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)

ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2006

RESULTS

The board of directors (the ''Directors'') of Smart Union Group (Holdings) Limited (the ''Company'') is pleased to announce the consolidated results of the Company and its subsidiaries (the ''Group'') for the year ended 31 December 2006 with comparative figures for the year ended 31 December 2005 as follows:

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2006

	Note	**2006** *HK$'000*	**2005** *HK$'000*
Sales	3&4	727,225	709,566
Cost of sales	6	(604,952)	(603,444)
Gross profit		122,273	106,122
Other income, net	5	3,710	5,265
Administrative expenses	6	(80,217)	(63,572)
Operating profit		45,766	47,815
Finance costs	7	(9,998)	(5,773)
Profit before tax		35,768	42,042
Income tax expense	8	(5,136)	(5,370)
Profit for the year		30,632	36,672
Attributable to:			
Equity holders of the Company		30,025	36,672
Minority interest		607	—
		30,632	36,672
Earnings per share for profit attributable to the equity holders of the Company during the year			
- basic (HK$ per share)	9	0.15	0.20
- diluted (HK$ per share)	9	0.15	0.20
Dividends	10	14,400	23,000

CONSOLIDATED BALANCE SHEET

As at 31 December 2006

	Note	**2006** *HK$'000*	**2005** *HK$'000*
ASSETS			
Non-current assets			
Property, plant and equipment		43,245	28,963
Land use rights		4,516	—
Intangible assets		632	—
Available-for-sale financial assets		5,120	2,999
Deposits and other receivables		276	3,896
Deferred income tax assets		134	598
		53,923	36,456
Current assets			
Inventories		240,322	152,689
Trade receivables	11	104,029	84,537
Prepayments, deposits and other receivables		12,857	13,146
Amount due from a related company		—	73
Derivative financial instruments		1,247	—
Current income tax recoverable		737	—
Pledged bank deposits		5,267	2,837
Bank balances and cash		64,882	11,489
		429,341	264,771
Total assets		483,264	301,227
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital		24,000	1,500
Share premium		30,742	—
Other reserves		25,830	25,767
Retained earnings		85,832	65,807
		166,404	93,074
Minority interest		607	—
Total equity		167,011	93,074

	Note	2006 HK$'000	2005 HK$'000
LIABILITIES			
Non-current liabilities			
Borrowings			
		2,749	6,013
Current liabilities			
Trade payables	12	158,837	111,926
Other payables and accruals		24,113	25,471
Amounts due to directors		—	3,456
Amount due to a related company		—	266
Borrowings		130,554	57,582
Current income tax liabilities		—	3,439
		313,504	202,140
Total liabilities		316,253	208,153
Total equity and liabilities		483,264	301,227
Net current assets		115,837	62,631
Total assets less current liabilities		169,760	99,087

Note

1 **General Information, group reorganisation and basis of presentation**

The Company was incorporated in the Cayman Islands on 8 March 2006 as an exempted company with limited liability. The shares of the Company have been listed on the main board of The Stock Exchange of Hong Kong Limited ("HKSE") since 29 September 2006.

The Group is principally engaged in the manufacturing and trading of recreational and educational toys and equipment.

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

Pursuant to an agreement dated 1 September 2006, the Company acquired the entire issued capital of Smart Union Investments Limited through a share swap, and became the holding company of the companies now comprising the Group (the "Reorganisation").

The Reorganisation was a combination of entities under common control of the major shareholders. The major shareholders remained the same and the respective rights of each shareholder have remained unchanged immediately before and after the Reorganisation. Accordingly, the Reorganisation had been accounted for using merger accounting.

The consolidated financial statements present the consolidated income statements, consolidated statement of changes in equity and consolidated cash flow statements of the companies comprising the Group as if the corporate structure of the Group had been in existence from the beginning of the earliest period presented or, where this is a shorter period, since the respective dates of incorporation or establishment of the companies comprising the Group. The consolidated balance sheet of the Group as at 31 December 2005 has been prepared to present the assets and liabilities of the Group as at 31 December 2005 as if the current group structure had been in existence at 31 December 2005.

