SMART UNION GROUP (HOLDINGS) LIMITED

(Provisional Liquidators Appointed)

合俊集團(控股)有限公司

(已委任臨時清盤人)

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2700)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30TH JUNE 2010

The board of directors (the "Board") of Smart Union Group (Holdings) Limited (Provisional Liquidators Appointed) (the "Company") is pleased to announce the unaudited consolidated interim results of the Company and its subsidiaries (the "Group") for the six months ended 30th June 2010 together with comparative figures for the corresponding period in 2009. The results are stated as follows:

Condensed Consolidated Income Statement
For the six months ended 30th June 2010

	Notes	**Six months ended 30th June 2010** *HK$'000* **(Unaudited)**	Six months ended 30th June 2009 *HK$'000* (Unaudited)
Sales	*4*	**93,559**	9,240
Cost of sales	*6*	**(88,847)**	(8,694)
Gross profit		**4,712**	546
Other income	*7*	**2,315**	400
Administrative expenses		**(4,578)**	(5,685)
Selling expenses		**(83)**	(409)
Reversal for legal claims	*13*	**5,368**	–
Operating profit/(loss)	*6*	**7,734**	(5,148)
Finance costs	*8*	**(11,399)**	(5,046)
Loss before tax		**(3,665)**	(10,194)
Income tax expense	*9*	**(485)**	–
Loss for the period		**(4,150)**	(10,194)

	Notes	**Six months ended 30th June 2010** *HK$'000* **(Unaudited)**	Six months ended 30th June 2009 *HK$'000* (Unaudited)
Attributable to:			
Equity holders of the Company		**(4,150)**	(10,194)
Non-controlling interest		**–**	–
		(4,150)	(10,194)
Loss per share for loss attributable to the equity holders of the Company during the period (HK$ per share)			
– basic and diluted *(HK$)*	*11*	**0.01**	0.02
Dividend	*10*	**–**	–

Condensed Consolidated Statement of Comprehensive Income
For the six months ended 30th June 2010

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

Condensed Consolidated Statement of Financial Position
As at 30th June 2010

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

	Notes	**30th June 2010** *HK$'000* **(Unaudited)**	31st December 2009 *HK$'000* (Audited)
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital		**55,259**	55,259
Share premium		**368,381**	368,381
Other reserves		**30,553**	30,553
Accumulated losses		**(791,302)**	(787,152)
		(337,109)	(332,959)
Non-controlling interest		**–**	–
Total equity		**(337,109)**	(332,959)
LIABILITIES			
Non-current liabilities			
Borrowings		**35,000**	5,000
Provision for long service payment		**–**	–
		35,000	5,000
Current liabilities			
Trade payables	*13*	**64,238**	40,778
Other payables and accruals	*13*	**193,139**	187,250
Amounts due to unconsolidated subsidiaries		**112,362**	112,362
Borrowings		**37,936**	37,936
Income tax payable		**1,085**	600
Deferred income tax liabilities		**16**	16
		408,776	378,942
Total liabilities		**443,776**	383,942
Total equity and liabilities		**106,667**	50,983
Net current liabilities		**(302,125)**	(327,969)
Total assets less current liabilities		**(302,109)**	(327,959)

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 3rd May 2010, the Stock Exchange informed the Company that it has decided to place the Company in the second stage of delisting procedures with effect from 3rd May 2010 pursuant to Practice Note 17 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

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

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

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

2. Winding-up petitions, appointment of provisional liquidators and group restructuring

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

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

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

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

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

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

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

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

(a) a restructuring of the share capital of the Company (the "Capital Restructuring") that involves, inter alia, reduction of the nominal value of the existing shares of the Company from HK$0.10 to HK$0.01 (the "Capital Reduction"), cancellation of existing un-issued share capital of the Company after the Capital Reduction, and increase in the authorised share capital of the Company;

(b) proposed subscription of new ordinary shares of the Company (the "Subscription Shares") with a par value of HK$0.01 each ("New Shares") to be issued by the Company following the Capital Restructuring by the Investor for a sum of HK$170 million; and

(c) all the creditors of the Company (the "Creditors") will be compromised and discharged by the arrangements contemplated under the scheme of arrangement to be made between the Company and its creditors pursuant to section 166 of the Hong Kong Companies Ordinance for a cash payment of up to HK$50 million, together with New Shares for the Creditors (the "Creditors Shares") representing approximately 5% of the issued share capital of the Company as enlarged by the issue of the Subscription Shares and the Creditors Shares to be issued and allotted as fully paid to the Creditors.

The Directors unanimously support the Proposed Restructuring.

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

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

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

3. Summary of significant accounting policies

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

3.1 Basis of preparation

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

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

3.2 Subsidiaries not consolidated

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

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

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

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

3.3 *Accounting policies*

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

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

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

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

1 Effective for the Group for annual period beginning 1st January 2010
2 Effective for the Group for annual period on or after 1st July 2009

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

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

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

HKFRS 9	Financial Instruments[3]
HKAS 1 (Amendment)	Limited exemption from comparative HKFRS 7 disclosures for first-time adopters[2]
HKAS 24 (Revised)	Related party disclosures[1]
HKAS 32 (Amendment)	Classification of rights issues[4]
HK (IFRIC) 14 (Amendment)	Prepayments of a minimum funding rquirement[1]
HK (IFRIC) – Int 19	Extinguishing financial liabilities with equity instruments[2]
HKFRSs	Third improvements issued in May 2010[5]

1 Effective for the Group for annual period beginning 1st January 2011
2 Effective for transfer of assets received on or after 1st July 2010
3 Effective for the Group for annual period beginning 1st January 2013
4 Effective for the Group for annual period beginning 1st February 2010
5 All improvements are effective in the financial year of 2011.

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

4. Turnover

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

5. Segment information

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

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

The Group primarily operates in Hong Kong and the PRC.

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

	Six months ended 30th June	
	2010	2009
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Hong Kong	**93,559**	8,628
Others	**–**	612
	93,559	9,240

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

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

	30th June	31st December
	2010	2009
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Hong Kong	**98,081**	50,921
The PRC	**8,586**	62
	106,667	50,983

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

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

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

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

6. Operating profit/(loss)

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

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

7. Other income

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

Note:

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

The restructuring costs are non-refundable under all circumstances.

8. Finance costs

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

9. Income tax expense

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

10. Dividend

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

11. Loss per share

Basic

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

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

There is no dilutive effect on the loss per share.

12. Trade receivables

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

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

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

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

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

13. Trade and other payables and accruals

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

Note:

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

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

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

The carrying amounts of trade payables approximate their fair values.

MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS

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

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

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

LIQUIDITY, FINANCIAL RESOURCES AND FUNDING

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

ASSETS AND LIABILITIES

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

FOREIGN EXCHANGE EXPOSURE

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

INTERIM DIVIDEND

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

BUSINESS REVIEW

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

On 27th May 2010, the Investor, Mr. Yang, Mr. Ting, the Company and the Provisional Liquidators entered into a supplemental agreement to extend the exclusivity period under the Exclusivity Agreement to 31st December 2010. The exclusivity period may be further extended if the parties to the Exclusivity Agreement agree in writing.

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

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

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

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

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

PROSPECTS

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

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

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

PURCHASE, SALE OR REDEMPTION OF SECURITIES

To the best knowledge of the Board, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares during the six months ended 30th June 2010.

REVIEW OF INTERIM RESULTS

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

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

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

THE AUDIT COMMITTEE

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

GENERAL INFORMATION

As at the date of this announcement, the Board comprises 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, 30th August 2010