



**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 RESULTS ANNOUNCEMENT  
FOR THE SIX MONTHS ENDED 30 JUNE 2007**

The board of directors (the “Board”) of Smart Union Group (Holdings) Limited (the “Company”) is pleased to announce the unaudited consolidated interim results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2007 together with comparative figures for the corresponding period in 2006. The results are stated as follows:

## Condensed Consolidated Income Statement

For the six months ended 30 June 2007

	<i>Note</i>	<b>Six months ended 30 June 2007 HK\$'000 (Unaudited)</b>	<b>2006 HK\$'000 (Audited)</b>
Sales	4	375,793	225,645
Cost of sales	7	<u>(325,397)</u>	<u>(198,517)</u>
<b>Gross profit</b>		50,396	27,128
Other income, net	8	586	1,348
Administrative expenses	7	<u>(46,484)</u>	<u>(34,096)</u>
<b>Operating profit/(loss)</b>		4,498	(5,620)
Finance costs	9	<u>(6,956)</u>	<u>(3,570)</u>
<b>Loss before tax</b>		(2,458)	(9,190)
Income tax (expense)/credit	10	<u>(345)</u>	<u>434</u>
<b>Loss for the period</b>		<u><u>(2,803)</u></u>	<u><u>(8,756)</u></u>
<b>Attributable to:</b>			
Equity holders of the Company		(3,157)	(8,756)
Minority interest		<u>354</u>	<u>—</u>
		<u><u>(2,803)</u></u>	<u><u>(8,756)</u></u>
Loss per share for loss attributable to the equity holders of the Company during the period (HK\$ per share)			
- basic	12	<u><u>(0.01)</u></u>	<u><u>(0.05)</u></u>
- diluted	12	<u><u>(0.01)</u></u>	<u><u>(0.05)</u></u>
<b>Dividend</b>	11	<u><u>—</u></u>	<u><u>—</u></u>

## Condensed Consolidated Balance Sheet

As at 30 June 2007

	<i>Note</i>	<b>30 June 2007</b> <i>HK\$'000</i> <i>(Unaudited)</i>	<b>31 December 2006</b> <i>HK\$'000</i> <i>(Audited)</i>
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	6	57,286	43,245
Land use rights		4,626	4,516
Intangible assets		4,728	632
Available-for-sale financial assets		5,325	5,120
Deposits and other receivables		318	276
Deferred income tax assets		134	134
		<u>72,417</u>	<u>53,923</u>
<b>Current assets</b>			
Inventories		367,457	240,322
Trade receivables	13	108,542	104,029
Prepayments, deposits and other receivables		19,790	12,857
Derivative financial instruments		—	1,247
Current income tax recoverable		2,202	737
Pledged bank deposits		7,350	5,267
Bank balances and cash		55,329	64,882
		<u>560,670</u>	<u>429,341</u>
<b>Total assets</b>		<u>633,087</u>	<u>483,264</u>

	<i>Note</i>	<b>30 June 2007 HK\$'000 (Unaudited)</b>	<b>31 December 2006 HK\$'000 (Audited)</b>
<b>EQUITY</b>			
<b>Capital and reserves attributable to the Company's equity holders</b>			
Share capital		27,248	24,000
Share premium		70,675	30,742
Other reserves		27,467	25,830
Retained earnings		<u>68,275</u>	<u>85,832</u>
		193,665	166,404
<b>Minority interest</b>		<u>961</u>	<u>607</u>
<b>Total equity</b>		<u><u>194,626</u></u>	<u><u>167,011</u></u>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Borrowings		965	2,749
<b>Current liabilities</b>			
Trade payables	14	174,274	158,837
Other payables and accruals		55,056	24,113
Borrowings		<u>208,166</u>	<u>130,554</u>
		<u>437,496</u>	<u>313,504</u>
<b>Total liabilities</b>		<u><u>438,461</u></u>	<u><u>316,253</u></u>
<b>Total equity and liabilities</b>		<u><u>633,087</u></u>	<u><u>483,264</u></u>
<b>Net current assets</b>		<u><u>123,174</u></u>	<u><u>115,837</u></u>
<b>Total assets less current liabilities</b>		<u><u>195,591</u></u>	<u><u>169,760</u></u>

*Note*

**1. General information**

The Company was incorporated in the Cayman Islands on 8 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 since 29 September 2006.

