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Corporate Information

Directors

Executive directors

Ms. Cheung Yan, Priscilla, *Chairman*
 Ms. Cheung Man, Catherine
 Mr. Hui Kwok Chu
 Mr. Kung Ka Pang, *Chief Executive Officer*
 Mr. Cheung Wang

Independent non-executive directors

Mr. Wong Yam Fung
 Mr. Lam Yu Lung
 Mr. Lam Chin Fung

Registered office

Clarendon House
 2 Church Street
 Hamilton HM 11
 Bermuda

Head office and principal place of business in Hong Kong

18th Floor
 Wing Wong Commercial Building
 Nos. 557 and 559 Nathan Road
 Yaumatei
 Kowloon
 Hong Kong

Company secretary

Ms. Lo Suk Yee, Roxanna, *FCCA, AHKICPA*
 Mr. Ira Stuart Outerbridge III, Assistant Secretary

Authorised representatives under Listing Rules

Ms. Cheung Yan, Priscilla
 Ms. Lo Suk Yee, Roxanna

Auditors

Ernst & Young, *Certified Public Accountants*

Audit committee members

Mr. Wong Yam Fung
 Mr. Lam Yu Lung
 Mr. Lam Chin Fung

Remuneration committee members

Ms. Cheung Man, Catherine
 Mr. Wong Yam Fung
 Mr. Lam Yu Lung
 Mr. Lam Chin Fung

Qualified accountant

Ms. Lo Suk Yee, Roxanna, *FCCA, AHKICPA*

Stock code

209

Warrant code

134

Principal share registrar and transfer office

Butterfield Fund Services (Bermuda) Limited
 Rosebank Centre
 11 Bermudiana Road
 Pembroke
 Bermuda

Hong Kong branch share registrar and transfer office

Tengis Limited
 Ground Floor
 Bank of East Asia Harbour View Centre
 56 Gloucester Road
 Wanchai
 Hong Kong

Principal bankers

Fubon Bank (Hong Kong) Limited
 Industrial and Commercial Bank of
 China (Asia) Limited

Report of the Auditors



安永會計師事務所

To the directors

Sewco International Holdings Limited

(Incorporated in Bermuda with limited liability)

We have audited the interim financial statements on pages 5 to 28 which have been prepared in accordance with accounting principles generally accepted in Hong Kong applicable for interim financial statements.

Respective responsibilities of directors and auditors

The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of interim financial statements to be in compliance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and the relevant provisions thereof. The interim financial statements are the responsibility of, and have been approved by, the directors.

It is our responsibility to form an independent opinion, based on our audit, on the interim financial statements and to report our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Basis of opinion

We conducted our audit in accordance with Statements of Auditing Standards issued by the HKICPA. An audit includes an examination, on a test basis, of evidence relevant to the amounts and disclosures in the interim financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the interim financial statements, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

Report of the Auditors

Basis of opinion (continued)

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the interim financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Fundamental uncertainty – Ongoing ICAC Investigation

As further explained in note 2 to the financial statements, in June 2005, certain senior executives and directors of the Group, including the then Chairman of the board of directors of the Company and an executive director of the Company, were arrested by the Independent Commission Against Corruption (the “ICAC”) and were alleged to have solicited illegal rebates from certain suppliers for placing purchase orders with them between the years 2002 and 2004. The ICAC’s investigation (the “ICAC Investigation”) is currently underway. Further details of the above were included in the Company’s announcement dated 6 July 2005 (the “Announcement”). At the date of this report, save as disclosed above and in the Announcement, the Company is not aware of the current status of the ICAC Investigation, and hence any possible impact on the Group’s operations and financial position.

In forming our opinion, we have considered the adequacy of the disclosures made in the financial statements in respect of the ICAC Investigation. We consider that the fundamental uncertainty has been adequately disclosed in the financial statements and our opinion is not qualified in this respect.

Opinion

In our opinion the interim financial statements give a true and fair view of the state of the Group’s affairs as at 30 June 2005 and of its loss and cash flows for the six months then ended.