2 **Basis of preparation**

The consolidated financial statements of the Company have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.

(a) *Interpretations to existing standards that are not yet effective and have not been early adopted by the Group*

The following interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 May 2006 or later periods that the Group has not early adopted:

- HK(IFRIC)-Int 8, Scope of HKFRS 2 (effective for annual periods beginning on or after 1 May 2006). HK(IFRIC)-Int 8 requires consideration of transactions involving the issuance of equity instruments - where the identifiable consideration received is less than the fair value of the equity instruments issued - to establish whether or not they fall within the scope of HKFRS 2. The Group will apply HK(IFRIC)-Int 8 from 1 January 2007, but it is not expected to have any impact on the Group's consolidated financial statements; and

- HK(IFRIC)-Int 10, Interim Financial Reporting and Impairment (effective for annual periods beginning on or after 1 November 2006). HK(IFRIC)-Int 10 prohibits the impairment losses recognised in an interim period on goodwill, investments in equity instruments and investments in financial assets carried at cost to be reversed at a subsequent balance sheet date. The Group will apply HK(IFRIC)-Int 10 from 1 January 2007, but it is not expected to have any impact on the Group's financial statements.

(b) *Interpretation to existing standards that are not yet effective and not relevant for the Group's operations*

The following interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 March 2006 or later periods but are not relevant for the Group's operations:

- HK(IRFIC)-Int 7, Applying the Restatement Approach under HKAS 29, Financial Reporting in Hyperinflationary Economies (effective from 1 March 2006). HK(IFRIC)-Int 7 provides guidance on how to apply requirements of HKAS 29 in a reporting period in which an entity identifies the existence of hyperinflation in the economy of its functional Currency, when the economy was not hyperinflationary in the prior period. As none of the group entities have a currency of a hyperinflationary economy as its functional currency, HK(IFRIC)-Int 7 is not relevant to the Group's operations; and

- HK(IFRIC)-Int 9, Reassessment of embedded derivatives (effective for annual periods beginning on or after 1 June 2006). HK(IFRIC)-Int 9 requires an entity to assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when the entity first becomes a party to the contract. Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment if required. As none of the group entities have changed the terms of their contracts, HK(IFRIC)-Int 9 is not relevant to the Group's operations.

(c) *Standards, amendments and interpretations effective in 2006 but not relevant for the Group's operations*

The following standards, amendments and interpretations are mandatory for accounting periods beginning on or after 1 January 2006 but are not relevant to the Group's operations:

- HKAS 19 Amendment - Employee Benefits
- HKAS 21 Amendment — Net Investment in a Foreign Operation;
- HKAS 39 Amendment — Cash Flow Hedge Accounting of Forecast Intragroup Transactions;
- HKAS 39 Amendment — The Fair Value Option;
- HKAS 39 and HKFRS 4 Amendment — Financial Guarantee Contracts;
- HKFRS 6 Exploration for and Evaluation of Mineral Resources;
- HKFRS 1 Amendment — First-time Adoption of International Financial Reporting Standards and HKFRS 6 (Amendment), Exploration for and Evaluation of Mineral Resources;
- HK(IFRIC)-Int 4, Determining whether an Arrangement contains a Lease;
- HK(IFRIC)-Int 5, Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds; and
- HK(IFRIC)-Int 6, Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment.

3 **Turnover**

	2006	**2005**
	HK$'000	*HK$'000*
Sales of goods	727,225	709,566

4. **Segment information**

Primary reporting format — business segments

The products and services provided by the Group are all related to the manfacturing 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 year ended 31 December 2006.