**2. Basis of preparation**

These unaudited condensed consolidated financial statements for the period ended 30 June 2007 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”).

These condensed consolidated interim financial statements should be read in conjunction with the audited financial statements for the year ended 31 December 2006. The comparative figures should be referred to the Accountants’ Report on the Group in Appendix I of the Company’s prospectus dated 19 September 2006.

**3. Principal accounting policies**

The accounting policies adopted in preparing those condensed consolidated financial statements are consistent with those adopted in preparing the Group’s annual financial statements for the year ended 31 December 2006.

The following new standards, amendments to standards and interpretations are mandatory for financial year ending 31 December 2007.

HKAS 1(Amendment)	Presentation of Financial Statements: Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC) - Int 7	Apply the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economics
HK(IFRIC) - Int 8	Scope of HKFRS 2
HK(IFRIC) - Int 9	Reassessment of Embedded Derivatives
HK(IFRIC) - Int 10	Interim Financial Reporting and Impairment

The adoption of the above new standards, amendments to standards and interpretations did not result in material impact on the financial statements of the Group.

The HKICPA has issued a number of new standards, amendments to standards and interpretations, which are not effective for 2007. The Group has not early adopted these new standards, amendments to standards and interpretations. The directors anticipate that the adoption of these new standards, amendments to standards or interpretations in future periods will have no material impact on the financial statements of the Group.

HKAS 23 (Revised)	Borrowing cost
HKFRS 8	Operating Segments
HK(IFRIC) - Int 11	HKFRS 2 - Group and Treasury Share Transactions
HK(IFRIC) - Int 12	Service Concession Arrangements

#### 4. Sales

	<b>Six months ended 30 June</b>	
	<b>2007</b>	<b>2006</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(Unaudited)</i>	<i>(Audited)</i>
Sales of goods	<u>375,793</u>	<u>225,645</u>

#### 5. Segment information

##### **Primary reporting format — business segments**

The products and services provided by the Group are all related to the manufacturing and trading of recreational and educational toys and equipment and subject to similar business risk. No business segment information has been prepared by the Group for the period ended 30 June 2007.

##### **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:

	<b>Six months ended 30 June</b>	
	<b>2007</b>	<b>2006</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(Unaudited)</i>	<i>(Audited)</i>
America	276,570	164,196
Europe	72,852	39,070
Others	<u>26,371</u>	<u>22,379</u>
	<u>375,793</u>	<u>225,645</u>

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

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

	<b>30 June 2007</b>	<b>31 December 2006</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(Unaudited)</i>	<i>(Audited)</i>
Hong Kong	178,761	177,027
The PRC	<u>454,326</u>	<u>306,237</u>
	<u>633,087</u>	<u>483,264</u>

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 30 June 2007</b>	<b>2006</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(Unaudited)</i>	<i>(Audited)</i>
Hong Kong	57	98
The PRC	<u>17,241</u>	<u>11,260</u>
	<u>17,298</u>	<u>11,358</u>

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

#### 6. Property plant and equipment

During the period, the Group acquired property, plant and equipment at a cost of approximately HK\$ 17,298,000 (2006: HK\$11,358,000). There was no disposal during the period (2006: HK\$1,000).

