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 ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2010

RESULTS

The board of directors (the "Directors") and the provisional liquidators 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 31 December 2010 with comparative figures for the previous year, as follows:

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2010

	Note	2010 HK$'000	2009 HK$'000
Revenue	4	**362,026**	98,140
Cost of sales	7	**(324,333)**	(93,384)
Gross profit		**37,693**	4,756
Other income	6	**5,913**	11,251
Other gains/(losses)	6	**324**	(1,575)
Selling expenses	7	**(1,430)**	–
Administrative expenses	7	**(10,658)**	(15,436)
Provision for financial guarantees to an unconsolidated subsidiary		**(17,373)**	(13,917)
Write back of provision for legal claims		**5,368**	204
Write back of provision for amount due from a former subsidiary		**11,066**	–
Operating profit/(loss)		**30,903**	(14,717)
Finance costs, net	8	**(3,597)**	(2,048)
Profit/(loss) before income tax		**27,306**	(16,765)
Income tax expense	9	**(5,373)**	(600)
Profit/(loss) for the year attributable to equity holders of the Company		**21,933**	(17,365)
Earnings/(loss) per share for profit/(loss) attributable to the equity holders of the Company during the year			
– Basic and diluted (HK$)	10	**0.040**	(0.031)
Dividends	11	**–**	–

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2010

	2010	2009
	HK$'000	*HK$'000*
Profit/(loss) for the year	**21,933**	(17,365)
Other comprehensive income	**–**	–
Total comprehensive income/(loss) for the year attributable to equity holders of the Company	**21,933**	(17,365)

CONSOLIDATED BALANCE SHEET
As at 31 December 2010

	Note	2010 HK$'000	2009 HK$'000
ASSETS			
Non-current assets			
Property, plant and equipment		**3,165**	10
Intangible assets		**–**	–
Investments in unconsolidated subsidiaries		**–**	–
Investment in a former subsidiary		**–**	–
Investment in an associated company		**–**	–
		3,165	10
Current assets			
Inventories		**2,675**	–
Trade receivables	*12*	**221,945**	47,015
Amounts due from unconsolidated subsidiaries		**–**	–
Amount due from a former subsidiary		**–**	–
Prepayments, deposits and other receivables		**5,327**	1,443
Convertible bonds		**–**	–
Tax recoverable		**127**	127
Cash and cash equivalents		**16,562**	2,388
		246,636	50,973
Total assets		**249,801**	50,983

CONSOLIDATED BALANCE SHEET

As at 31 December 2010

	Note	2010 HK$'000	2009 HK$'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		**30,474**	30,553
Accumulated losses		**(765,140)**	(787,152)
Total equity		**(311,026)**	(332,959)
LIABILITIES			
Non-current liabilities			
Borrowings		**–**	5,000
Deferred income tax liabilities		**16**	–
		16	5,000
Current liabilities			
Trade payables	*13*	**120,782**	40,778
Other payables and accruals	*14*	**228,758**	187,250
Amounts due to unconsolidated subsidiaries		**112,362**	112,362
Borrowings		**92,936**	37,936
Tax payable		**5,973**	600
Deferred income tax liabilities		**–**	16
		560,811	378,942
Total liabilities		**560,827**	383,942
Total equity and liabilities		**249,801**	50,983
Net current liabilities		**(314,175)**	(327,969)
Total assets less current liabilities		**(311,010)**	(327,959)

Notes:

1 GENERAL INFORMATION

Smart Union Group (Holdings) Limited (Provisional Liquidators Appointed) (the "Company") was incorporated in the Cayman Islands on 8 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 15 October 2008. On 1 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 have been applied to the Company and the first stage of delisting procedures commenced on 15 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 28 February 2009. The Group has reactivated its trading and manufacturing of toys business through Sino Front Limited ("Sino Front"), a newly incorporated wholly-owned subsidiary of the Company, and its subsidiaries.