Ernst & Young

Certified Public Accountants

Hong Kong
21 September 2005

Condensed Consolidated Income Statement

For the six months ended 30 June 2005

		For the six months ended	
		30 June	
		2005	2004
	<i>Notes</i>	HK\$'000	HK\$'000
		(Audited)	(Unaudited)
			(Restated)
REVENUE – sale of goods	4	261,978	169,491
Cost of sales		(236,873)	(136,712)
Gross profit		25,105	32,779
Other revenue and gain	5	2,806	1,210
Selling and distribution costs		(8,709)	(5,469)
Administrative expenses		(20,099)	(17,387)
Other operating income/(expenses)		153	(202)
Finance costs	6	(306)	(210)
Share of losses of associates		(368)	(497)
Amortisation of goodwill on acquisition of associates		–	(403)
PROFIT/(LOSS) BEFORE TAX	7	(1,418)	9,821
Tax	8	(434)	(217)
PROFIT/(LOSS) FOR THE PERIOD ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT		(1,852)	9,604
DIVIDEND – interim	9	–	4,480
EARNINGS/(LOSS) PER SHARE – basic	10	(HK0.41 cents)	HK2.14 cents

Condensed Consolidated Balance Sheet

30 June 2005

	<i>Notes</i>	30 June 2005 HK\$'000 (Audited)	31 December 2004 HK\$'000 (Audited) (Restated)
NON-CURRENT ASSETS			
Fixed assets		141,278	139,534
Prepaid land premiums	3	9,947	10,070
Interests in associates	11	5,344	7,291
Club debentures		600	600
Loan receivable		1,025	1,115
		158,194	158,610
CURRENT ASSETS			
Prepaid land premiums	3	247	247
Inventories	12	94,498	100,511
Trade receivables	13	83,473	60,071
Prepayments, deposits and other receivables		8,539	15,350
Loan receivable		180	180
Due from a related company	20	4	–
Cash and cash equivalents	14	23,543	19,462
		210,484	195,821
CURRENT LIABILITIES			
Trade payables	15	81,205	76,917
Other payables and accruals		15,545	16,091
Bank overdraft	16	2,272	–
Interest-bearing bank borrowings	16	22,550	5,960
Tax payable		3,118	2,635
Due to an ex-director	20	3,500	–
		128,190	101,603
NET CURRENT ASSETS		82,294	94,218
TOTAL ASSETS LESS CURRENT LIABILITIES		240,488	252,828
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	16	–	9,570
Deferred tax liabilities		3,432	3,646
		3,432	13,216
		237,056	239,612
CAPITAL AND RESERVES			
Issued capital	17	44,543	44,801
Reserves	18	192,513	194,811
		237,056	239,612

Cheung Yan, Priscilla
Director

Cheung Man, Catherine
Director

Condensed Consolidated Summary Statement of Changes in Equity

For the six months ended 30 June 2005

		For the six months ended	
		30 June	
		2005	2004
<i>Notes</i>		HK\$'000	HK\$'000
		(Audited)	(Unaudited)
			(Restated)
Total equity at 1 January:			
As previously reported as equity		255,005	247,112
Prior period adjustment – HKAS 17			
restatement of prepaid land premiums		(15,393)	(15,635)
		239,612	231,477
Changes in equity during the period:			
Repurchase of shares		(786)	–
Exchange differences on translating			
foreign operations		82	44
Net income/(loss) recognised directly in equity		(704)	44
Profit/(loss) for the period		(1,852)	9,604
Total recognised income and expense			
for the period attributable to equity			
holders of the parent		(2,556)	9,648
Total equity at 30 June		237,056	241,125
Effect of prior period adjustment attributable			
to equity holders of the parent		(15,393)	(15,635)

Condensed Consolidated Cash Flow Statement

For the six months ended 30 June 2005

	From 1 January 2005 to 30 June 2005 HK\$'000 (Audited)	From 1 January 2004 to 30 June 2004 HK\$'000 (Unaudited)
<i>Notes</i>		
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	(3,101)	(7,125)
NET CASH OUTFLOW FROM INVESTING ACTIVITIES	(4,830)	(8,604)
NET CASH INFLOW/(OUTFLOW) FROM FINANCING ACTIVITIES	9,734	(1,490)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	1,803	(17,219)
Exchange gain from re-translating operating cash and bank balances	6	–
Cash and cash equivalents at beginning of period	19,462	56,349
CASH AND CASH EQUIVALENTS AT END OF PERIOD	21,271	39,130
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	5,931	25,780
Time deposits with original maturity of less than three months when acquired	17,612	13,350
Bank overdraft	(2,272)	–
	21,271	39,130

Notes to Condensed Consolidated Interim Financial Statements

30 June 2005

1. CORPORATE INFORMATION

The registered office of the Company is located at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda.

During the period, the Group was involved in the manufacture and trading of hard and stuffed toys.

In the opinion of the directors, the ultimate holding company of the Company is Great Victory International Inc., a company incorporated in the British Virgin Islands.