#### 7. Operating profit/(loss)

The following items have been charged to the operating profit/(loss) during the interim period:

	<b>Six months ended 30 June 2007</b>	<b>2006</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(Unaudited)</i>	<i>(Audited)</i>
Cost of inventories sold	321,299	197,946
Depreciation of property, plant and equipment	4,219	3,473
Impairment of trade receivables	—	35
Amortisation of land use rights	48	32
Amortisation of intangible assets	<u>346</u>	<u>6</u>

8. **Other income, net**

	<b>Six months ended 30 June</b>	
	<b>2007</b>	<b>2006</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(Unaudited)</i>	<i>(Audited)</i>
Sales of scrap materials	2,570	867
Unrealised losses on derivative financial instruments	(3,225)	(196)
Realised gain on derivative financial instruments	710	—
Interest income	333	677
Other handling income	198	—
	<u>586</u>	<u>1,348</u>

9. **Finance costs**

	<b>Six months ended 30 June</b>	
	<b>2007</b>	<b>2006</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(Unaudited)</i>	<i>(Audited)</i>
Interest expense		
- Bank borrowings and overdrafts	4,795	2,695
- Factoring facilities	2,107	866
- Finance lease liabilities	54	9
	<u>6,956</u>	<u>3,570</u>

10. **Income tax (expense)/credit**

	<b>Six months ended 30 June</b>	
	<b>2007</b>	<b>2006</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(Unaudited)</i>	<i>(Audited)</i>
Current taxation		
- Hong Kong profits tax	(23)	(54)
- PRC enterprise income tax	(277)	(273)
- Under provision in prior years	(45)	—
Deferred income tax	—	761
	<u>(345)</u>	<u>434</u>

Hong Kong profits tax has been provided at the rate of 17.5% (2006: 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.

## 11. Dividend

The Board does not recommend the payment of interim dividend for the six months ended 30 June 2007 (2006: NIL).

## 12. 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.

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

	<b>Six months ended 30 June</b>	
	<b>2007</b>	<b>2006</b>
	<i>(Unaudited)</i>	<i>(Audited)</i>
Loss attributable to equity holder of the Company (HK\$'000)	<u>3,157</u>	<u>8,756</u>
Weighted average number of ordinary shares in issue for the purpose of basic loss per share (thousands)	241,083	180,000
Weighted average number of ordinary shares in issue for the purpose of diluted loss per share (thousands)	<u>242,635</u>	<u>180,000</u>
Basic loss per share (HK\$ per share)	<u>0.01</u>	<u>0.05</u>
Diluted loss per share (HK\$ per share)	<u>0.01</u>	<u>0.05</u>

## 13. Trade receivables

	<b>30 June</b>	<b>31 December</b>
	<b>2007</b>	<b>2006</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(Unaudited)</i>	<i>(Audited)</i>
Trade receivables	109,240	104,701
Less: provision for impairment of receivables	<u>(698)</u>	<u>(672)</u>
	<u>108,542</u>	<u>104,029</u>

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 30 June 2007 and 31 December 2006 were as follows:

	<b>30 June 2007</b>	<b>31 December 2006</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(Unaudited)</i>	<i>(Audited)</i>
0 - 30 days	79,260	78,737
31 - 60 days	9,528	5,670
61 - 90 days	13,914	11,394
91 days - 1 year	5,844	8,633
1 - 2 year	<u>694</u>	<u>267</u>
	<u><u>109,240</u></u>	<u><u>104,701</u></u>

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.

#### 14. Trade payables

The ageing analysis of trade payables as at 30 June 2007 and 31 December 2006 were as follows:

	<b>30 June 2007</b>	<b>31 December 2006</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(Unaudited)</i>	<i>(Audited)</i>
0 - 30 days	108,940	83,478
31 - 60 days	29,809	35,128
61 - 90 days	12,957	17,913
91 days - 1 year	19,282	18,862
1 - 2 year	1,547	2,405
Over 2 years	<u>1,739</u>	<u>1,051</u>
	<u><u>174,274</u></u>	<u><u>158,837</u></u>

The carrying amounts of trade payables approximate their fair values.