Secondary reporting format — geographical segments

The Group primarily operates in Hong Kong and the People's Republic of China ("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:

	2006	2005
	HK$'000	*HK$'000*
America	503,866	536,891
Europe	154,419	137,242
Others	68,940	35,433
	727,225	709,566

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:

	2006	2005
	HK$'000	*HK$'000*
Hong Kong	177,027	105,574
The PRC	306,237	195,653
	483,264	301,227

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

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

	2006	2005
	HK$'000	*HK$'000*
Hong Kong	481	105
The PRC	21,469	20,487
	21,950	20,592

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

5 **Other income, net**

	Group	
	2006	2005
	HK$'000	*HK$'000*
Sales of scrap materials	1,142	3,915
Unrealised gain on derivative financial instruments	1,247	—
Realised gain on derivative financial instruments	557	—
Interest income	764	1,350
	3,710	5,265

6 **Expenses by nature**

	Group	
	2006	**2005**
	HK$'000	*HK$'000*
Auditors' remuneration	1,080	521
Depreciation of property, plant and equipment	7,158	6,190
Amortisation of intangible assets	254	—
Amortisation of land use rights	77	—
Raw materials used	449,104	445,264
Changes in inventories of finished goods and work in progress	(48,272)	(5,438)
Employee benefit expenses	30,360	28,860
Operating lease rentals for land and buildings	8,576	8,043
Impairment of trade receivables	147	658
Inventory write-down	756	3,267
Others	235,929	179,651
Total cost of sales and administrative expenses	685,169	667,016

7 **Finance costs**

	2006	**2005**
	HK$'000	*HK$'000*
Interest expense:		
- Bank borrowings and overdrafts	9,718	6,154
- Factoring facilities	1,532	129
- Finance lease liabilities	16	16
	11,266	6,299
Less: interest capitalised	(1,268)	(526)
	9,998	5,773

8 **Income tax expense**

Hong Kong profits tax has been provided at the rate of 17.5% (2005: 17.5%) on the estimated assessable profit during the year. 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.

Pursuant to the processing agreements entered into with Dongguan City Zhangmutou Town Economic Development General Company on 26 November 1996 (as extension agreement dated 29 April 2002) and 18 August 2004 (the "Processing Agreements") , Smart Union Industrial Limited ("SUI") subcontracted certain processing work to 東莞樟木頭合俊玩具廠 ("Zhang Yang factory") and 東莞樟木頭俊領玩具廠 ("Po Shan factory") in the People's Republic of China (the "PRC"). Pursuant to the settlement basis as agreed with the Inland Revenue Department of Hong Kong (the "IRD"), 50% of SUI's assessable profits arising from the manufacturing activities carried out by Zhang Yang Factory and Po Shan factory under the Processing Agreements are considered as offshore in nature and are not subject to Hong Kong profits tax in accordance with the Departmental Interpretation and Practice Notes No.21 (Revised) - Locality of Profits issued by the IRD in March 1998.

Such offshore treatment is not applicable to the assessable profits arising from the processing activities subcontracted to other PRC sub-contractors, which are fully subject to Hong Kong profits tax. The portion of SUI's assessable profits allowable for the 50% offshore treatment is calculated by reference to the proportion of the direct labour, manufacturing overheads, mould costs and administrative expenses of Zhang Yang Factory and Po Shan Factory (collectively "Manufacturing Costs") to the aggregation of the Manufacturing Costs and the sub-contracting fees paid to other PRC sub-contractors. For the year ended 31 December 2006, the effective portion of SUI's assessable profits allowed as offshore and not subject to Hong Kong profits tax was 37.06% (2005: 33.02%).