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 were 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 16 October 2008 and 17 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 13 January 2010, Dream Link was also put under liquidation under the provisions of the Companies Ordinance. Subsequently, Messrs. John Robert Lees and Mat Ng were appointed as the joint and several provisional liquidators and joint and several liquidators of Dream Link on 13 January 2010 and 19 August 2010 respectively. On 9 March 2011, the Court granted the release of Messrs John Robert Lees and Mat Ng as joint and several liquidators of Dream Link.

On 12 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. Yang"), Mr. Ting Wai-min ("Mr. Ting"), 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 1 September 2009, the Company submitted a resumption proposal (the "Resumption Proposal") to the Stock Exchange which embraces the Proposed Restructuring and contemplates for the resumption of trading in the shares of the Company.

On 3 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 3 May 2010. The Company is required to submit a viable resumption proposal before 2 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 27 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 dated 12 May 2009 to 31 December 2010. On the same day, 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 17 June 2009 entered into between the Investor and Sino Front as supplemented by the Supplemental Working Capital Facility Agreement. The Group will use the working capital facility to meet the costs required for business expansion and reactivation of its toys manufacturing business as part of the Resumption Proposal.

On 14 October 2010, the Company submitted a supplemental Resumption Proposal to the Stock Exchange with a view to addressing the issues set out in the Stock Exchange's letter dated 3 May 2010. The Stock Exchange is in the process of reviewing and considering the Resumption Proposal.

On 31 December 2010, the Company, the Provisional Liquidators, the Investor, Mr. Yang and Mr. Ting entered into a restructuring agreement, which provided for, inter alia, a capital restructuring, an open offer, a subscription of ordinary shares by the Investor, a scheme of arrangement in Hong Kong, a group reorganisation and a whitewash wavier.

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 23 May 2011.

3 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

The consolidated results of the Company have 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 3.1 and an associated company, which has not been properly equity accounted for. The consolidated results have been prepared under the historical cost convention.

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 1 January 2008. The resulting de-consolidation loss, which is determined based on the net asset value of these subsidiaries as at 1 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 31 December 2008. Moreover, as at 31 December 2010 and 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 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 31 December 2010 and 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 on 14 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 14 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 31 December 2007, resulting in a gain of HK$506,000 which was included in the consolidated income statement for the year ended 31 December 2008.

During the year ended 31 December 2010, the assets of SU Qingyuan were disposed of through auction by PRC authorities at approximately HK$35,075,000 for the settlement of its liabilities and an excess amounting to approximately HK$11,066,000 was refunded to SU Qingyuan. Certain books and records of SU Qingyuan were also returned to the Provisional Liquidators thereafter. The Directors consider that the control of SU Qingyuan has not been resumed and should remain deconsolidated from the consolidated results as it is uncertain whether complete set of books and records has been returned.

Moreover, as at 31 December 2010, the investment in SU Qingyuan and the amount due from SU Qingyuan of approximately HK$30,000,000 (2009: HK$30,000,000) and HK$32,241,000 (2009: 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 31 December 2010.

In the opinion of the Directors, the consolidated results as at and for the years ended 31 December 2010 and 2009 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 is not in compliance with the requirements of Hong Kong Accounting Standard 27 "Consolidated and Separate Financial Statements".

3.2 Application of new standards, amendments and interpretations

(a) Effect of adopting revised, amendments and interpretations to existing standards

The following amendments and interpretations to existing standards are mandatory for financial periods beginning on or after 1 January 2010:

- HKAS 27 (Revised), "Consolidated and Separate Financial Statements";
- HKAS 39 (Amendment), "Eligible Hedged Items";
- HKFRSs (Amendments), "Improvements to HKFRSs 2009";
- HKFRS 1 (Revised), "First-time Adoption of Hong Kong Financial Reporting Standards";
- HKFRS 1 (Amendment), "First-time Adoption of Hong Kong Financial Reporting Standards – Additional Exemptions for First-time Adopters";
- HKFRS 2 (Amendment), "Group Cash-settled Share-based Payment Transactions";
- HKFRS 3 (Revised), "Business Combinations";
- HKFRS 5 (Amendment), "Non-current Asset Held for Sales and Discontinued Operations";
- HK (IFRIC) – Int 17, "Distributions of Non-cash Assets to Owners"; and
- HK Int 5, "Presentation of Financial statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause".

