditional toy industry by offering value-added sports and spring items during low season which can maximise production capacity via utilising idle capacity during low season.

**19. SUBSEQUENT EVENTS**

On 29th July 2008, Smart Union (Qingyuan) Industrial Limited, a wholly owned subsidiary of the Company, entered into an agreement (the "Disposal Agreement") with Top Bright Investments Limited, an independent third party, in relation of the disposal of a PRC property of net book value of approximately HK\$54 million as at 30th June 2008 for a consideration of HK\$27 million.

On 29th July 2008, Smart Union Investments Limited, a wholly owned subsidiary of the Company, entered into an agreement with Top Pride Limited, an independent third party, in relation to the acquisition of the entire issue share capital of Goldbush Design Limited ("Goldbush") for a consideration of HK\$10 million, which shall be applied to set off against part of the consideration on the Disposal Agreement. Goldbush is the legal and beneficial owner of the patents for two interactive toy play sets.

For the six months ended 30th June 2008

## 19. SUBSEQUENT EVENTS *(Continued)*

On 29th July 2008, the Company entered into a subscription agreement with Sky Metro Limited ("Sky Metro"), an independent third party, such that Sky Metro has conditionally agreed to subscribe for 92,096,000 new shares of the Company at the subscription price of HK\$0.293 per share (the "Subscription"). The Subscription was completed in September 2008. The net proceeds of the Subscription will be used by the Group to strengthen its financial position.