The Company is an exempted company incorporated in Bermuda with limited liability and its shares and warrants are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

2. INVESTIGATION BY THE INDEPENDENT COMMISSION AGAINST CORRUPTION

In June 2005, certain senior executives and directors of the Group, including the then Chairman of the board of directors of the Company and an executive director of the Company, were arrested by the Independent Commission Against Corruption (the "ICAC") and were alleged to have solicited illegal rebates from certain suppliers for placing purchase orders with them between the years 2002 and 2004. The ICAC's investigation (the "ICAC Investigation") is currently underway. Further details of the above were included in the Company's announcement dated 6 July 2005 (the "Announcement"). At the date of these interim financial statements, save as disclosed above and in the Announcement, the Company is not aware of the current status of the ICAC Investigation. In the absence of further information about the ICAC Investigation, the directors have conducted their own review of the financial implications of the ICAC Investigation and as at the date of these interim financial statements are not aware of any circumstances which lead them to believe that the ICAC Investigation would result in significant adverse implications on the Group's operations and financial position.

Despite the lack of further information relating to the ICAC Investigation, the board of directors of the Company has taken a series of measures to minimise uncertainties due to the ICAC Investigation and safeguard the interests of the Group, its shareholders and customers by way of changes of certain directorships. Further details of these changes are disclosed in the Announcement.

Notes to Condensed Consolidated Interim Financial Statements

30 June 2005

3. ACCOUNTING POLICIES

The condensed consolidated interim financial statements 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 (the "HKICPA"). The accounting policies and basis of preparation adopted in the preparation of the interim financial statements are the same as those used in the annual financial statements for the year ended 31 December 2004, except in relation to the following new and revised Hong Kong Financial Reporting Standards ("HKFRSs", which also include HKASs and Interpretations) that affect the Group and are adopted for the first time for the current period's financial statements:

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 12	Income Taxes
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Investments in Associates
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 40	Investment Property
HKFRS 2	Share-based Payment
HKFRS 3	Business Combinations
HK(SIC)-Int 21	Income Taxes – Recovery of Revalued Non-depreciable Assets
HK-Int 4	Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases

Notes to Condensed Consolidated Interim Financial Statements

30 June 2005

3. ACCOUNTING POLICIES (continued)

Except for HKAS 17, HKAS 36 and HKFRS 3, the adoption of the above new and revised HKFRSs has had no material impact on the accounting policies of the Group and the methods of computation in the Group's condensed consolidated interim financial statements. The impact of adopting HKAS 17, HKAS 36 and HKFRS 3 are summarised as follows:

(a) HKAS 17 – Leases

In prior periods, leasehold land and buildings held for own use were stated at cost or valuation less accumulated depreciation and any impairment losses.

Upon the adoption of HKAS 17, the Group's leasehold interest in land and buildings is separated into leasehold land and leasehold buildings. The Group's leasehold land is classified as an operating lease, because the title of the land is not expected to pass to the Group by the end of the lease term, and is reclassified from fixed assets to prepaid land premiums, while leasehold buildings continue to be classified as part of property, plant and equipment. Prepaid land premiums for land lease payments under operating leases are initially stated at cost and subsequently amortised on the straight-line basis over the lease term. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

This change in accounting policy has resulted in the following:

- (i) a decrease in the Group's fixed assets as at 31 December 2004 by HK\$26,537,000;
- (ii) an increase in the Group's prepaid land premiums as at 31 December 2004 by HK\$10,317,000;
- (iii) a decrease in the Group's deferred tax liabilities as at 31 December 2004 by HK\$827,000; and
- (iv) a decrease in the Group's fixed asset revaluation reserve as at 31 December 2004 by HK\$15,393,000.

As a consequence, the Group's total equity as at 1 January 2005 has been decreased by HK\$15,393,000 (1 January 2004: HK\$15,635,000), the consolidated loss for the period ended 30 June 2005 has been decreased by HK\$121,000 (2004: profit increased by HK\$121,000) and the basic loss per share amount for the period has been decreased by HK0.02 cents (2004: basic earnings per share increased by HK0.02 cents).

Notes to Condensed Consolidated Interim Financial Statements

30 June 2005

3. ACCOUNTING POLICIES (continued)

(b) HKAS 36 – Impairment of Assets and HKFRS 3 – Business Combinations

In prior periods, goodwill arising on acquisitions was capitalised and amortised on the straight-line basis over its estimated useful life and was subject to impairment testing when there was any indication of impairment.

Upon the adoption of HKAS 36 and HKFRS 3, goodwill arising on acquisitions is no longer amortised but subject to an annual impairment review (or more frequently if events or changes in circumstances indicate that the carrying value may be impaired). Any impairment loss recognised for goodwill is not reversed in the subsequent periods.

4. SEGMENT INFORMATION

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other business segments. Summary details of the business segments are as follows:

- (a) the hard toys segment manufactures and trades hard toy products;
- (b) the stuffed toys segment manufactures and trades stuffed toy products; and
- (c) the corporate segment comprises general corporate income and expense items.