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

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

The following published standard, amendments and interpretations to existing standards are mandatory for the Group's financial periods beginning on or after 1 January 2011 or later periods and have not been early adopted by the Group:

- HKAS 12 (Amendment), "Deferred Tax: Recovery of Underlying Assets"[5];
- HKAS 24 (Revised), "Related Party Transactions"[3];
- HKAS 32 (Amendment), "Classification of Rights Issues"[1];
- HKFRS 1 (Amendment), "Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adaptors"[2];
- HKFRS 1 (Amendment), "First-time Adoption of Hong Kong Financial Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters" [4];
- HKFRS 7 (Amendment), "Disclosures – Transfers of Financial Assets"[4]
- HKFRS 9, "Financial Instruments"[6];
- HK (IFRIC) – Int 14 (Amendment), "Prepayments of a Minimum Funding Requirement"[3]; and
- HK (IFRIC) – Int 19, "Extinguishing Financial Liabilities with Equity Instruments"[2].

[1] Effective for annual periods beginning on or after 1 February 2010
[2] Effective for annual periods beginning on or after 1 July 2010
[3] Effective for annual periods beginning on or after 1 January 2011
[4] Effective for annual periods beginning on or after 1 July 2011
[5] Effective for annual periods beginning on or after 1 January 2012
[6] Effective for annual periods beginning on or after 1 January 2013

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

In addition, HKICPA also published a number of amendments for the existing standards under its annual improvement project issued in May 2010, which are not yet effective in 2010. These amendments have not been early adopted by the Group and are not expected to have a significant financial impact on the results and financial position of the Group.

4 REVENUE

The Group is principally engaged in the trading and manufacturing of toy products. Revenue recognised during the year is as follows:

	2010	2009
	HK$'000	*HK$'000*
Turnover		
Sales of goods	**362,026**	98,140

5 SEGMENT INFORMATION

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. As the Group is principally engaged in the trading and manufacturing of toys which are subject to similar business risk, and resources are allocated based on what is beneficial to the Group in enhancing the value as a whole rather than any specific unit, the Group's chief operating decision maker considers the performance assessment of the Group should be based on the results of the Group as a whole. Therefore, management considers there to be only one operating segment under the requirements of HKFRS 8.

The Group primarily operates in Hong Kong and the PRC.

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

	2010	2009
	HK$'000	*HK$'000*
Hong Kong	**362,026**	97,527
Others	**–**	613
	362,026	98,140

Sales are allocated based on the places/countries to which goods are delivered. During the year ended 31 December 2010, sales of approximately HK$317,641,000 (2009: HK$97,527,000) are derived from 3 major customers (2009: 1 customer) who individually account for more than 10% of the total sales.

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

	2010	2009
	HK$'000	*HK$'000*
Hong Kong	**234,919**	50,921
The PRC	**14,882**	62
	249,801	50,983

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

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

	2010	2009
	HK$'000	*HK$'000*
Hong Kong	**12**	10
The PRC	**3,450**	–
	3,462	10

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

6 OTHER INCOME AND OTHER GAINS/(LOSSES)

	2010	2009
	HK$'000	*HK$'000*
Other income:		
– Interest income on bank deposits	**–**	2
– Non-refundable income *(Note (i))*	**5,902**	8,620
– Sundry income	**11**	2,629
	5,913	11,251
Other gains/(losses):		
– Impairment on assets	**–**	(1,575)
– Exchange gains	**324**	–
	324	(1,575)

Note:

(i) During the year ended 31 December 2010, the Company incurred a sum of approximately HK$5,902,000 (2009: HK$8,620,000) for the fees, charges, costs and expenses in connection with the implementation of the Proposed Restructuring. The Investor paid a sum of HK$2,434,000 (2009: HK$7,500,000) to the Company. The remaining amount of approximately HK$4,588,000 (2009: HK$1,120,000) is to be recovered from the Investor in accordance with the terms of the Restructuring Agreement which is included in other receivables.

