



On behalf of the Board of Directors of Smart Union Group (Holdings) Limited (the "Company") and its subsidiaries (together, the "Group"), I have the pleasure of presenting to you the Group's financial results for the year ended 31st December 2006.

2006 is a milestone for our company as we opened a new chapter by having our Company listed on the main board of The Stock Exchange of Hong Kong Limited on 29th September 2006. The Group is dedicated long-term to manufacture wide ranges of products that bring fun and happiness to the customers. In line of broadening product portfolio and geographical reach, we have made several accomplishments in our landmark year:

1. we completed phase 1A of our factory in Qing Yuan, Guangdong, China in the second half of the year and expanded our capacity to approximately 1,500 workers;
2. we successfully changed the landscape of seasonality factor in traditional toy industry by offering value-added sports and spring items during low season which can maximise production capacity via utilising idle capacity during low season;
3. our brand "Dream Cheeky", which focuses on gift items, products with USB application, and outdoor activities products such as bouncer, sport and table game, made a significant step by starting to contribute profit to the Group;
4. we partnered with the world leading road race products company, Artin International (Holdings) Limited, to become their sole manufacture of road race products with effective on 1st January 2007 with the initial production value target for 2007 reaches HK\$150 million.

FINANCIAL REVIEW

For the year ended 31st 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%. 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 18.2% to approximately HK\$30.0 million (2005: HK\$36.7 million) by which the basic earning per share was 15 HK cents (2005: 20 HK cents).

The year ended 31st December 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. However, 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 from the previous year. The growth of Dream Link contributed to the Group's gross margin despite tough pricing competition in the market, resulting in the gross profit margin increase from 14.95% to 16.81%.

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.

The Group expects to grow in sales as viewing that 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 with Artin on production of road race products and smooth operation of Dream Link, sales and profit of the Group is expected to be boosted in the forthcoming year.

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

Last but not the least, the Group will identify high potential business opportunities to grow in parallel to the core business.

In conclusion, I would like to express my deepest gratitude to all our shareholders, 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 us to encounter every challenge faced by the Group for the year. I look forward to the continuous returns generated by the Group to all shareholders in future.

By order of the Board

Wu Kam Bun

Chairman

Hong Kong, 20th April 2007