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

	2006	**2005**
	HK$'000	*HK$'000*
Current taxation:		
- Hong Kong profits tax	3,899	6,111
- PRC enterprise income tax	534	—
Under-provision in prior years	239	—
Deferred income tax relating to the origination and reversal of temporary differences	464	(741)
	5,136	5,370

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

	2006	**2005**
	HK$'000	*HK$'000*
Profit before tax	35,768	42,042
Calculated at a tax rate of 17.5%	6,259	7,357
Effect of different taxation rates in other countries	251	—
Income not subject to taxation	(1,696)	(2,276)
Expenses not deductible for taxation purposes	317	40
Unrecognised tax losses	369	249
Utilisation of previously unrecognised tax losses	(603)	—
Under-provision in prior years	239	—
Income tax expense	5,136	5,370

9 **Earnings per share**

The calculation of basic earnings per share is based on the consolidated profit attributable to equity holders of the Company of approximately HK$30,025,000 (2005: HK$36,672,000) and on the weighted average number of HK$195,452,000 (2005: HK$180,000,000) ordinary shares in issue during the year. In determining the number of shares in issue, a total of 180,000,000 shares issued in connection with the Reorganisation and the capitalisation issue were deemed to have been issued since 1 January 2005.

	2006	**2005**
Profit attributable to equity holders of the Company (HK$'000)	30,025	36,672
Weighted average number of ordinary shares in issue (thousands)	195,452	180,000
Basic earnings per share (HK$) per share	0.15	0.20

The Company has no diluted potential ordinary shares as at 31 December 2006.

10 **Dividends**

	2006 HK$'000	2005 HK$'000
Dividends paid by the subsidiaries to their then shareholders before the Reorganisation (note a)	—	23,000
Proposed special dividend of HK$0.022 (2005: Nil) per ordinary share (note b)	5,280	—
Proposed final dividend of HK$0.038 (2005: Nil) per ordinary share (note b)	9,120	—
	14,400	23,000

(a) Dividends for the year ended 31 December 2005 represented (i) a final dividend in relation to 2005 declared and paid by Smart Union Investments Limited to its then shareholders of HK$13,000,000 and (ii) a special dividend in relation to 2005 of HK$10,000,000 declared and paid to their then shareholders during 2006 and prior to the completion of the Reorganisation (see note 1). As part of the Reorganisation, such amounts were capitalised by the then shareholders.

(b) At a meeting held on 20 April 2007, the directors proposed a special dividend of HK$0.022 per ordinary share and a final dividend of HK$0.038 per ordinary share. The proposed dividends are not reflected as dividends payable in the financial statements but will be reflected as an appropriation of retained earnings for the year ending 31 December 2007.

11 **Trade receivables**

	Group 2006 HK$'000	Group 2005 HK$'000
Trade receivables	104,701	86,409
Less: provision for impairment of receivables	(672)	(1,872)
	104,029	84,537

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

The aging analysis of trade receivables as at 31 December 2006 and 2005 are as follows:

	Group 2006 HK$'000	Group 2005 HK$'000
0-30 days	78,737	63,994
31-60 days	5,670	9,278
61-90 days	11,394	6,955
91 days - 1 year	8,633	5,365
1-2 years	267	817
	104,701	86,409

12 **Trade payables**

The aging analysis of trade payables as at 31 December 2006 and 2005 are as follows:

	Group	
	2006	**2005**
	HK$'000	*HK$'000*
0-30 days	83,478	46,364
31-60 days	35,128	27,858
61-90 days	17,913	17,028
91 days - 1 year	18,862	18,404
1-2 years	2,405	2,272
Over 2 years	1,051	—
	158,837	111,926

MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS

For the year ended 31 December 2006, the Group recorded a turnover of approximately HK$727.2 million (2005: HK$709.6 million) representing an increase of approximately 2.5% increase. The increase was driven by the turnover contributed from the operation of our subsidiary, Dream Link Limited ("Dream Link"). The profit attributable to equity holders of the Company was dropped by approximately 18.2% to approximately HK$30.0 million (2005: HK$36.7 million) by which the basic earning per share was HK15 cents (2005: HK20 cents). The financial year 2006 was challenging for our toys production business. Increase in statutory minimum wages of labour, unstable supply of electricity, appreciation of renminbi against the Hong Kong dollar and increase in interest rate caused the increase in operating cost and overheads. In addition, the Group's net profit was affected by written off of pre operating expenses of Qing Yuan factory during the year and the increased expenses for enhanced corporate governance.