The restructuring costs are non-refundable under all circumstances.

7 EXPENSES BY NATURE

	2010 *HK$'000*	2009 *HK$'000*
Auditor's remuneration	**680**	500
Depreciation of property, plant and equipment	**307**	14
Impairment of property, plant and equipment	**–**	144
Merchandise and raw materials used	**302,038**	93,140
Change in inventories of finished goods	**(1,119)**	–
Subcontracting charges	**22,247**	–
Employee benefit expenses	**2,153**	2,756
Operating lease rentals for land and buildings	**1,072**	664
Exchange losses	**–**	19
Inventory write-down	**–**	322
Costs incurred for the Proposed Restructuring	**5,222**	8,620
Others	**3,821**	2,641
Total cost of sales, selling expenses and administrative expenses	**336,421**	108,820

8 FINANCE COSTS, NET

	2010 *HK$'000*	2009 *HK$'000*
Interest income on bank deposits	**1**	–
Interest expense:		
– Other borrowings due within one year	**(3,598)**	(2,048)
	(3,597)	(2,048)

9 INCOME TAX EXPENSE

Hong Kong profits tax has been provided at the rate of 16.5% (2009: 16.5%) on the estimated assessable profits during the year.

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

	2010 *HK$'000*	2009 *HK$'000*
Current taxation:		
– Hong Kong profits tax	**5,373**	600

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

	2010 *HK$'000*	2009 *HK$'000*
Profit/(loss) before tax	**27,306**	(16,765)
Calculated at a tax rate of 16.5% (2009: 16.5%)	**4,505**	(2,766)
Income not subject to tax	**(2,712)**	–
Expenses not deductible	**3,580**	3,366
Income tax expense	**5,373**	600

10 EARNINGS/(LOSS) PER SHARE

Basic

The calculation of basic earnings/(loss) per share is based on the consolidated profit/(loss) attributable to equity holders of the Company of approximately HK$21,933,000 (2009: loss of HK$17,365,000) and on the weighted average number of 552,586,000 (2009: 552,586,000) ordinary shares in issue during the year.

	2010	2009
Profit/(loss) attributable to equity holders of the Company *(HK$'000)*	**21,933**	(17,365)
Weighted average number of ordinary shares in issue *(thousands)*	**552,586**	552,586
Basic earnings/(loss) per share *(HK$)*	**0.040**	(0.031)

There is no dilutive effect on the earnings/(loss) per share.

11 DIVIDENDS

No dividend in respect of the year ended 31 December 2010 (2009: Nil) is to be proposed.

12 TRADE RECEIVABLES

	2010	2009
	HK$'000	*HK$'000*
Trade receivables	**221,945**	47,015

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

The ageing analysis of trade receivables as at 31 December 2010 and 2009 is as follows:

	2010	2009
	HK$'000	*HK$'000*
0 – 30 days	**56,438**	25,619
31 – 60 days	**26,779**	15,190
61 – 90 days	**38,120**	6,206
91 days – 180 days	**100,536**	–
Over 180 days	**72**	–
	221,945	47,015

13 TRADE PAYABLES

The ageing analysis of trade payables as at 31 December 2010 and 2009 is as follows:

	2010	2009
	HK$'000	*HK$'000*
0-30 days	**29,423**	24,280
31-60 days	**18,448**	14,419
61-90 days	**23,839**	–
91 days – 1 year	**46,993**	1,157
Over 1 years	**2,079**	922
	120,782	40,778