## **Management Discussion and Analysis**

### **Results and business review**

As a result of success in managing seasonality factor, the turnover of the Group for the six months ended June 30, 2007, increased by approximately 67% to approximately HK\$376 million from approximately HK\$226 million and loss for the period reduced by approximately 68% to approximately HK\$2.8 million from approximately HK\$8.8 million for the same period last year. Excluding the unrealised loss on derivative financial instruments of approximately HK\$3.2 million (2006: approximately HK\$0.2 million) the Group recorded a profit before tax of approximately HK\$0.8 million (2006: loss before tax of approximately HK\$9.0 million).

The manufacturing environment is still challenging due to high material and labour cost, shortage of labour and electricity, appreciation of Renminbi and price reduction pressure from customers. However, the Group proactively resolved the challenges by better use of production capacity, especially in slack season, expanded the production capability in Qing Yuan factory to reduce labour cost and production overheads and expands business in original design manufacturing (“ODM”) and original brand manufacturing (“OBM”) business for better margin.

The business of ODM and OBM had significant improvement and our own brand “Dreamcheeky” USB range of products win popularity in the market. The turnover of our subsidiary, Dream Link Limited (“Dreamlink”) for the six months ended June 30, 2007 increases approximately 136% to approximately HK\$20.9 million from approximately HK\$8.85 million. In addition, Dreamlink recorded profit after tax of approximately HK\$1.3 million for the six months ended 30 June 2007 (2006: Loss approximately HK\$0.6 million). The Group is preparing to have another range of “own brand” products later this year to enhance our ODM and OBM business.

### **Business Outlook and Prospects**

Recent massive recall of toys from North America has a substantive impact to toys manufacturers. Production cost will further increase due to the increase in additional testing procedures and requirements imposed by the PRC government and customers. The products of our group have not been affected by the recent recall and the turnover of the group is still growing. The Group has a stringent internal quality system which guarantees the safety of our products to the satisfaction of our customers.

Based on the stable toys business, the Group actively seized business diversification to strengthen the Group's bottom line and maximize shareholders' return. On 16 July 2007, the Group entered into a non-legally binding memorandum of undertaking with Tang Xue Jin (the "Vendor") in relation the possible acquisition by the Group from the Vendor of not less than 20% and not more than 49% of the issued share capital of China Mining Corporation Limited (the "Target"). The principal asset of the Target is its 95% beneficial interest in Fujian Tiancheng Mining Corporation (福建天成礦業有限公司), which is principally engaged in the exploration of precious metals and mineral resources in the PRC. As the Group needs additional time to perform due diligence to the Target, the Group had agreed with the Vendor to extend the negotiation of formal legal binding agreement to the end of October 2007.

### **Liquidity, financial resources**

The Group primarily used its internally generated cash flow and banking facilities to finance its operations and business development during the period. As at 30 June 2007, the Group's cash and bank balances were approximately HK\$55.3 million (31 December 2006: approximately HK\$ 64.9 million, 30 June 2006: approximately HK\$10.2 million). The Group's total borrowings were approximately HK\$209 million (31 December 2006: approximately HK\$133.3 million, 30 June 2006: approximately HK\$147.5 million). The gearing ratio, calculated as the total borrowings less cash and bank balances and divided by shareholders' equity, was approximately 79.0% (31 December 2006: approximately 41.0%, 30 June 2006: approximately 184%).

As at 30 June 2007, the Group had current assets of approximately HK\$561 million (31 December 2006: approximately HK\$429.3 million, 30 June 2006: approximately HK\$347.8 million) and total current liabilities of approximately HK\$437.5 million (31 December 2006: approximately HK\$313.5 million, 30 June 2006: approximately HK\$315.5 million). The current ratio of the Group, calculated by dividing the total current assets by total current liabilities, was approximately 1.28 (31 December 2006: approximately 1.37, 30 June 2006: approximately 1.10). The shareholders' fund of the Group as at 30 June 2007 was approximately HK\$195 million (31 December 2006: approximately HK\$167 million, 30 June 2006: approximately HK\$74.5 million). The increase are mainly from increase in profit after tax and share premium.