Comparing with the Group's sales by product type, educational and recreational products and sports products such as bouncers had a healthy growth in the reporting period under review. As many of the sports products are for spring and summer activities, the growth of this category can help the Group to reduce seasonality fluctuation in toys industry.

Analysis of group's sales by product type

	2003	**2004**	**2005**	**2006**
Hard and electronic toys	50%	61%	57%	54%
Educational and recreational products	26%	23%	19%	21%
Soft toys	19%	9%	9%	9%
Sports products	0%	1%	10%	15%
Others	5%	6%	5%	1%
	100%	100%	100%	100%

On the other hand, our subsidiary, Dream Link which is focused on ODM and OBM business started profit contribution in 2006. Sales of Dream Link reached approximately HK$46.2 million, which was more than doubled that of the previous year. The growth of Dream Link contributed to the Group's gross margin despite rigorous pricing competition in the market, resulting in the gross profit margin increase from approximately 14.95% to 16.81%.

Some customers postpone the delivery of spring items such as bouncers in the year under review to first quarter of year 2007. In additions, the Group received orders from two renowned customers for the production of Spider-man III action toys in which the movie will have global show in May this year. Therefore the sales of the Group in the first quarter of this year had doubled compare with the year under review.

The increase in interest rate and bank borrowing caused the finance cost of the Group to be increased by approximately 73.2% compared with last year and amounted to approximately HK$10 million (2005: HK$5.8 million). Bank borrowing increases due to increase in working capital and capital investment of Qing Yuan plant. Nowadays, many customers request short and tight delivery lead time to avoid their inventory risk which result in the Group having to build up inventories and incur extra working capital. The Group has taken a series of important steps to reduce the working capital requirement by stringent control of inventories and account receivables. In addition, the Group raised funds from our initial public offering on the HKSE in September 2006 to support further development of Qing Yuan plant this reducing borrowing for Qing Yuan plant.

Liquidity and Financial Resources

As at 31 December, 2006, the Group had bank balances and cash of approximately HK$64.9 million (2005: HK$11.5 million) and pledged bank deposit of approximately HK$5.3 million (2005: HK$2.8 million) secured for banking facilities granted. During the year under review, the Group was granted banking facilities in a total of approximately HK$235 million secured by fixed deposits and corporate guarantee given by the Group.

The Group's gearing ratio, representing total bank borrowing less bank balances and cash (including pledged bank deposits) and divided by shareholders' equity was approximately 37.8% (2005: 52.9%).

Assets and Liabilities

As at 31 December, 2006, the Group had total assets of approximately HK$483.3 million (2005: HK$301.2 million), total liabilities of approximately HK$316.3 million (2005: HK$208.2 million). The net assets of the Group increased by approximately 79.4% to approximately HK$167 million at the year ended (2005: HK$93.1 million).

Exchange Rate Risk

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

Capital Structure

There has been no change in the capital structure of the Company since the date of the prospectus of the Company dated 19 September 2006. The share capital of the Company comprises only ordinary shares.

DIVIDENDS

The directors of the Group recommend a final dividend of HK$ 3.8 cents per share in respect of the year ended 31 December 2006 and a special dividend of HK$2.2 cents per share in view of the Group's first year listing and to thanks for the shareholders' support to the shareholders of the Company whose name appear on the register of members on 18 May 2007.

BUSINESS REVIEW

The year of 2006 was a very challenging year for the toy manufacturing industry characterized by strong competition and rising commodity and labour costs. To overcome these challenges, the Group carried out a series of marketing strategies in order to optimise its product mix, further develop the OBM/ODM business, and enhance its toy manufacturing.