14 OTHER PAYABLES AND ACCRUALS

	2010	2009
	HK$'000	*HK$'000*
Accruals	**41,077**	12,024
Receipts in advance	**238**	238
Other payables	**1,616**	1,166
Provision for financial guarantees to an unconsolidated subsidiary *(Note (i))*	**185,827**	168,454
Provision for legal claims *(Note (ii))*	**–**	5,368
	228,758	187,250

Notes:

(i) SU Industrial, an unconsolidated subsidiary, defaulted on the repayment of loans from certain banks and a finance-lease provider. As at 31 December 2010, the total outstanding principal, interest and other charges thereon amounted to approximately HK$152,748,000 and HK$33,079,000 respectively (2009 outstanding principal and interest: HK$152,748,000 and HK$15,706,000 respectively). As the Company has provided corporate guarantees for these loans, full provisions for such financial guarantees have been made by the Company and the Group as at 31 December 2010. During the year, an additional provision of approximately HK$17,373,000 (2009: HK$13,917,000) was made.

(ii) On 22 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 13 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. As at 31 December 2009, this amount had 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 of the assets in the factories of SU Industrial of RMB10,200,000.

During the year ended 31 December 2010, the Municipal Court of Dongguan disposed of the remaining assets in the factories of SU Industrial by further auctions and the legal claims from the creditors were settled. The Group and the Company, therefore, wrote back the provision for the legal claims of approximately HK$5,368,000 during the year ended 31 December 2010.

15. EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE

On 30 March 2011, 致福（深圳）玩具有限公司, a wholly-owned subsidiary of the Company, entered into a conditional sale and purchase agreement to acquire the entire equity interests in 東莞市金詡玩具有限公司 ("金詡") at a consideration of RMB2 million. 金詡 is principally engaged in the manufacturing of toy products in the PRC. This completion is subject to the finalisation of certain conditions precedent as stipulated in the conditional sale and purchase agreement. The Group expects to complete this acquisition in 2011, and is in the process of assessing the fair values of assets, liabilities, contingent liabilities and identified intangible assets, if any, of 金詡. It is impracticable to disclose their respective amounts together with the goodwill so arising at the current stage.

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 31 December 2010. 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 31 December 2010.

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 31 December 2010 and the profit 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 14 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 31 December 2010. Any adjustment that would be required may have a consequential significant effect on the net liabilities of the Group as at 31 December 2010 and the profit 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$32,241,000 as at 31 December 2010. 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 31 December 2010.

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 31 December 2010 and the profit attributable to the equity holders for the year then ended.

Lack of complete books and records of a subsidiary

As further explained in Note 9 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 31 December 2010 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 31 December 2010 and the profit attributable to the equity holders for the year then ended.

Investment in an associated company

As further explained in Note 10 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 had been fully impaired and, accordingly, an impairment loss had been made as at 31 December 2010. 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 31 December 2010 and the profit 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 15 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 fully impaired and, accordingly, an impairment loss has been made as at 31 December 2010. 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 31 December 2010 and the profit 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 new subsidiaries as part of the restructuring and reorganisation for the benefit of the creditors and equity holders of the Company.

A proposal and a supplemental proposal for the resumption of trading in the Company's shares and the restructuring of the Group (collectively, the "Resumption Proposals") were submitted to The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 1 September 2009 and 14 October 2010 respectively. The Resumption Proposals involve, inter alia, capital restructuring, debt restructuring, share subscription and group reorganisation. The Resumption Proposals, if successfully implemented, will, among other things, result in a full discharge of the Company's indebtedness.

The Resumption Proposals are, 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 equity holders 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 Provisional Liquidators and 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 19 and 22 to the consolidated financial statements, as at 31 December 2010, the Group had other secured borrowings and provision for financial guarantees to an unconsolidated subsidiary, including related accrued interest and other charges, of approximately HK$41,418,000 and HK$185,827,000 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 31 December 2010.