### **Share capital structure**

As at 30 June 2007, the Company has 272,480,000 ordinary shares of HK\$0.1 per share in issue. Apart from ordinary shares in issue, the capital instruments in issue of the Company include options to subscribe for shares in the Group. During the period under review, 10,100,000 share options were granted under the share option

scheme adopted by the Group with an exercise price of HK\$0.78 per share. 80,000 shares option were exercised during the period under review and 10,020,000 share options remained outstanding as at 30 June 2007. Subsequent to 30 June 2007 and up to the date of this report, no share options have been exercised by the option holders.

### **Fund raising exercise by the Company**

The following fund raising activity has been carried out by the Company during the six months ended 30 June 2007:

<b>Date of announcement</b>	<b>Event</b>	<b>Net proceeds</b>	<b>Intended use of proceeds</b>	<b>Actual use of proceeds</b>
12 June 2007	Placing of existing Shares and subscription of new shares	About HK\$41.8 million	For investments in production facilities of toys and recreational products and for general working capital	<p>Approximately HK\$5.4 million has been used for payment of production facilities</p> <p>Approximately HK\$12.5 million has been used for the payment of staff and worker salaries</p> <p>Approximately HK\$12.5 million has been used for the payment of materials and subcontracting expenses</p> <p>Approximately HK\$11.4 million for the repayment of revolving bank facilities borrowing</p>

Save as disclosed above, the Company has not conducted any fund raising exercise during the period under review.

### **Details of material acquisitions and disposals of subsidiaries and associated Companies**

There was no material acquisitions and disposals of subsidiaries and associated companies during the six months ended 30 June 2007.

## **Contingent liabilities**

As at 30 June 2007, the Group has no material contingent liabilities (31 December 2006: Nil)

## **Charges**

Secured bank borrowings are secured by available-for-sales financial assets amounting to approximately HK\$5,325,000 as at 30 June 2007 (31 December 2006: approximately HK\$ 5,120,000), corporate guarantees executed by the Company and pledged bank deposits amounted to approximately HK\$7,350,000 as at 30 June 2007 (31 December 2006: approximately HK\$5,267,000).

## **Foreign exchange exposure**

The Group is exposed to foreign currency exposure, most of the Group's assets and liabilities, revenues and expenditures are denominated in Hong Kong dollars, renminbi and US dollars. The Group currently has foreign currency structured forward contracts to hedge against the above mentioned foreign currency exposure.

## **Employees**

As at 30 June 2007, the Group had a total of approximately 1,700 (31 December 2006: 1,600) 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 People's Republic of China 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 30 June 2007 (30 June 2006: Nil).

## **Purchase, sale or redemption of the Company's listed securities**

During the six months ended 30 June 2007, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

## **Compliance with the Code on Corporate Governance Practices**

The Company is committed to maintain 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 complied with all the code provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) throughout the period under review.

## **Audit committee**

The audit committee has reviewed the Group’s unaudited interim results for the six months ended 30 June 2007. 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.

## **Publication of results on the websites of the Stock Exchange and the Company**

This announcement of interim results is published on the Stock Exchange’s website (<http://www.hkex.com.hk>) and the Company’s website (<http://www.smartunion.com.hk>). The Interim Report of the Company containing all the information required by the Listing Rules will be dispatched to the shareholders and available on the same websites in due course.

## **Board of directors**

As at the date of this announcement, the Board comprises five executive directors: Mr. Wu Kam Bun, Mr. Lai Chiu Tai, Mr. Lo Kwok Choi, Mr. Ho Wai Wah and Mr. Wong Wai Chuen; and three independent non-executive directors: Dr. Lui Sun Wing, Mr. Li Chak Hung and Mr. Tang Koon Yiu, Thomas.

By order of the Board  
**Smart Union Group (Holdings) Limited**  
**Wu Kam Bun**  
*Chairman*

Hong Kong, 17 September 2007