In 2006, the marketing strategy of the Group's core business, the OEM business was coincided with the marketing strategy developed in the past year. In light of the niche market in integrated products, the Group manufactured products that require integration of product lines across different industries, such as electronic toy integration with educational recreational product and toy integration with food-grade product. The product lines crossover created a one-stop-shop as those outsourced materials could now be self-supported. This largely improved profit margins, boosted the production capacity and diverse product types of the Group. Also, the process of integration further differentiated products of the Group from its competitors and hence strengthened its competitiveness.

To enhance the toy manufacturing of the Group, an initial three years long-term exclusive manufacturing agreement has been signed between the Group and Artin International (Holdings) Limited ("Artin"), the world leading road race products company, to produce road race products effective from 1 January 2007. The initial production value target for 2007 reaches HK$150 million. In order to facilitate a smooth production scheduling, the Group will manage the production facilities on behalf of Artin in an area of 450,000 square feet in Dongguan, and use the facilities and equipment for free in the first year of the agreement. The move was on the ground that globalisation accelerates the process of industry specialisation. The Directors consider the partnership with Artin is definitely a good deal for the Group, on the ground that we do not have immediate capital outlay but secure a handsome production value even in the first year of cooperation. Therefore, the Group looks forward to having the partnership with Artin flourish, as well as being offer road race fans a great product line with wide selection to collect and play. In the past years, the Group has invested and established the reputation in the market as a turnkey manufacturer of carrying the sophisticated capability of combining plastic, fabric or electronic components into a single product. It lays the foundation for establishing partnership with companies like Artin which looks for strong manufacturing capability and stringent quality control.

In order to enlarge the production scale and improve cost effectiveness of the Group, the Qing Yuan factory was constructed. Qing Yuan Factory has started the operation in the forth quarter of 2006. Qing Yuan Factory occupies a site area of approximately 154,280 square meters and at present 1,500 workers are in operation. The production capacity will reach one-third of the current one. The phase 1B of Qing Yuan Factory is proceeding smoothly and is about to be completed in the mid of 2007 and will be commenced to operate in the 3rd quarter of 2007. The phase 1B is under construction which involves about HK$30,000,000, which will partly be paid off by the listing proceeds, and it is expected to start operation by the end of 2007. There will be totally 4,000 workers when the two phases are in operation. The management is optimistic to the production prospects of Qing Yuan Factory. It is believed that the production capacity of the factory will facilitate the Group in exploring diversified customer network worldwide and building up a solid base for the business development in the coming year. The commencement of operation in the Qing Yuan Factory has demonstrated the enlarged production scale and improved production level, in which the Group is promising to become the largest toy production base in China. This will enhance the Group's production capacity in combining plastics, textile fabrics and electronic components into one single product. The Group endeavors to become a world-class toy supplier, and the strengthened production capacity would assist the Group in exploring high profit margin and high value-added product market, widening the customer network and expanding the revenue basis.

The Dream Link operations provided sourcing, design and engineering of the gift products for the clients and market their own created products under the brand Dream Cheeky. The creativity on the electronic entertainment gift category enable Dream Link to build up good relationship with the UK customers and achieved the critical mass on the operation in 2006 and contributed positive result to the group. In 2006, Dream Link has marketed seven computer companion products with USB connection, four remote control toys for the "big Boys" in the gift category. These contribute around 40% of their turnover and the balance of the sales are ODM products such as airflow, sporting entertainment products and other license products for the clients. The sales channels in UK have been reinforced, and we envisaged there will have growth of sales via internet channels for the USB products. The sales under this channels will further increase the profit margin of the Dream Link business.

Last year, Dream Link has set up a product showroom sized approximately 8,000 square feet in Shenzhen, the PRC. The products displayed ranging from electronic gifts to outdoor activities equipment. The Group believes that rapid development, vast market and attractive business opportunities in the PRC would create a favourable environment for its development of OBM business. It is expected that both the ODM and OBM business will become one of the major growth drivers in the foreseeable future.