Contingent liabilities

As disclosed in Note 35 to the consolidated financial statements, no provision was made for 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 have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on the consolidated financial statements and as to whether the consolidated financial statements 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 31 December 2010, the Group's turnover was approximately HK$362.0 million (2009: HK$98.1 million), representing an increase of approximately 269% 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 Smart Union Industrial Limited (Provisional Liquidators Appointed) ("SU Industrial") and Smart Union (Qingyuan) Industrial Limited ("SU Qingyuan"), the financial statements of SU Industrial and its wholly-owned subsidiary, Perfect Design and Product Development Limited, have not been included in the consolidated results 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.

Given the improved business after the acquisition of five production lines (the "Five Production Lines") from 藍宇玩具有限公司 completed in July 2010, profit attributable to shareholders of the Company amounted to approximately HK$21.9 million (2009: loss of HK$17.4 million) for the year. Earnings per share for the year ended 31 December 2010 was approximately HK$0.040 as compared with loss per share of approximately HK$0.031 for the preceding year.

Operating profit for the year ended 31 December 2010 was approximately HK$30.9 million compared to an operating loss of approximately HK$14.7 million for the preceding year. After excluding the effects of the reversals of provision for legal claims and amount due from a former subsidiary for approximately HK$5.4 million and HK$11.1 million respectively, as well as the provision for financial guarantees to an unconsolidated subsidiary of approximately HK$17.4 million during the year, the Group's operation generates a profit of approximately HK$31.8 million during 2010.

LIQUIDITY, FINANCIAL RESOURCES AND FUNDING

Bank balances and cash as at 31 December 2010 was approximately HK$16.6 million (2009: HK$2.4 million). As at 31 December 2010, the total outstanding amount of banking facilities was approximately HK$185.8 million (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 divided by shareholders' equity was not applicable as the Group has negative shareholders' funds in 2010 and 2009.

ASSETS AND LIABILITIES

As at 31 December 2010, the Group had total assets of approximately HK$249.8 million (2009: HK$50.9 million), total liabilities of approximately HK$560.8 million (2009: HK$383.9 million). The net liabilities of the Group as at 31 December 2010 were HK$311.0 million (2009: net liabilities of HK$333.0 million).

FOREIGN EXCHANGE EXPOSURE

The Group is exposed to foreign exchange risk, with most of the Group's assets and liabilities, revenue and expenditure are denominated in Renminbi, United States dollar and Hong Kong dollar. As at 31 December 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 United States dollar, Hong Kong dollar and Renminbi.

DIVIDENDS

The Board does not recommend any dividend for the year ended 31 December 2010 (2009: nil).

BUSINESS REVIEW

Appointment of Provisional Liquidators

Following creditors' action in the People's Republic of China (the "PRC") which resulted in the major assets and production facilities of certain subsidiaries being subject to freezing orders. On 15 October 2008, trading in the shares of the Company (the "Share(s)") was suspended on the Main Board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") at the request of the Company, which remains suspended.

On 16 and 17 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 joint and several provisional liquidators of the Company (the "Provisional Liquidators") and four of its subsidiaries on 16 October 2008 and two other subsidiaries on 17 October 2008.

On 9 November 2009, one of the employees of Dream Link Limited (In Liquidation) ("Dream Link") presented petitions 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 13 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 and the joint and several liquidators of Dream Link on 13 January 2010 and 19 August 2010 respectively. On 9 March 2011, the Court granted the release of Messrs. John Robert Lees and Mat Ng as joint and several liquidators of Dream Link.

Proposed Restructuring of the Group after the appointment of Provisional Liquidators

On 15 October 2008, the Stock Exchange, in view of the prolonged suspension of trading in the Shares, 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").

An exclusivity agreement dated 12 May 2009 (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").

On 1 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 3 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 decided to place the Company in the second stage of delisting procedures with effect from 3 May 2010. The Company is required to submit a viable resumption proposal at least 10 business days before 2 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 27 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 31 December 2010 (the "Supplemental Exclusivity Agreement"). On the same day, the Investor and Sino Front Limited ("Sino Front"), a wholly-owned subsidiary of the Company, entered into a supplemental working capital facility agreement (the "Supplemental Working Capital Facility Agreement"), pursuant to which the Investor agreed to increase the working capital facility from HK$5,000,000 to HK$55,000,000 on the terms and subject to the conditions as set out in the working capital facility agreement dated 17 June 2009 entered into between the Investor and Sino Front as supplemented by the Supplemental Working Capital Facility Agreement. The Group has been using the working capital facility for expansion of its toys manufacturing business.

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 yet diversifying Sino Front's reliance on its outsourced sub-contractors, the Company has resumed the Group's toy manufacturing business by acquiring production lines from an OEM manufacturer in the PRC.

On 6 July 2010, the Group completed an acquisition of the Five Production Lines from 藍宇玩具有限公司 pursuant to the acquisition agreement dated 8 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 machineries and assembly lines. The revival of the Group's toy manufacturing business through the acquisition of the Five Production Lines has been conducive to supporting a cohesive and sustaining resumption proposal.

On 14 October 2010, the Company submitted a supplemental Resumption Proposal followed by several rounds of submissions to the Stock Exchange with a view to addressing the issues set out in the Stock Exchange's letter dated 3 May 2010. The Stock Exchange is still in the process of reviewing and considering the Resumption Proposal.

On 31 December 2010, the Company, the Provisional Liquidators, the Investor, Mr. Yang and Mr. Ting entered into a restructuring agreement, which provided for, inter alia, a capital restructuring, an open offer, a subscription of ordinary shares by the Investor, a scheme of arrangement in Hong Kong, a group reorganisation and a whitewash wavier.

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 23 May 2011.

PROSPECTS

It is the Investor's intention to continue the Group's trading and manufacturing of toys business through Sino Front and its subsidiaries.

As demonstrated by the annual results for the year of 2010, with the support provided by the Investor to the Group in both business and financial aspects, the Group has successfully revived its toy business and achieved significant profitability. It is anticipated that all liabilities arising from the creditors of the Company will be compromised and discharged by way of a scheme of arrangements as contemplated in the Resumption Proposal. Moreover, the proposed open offer and share subscription will also largely enhance the liquidity of the Group. As a result, the financial position of the Group will be substantially improved upon completion of the Proposed Restructuring.

Further to the acquisition of the Five Production Lines on 6 July 2010, 致福玩具(深圳)有限公司, a wholly-owned subsidiary of the Company, entered into an acquisition agreement in relation to the acquisition of entire equity interest of 東莞市金翊玩具有限公司 on 30 March 2011. The Group believes the acquisition will enhance existing operation, and will therefore possess a more comprehensive manufacturing and trading operation.

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

Once the Stock Exchange has approved the Proposed Restructuring, and, amongst other things, with creditors and shareholders approving the resolutions in relation to the Restructuring Agreement, the Shares of the Company will be able to resume trading on the Stock Exchange.

The Provisional Liquidators are confident that, with the Investor's strong support in the business and financial aspects as well as the recent acquisitions of additional manufacturing capacity, the business operations of the Group will sustain.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

To the best knowledge of the Provisional Liquidators, neither the Company nor any of its subsidiaries has purchased sold or redeemed any of the Company's shares during the year ended 31 December 2010.

CODE ON CORPORATE GOVERNANCE PRACTICES

Since the Provisional Liquidators were appointed on 16 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 31 December 2010 have not been reviewed by the audit committee. The figures contained in the financial information set out in page 2 to 18 of this announcement of the Group's results for the year ended 31 December 2010 have been reviewed and agreed by the Group's auditor, PricewaterhouseCoopers, to the amounts set out in the Group's consolidated results 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 of Directors 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

For and on behalf of
Smart Union Group (Holdings) Limited
(Provisional Liquidators Appointed)
John Robert Lees
Mat Ng
Joint and Several Provisional Liquidators
acting as agents for and on behalf of the Company
without personal liability

Hong Kong, 31 March 2011