Future plan and prospects

In the coming year, the Group will continue to adjust its marketing strategies to tie in the changing market, aiming at sustaining steady growth in core business, exploring markets and opportunities for the OBM business in China and the U.S., developing new manufacturing process for the niche market and enhancing collaboration with other industries for further business growth.

Dream Cheeky will launch over 20 new computer companion USB products launch to the market and the sales growth rate of Dream Link is expected to continue. The engineering and sales office of Dreamlink will be consolidated in Shenzhen and a show room for the sporting goods and USB products will be ready in 2007 to prepare for the next business growth driver for Dream Link in the China Market.

The niche sporting products has steady growth contributing to approximately 15% of the Group's sales apart from the fabric airflow lines and the unique backpacks categories, the Group has extended to the niche design for the preschool ride-on category and will continue steadily expand via cooperate design and development with our marketing partners.

The Group has continued to focus on the productivity of high volume categories of OEM opportunities and have been gaining ground with major marketing partners. The Group believes such trend will allow the Company to build up stronger industrial engineering capability and continue to achieve the economy of scales in the production processes. This direction will enable the Group to remain competitive in the costing area.

The Group is under an operational restructuring and Zhang Yang Plant in our Zhangmutou operations will be the centralized service and engineering support area. This will enable the Group to reduce duplication of resources, improve our flexibility of capacity utilization and set uniformity of the Group's operating and ERP system among our multi-plants operations. The purchasing function will be consolidated and believe can continue improve the ability to acquire material through greater bulk purchases.

The Group expects to grow in sales as Phase 1A of the Qing Yuan factory has been in full production and sales of both sport and spring items will be enlarged in the coming year. Further, with cooperation from Artin on production of road race products and smooth operation of Dream Link, sales and profit of the Group will also be boosted in the forthcoming year.

Despite of keen competition in the industry, increasing labour costs and overhead costs for the Qing Yuan factory and appreciation of Renminbi that is likely to continue in 2007, the Group believes that there is substantial growth potential for the toy industry in China and overseas in future.

Purchase, sale or redemption of securities

The Company has not redeemed any of its shares during the year. Other than the issue of 240,000,000 shares by the Company during the year (including 60,000,000 shares issued upon the listing of the shares of the Company on the HKSE on 29 September 2006), neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the year.

Compliance with the code on corporate governance practices

The Company has applied the principles the code provision in the code on corporate governance practice ("the Code") as set out in Appendix 14 of the Listing Rules. The Group has complied with the Code for the year ended 31 December 2006 with deviation explained below.

No meeting of the nomination committee and remuneration committee has been held since the listing of the Company's shares on 29 September 2006 up to 31 December 2006. The Company has scheduled a nomination committee and a remuneration committee meeting to be held on 20 April 2007. The Group will continue to monitor the corporate governance practices to ensure that such practices meet the Code.

Review of financial statements

The audit committee of the Company has reviewed the annual results of the Group for the year ended 31 December 2006.

Closure of register of members

The register of members of the Company will be closed from 15 May 2007 to 17 May 2007, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the final dividend and the scrip dividend to be approved at the general meeting, all transfers accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not later than 4:00 p.m., 14 May 2007

Appreciation

I would like to express my deepest gratitude to all our stakeholders, customers, business partners and suppliers, for their continuous support and confidence in the Group. My sincere appreciation also goes to the management and all our staff's indispensable and enthusiastic contributions and their commitment to enabling we encounter every challenge faced by the Group for the year. I look forward to the continuous returns generated by the Group to all stakeholders in future.

General Information

As at the date of this announcement, the executive Directors are Mr. Wu Kam Bun, Mr. Lai Chiu Tai, Mr. Lo Kwok Choi, Mr. Ho Wai Wah and Mr. Wong Wai Chuen; and the independent non-executive Directors are 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, 20 April, 2007

Please also refer to the published version of this announcement in The Standard.