In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the Group's markets and customers.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

Notes to Condensed Consolidated Interim Financial Statements

30 June 2005

4. SEGMENT INFORMATION (continued)

(a) Business segments

The following table presents the Group's revenue and results for the Group's business segments for the six months ended 30 June 2005 and 2004.

	Hard toys		Stuffed toys		Corporate		Eliminations		Consolidated	
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Audited)	(Unaudited)	(Audited)	(Unaudited)	(Audited)	(Unaudited)	(Audited)	(Unaudited)	(Audited)	(Unaudited)
	(Restated)									
Segment revenue:										
Sales to external customers	213,803	146,271	48,175	23,220	-	-	-	-	261,978	169,491
Other revenue from external sources	2,231	947	35	54	384	-	-	-	2,650	1,001
Intersegment other revenue	616	616	-	-	-	8,960	(616)	(9,576)	-	-
Total	216,650	147,834	48,210	23,274	384	8,960	(616)	(9,576)	264,628	170,492
Segment results	958	9,974	969	1,434	(3,011)	8,890	184	(9,576)	(900)	10,722
Interest income									156	209
Finance costs									(306)	(210)
Share of losses of associates									(368)	(497)
Amortisation of goodwill on acquisition of associates									-	(403)
Profit/(loss) before tax									(1,418)	9,821
Tax									(434)	(217)
Profit/(loss) for the period attributable to equity holders of the parent									(1,852)	9,604

Notes to Condensed Consolidated Interim Financial Statements

30 June 2005

4. SEGMENT INFORMATION (continued)

(b) Geographical segments

The following table presents the Group's revenue information regarding its geographical segments for the six months ended 30 June 2005 and 2004.

	USA and Canada		Japan and others		Hong Kong and Mainland China		Corporate and eliminations		Consolidated	
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
	HK\$'000 (Audited)	HK\$'000 (Unaudited)	HK\$'000 (Audited)	HK\$'000 (Unaudited)	HK\$'000 (Audited)	HK\$'000 (Unaudited)	HK\$'000 (Audited)	HK\$'000 (Unaudited)	HK\$'000 (Audited)	HK\$'000 (Unaudited)
Segment revenue:										
Sales to external customers	231,779	136,178	27,470	28,209	2,729	5,104	-	-	261,978	169,491
Other revenue	782	508	507	300	977	193	384	-	2,650	1,001
Total	232,561	136,686	27,977	28,509	3,706	5,297	384	-	264,628	170,492

5. OTHER REVENUE AND GAIN

	For the six months ended 30 June	
	2005 HK\$'000 (Audited)	2004 HK\$'000 (Unaudited)
Other revenue and gain		
Mould income	777	920
Interest income	156	209
Sundry income	1,491	81
Dividend income from listed investments	17	-
Gain on disposal of short term listed investments	365	-
	2,806	1,210

Notes to Condensed Consolidated Interim Financial Statements

30 June 2005

6. FINANCE COSTS

	For the six months ended	
	30 June	
	2005	2004
	HK\$'000	HK\$'000
	(Audited)	(Unaudited)
Interest expense on a bank overdraft and bank loans wholly repayable within five years	306	210

7. PROFIT/(LOSS) BEFORE TAX

The Group's profit/(loss) before tax is arrived at after charging/(crediting):

	For the six months ended	
	30 June	
	2005	2004
	HK\$'000	HK\$'000
	(Audited)	(Unaudited)
		(Restated)
Cost of inventories sold	234,928	136,712
Provision against obsolete inventories	1,945	–
Depreciation*	5,063	4,627
Loss/(gain) on disposal of fixed assets, net**	(153)	202
Amortisation of prepaid land premiums	241	241
Amortisation of goodwill on acquisition of associates	–	403

* Depreciation of HK\$2,718,000 (2004: HK\$3,446,000) was also included in "Cost of inventories sold".

** This item is included in "Other operating income/(expenses)" on the face of the condensed consolidated income statement.

Notes to Condensed Consolidated Interim Financial Statements

30 June 2005

8. TAX

Hong Kong profits tax has been provided at the rate of 17.5% (2004: 17.5%) on the estimated assessable profits arising in Hong Kong during the period.

The provision for income tax of a subsidiary operating in Mainland China has been calculated at the applicable rate of tax prevailing in the areas in which that subsidiary operates, based on existing legislation, interpretations and practices in respect thereof, during the period.

	For the six months ended	
	30 June	
	2005	2004
	HK\$'000	HK\$'000
	(Audited)	(Unaudited)
Current – Hong Kong		
Charge for the period	24	7
Underprovision in prior year	208	–
Current – Mainland China	416	210
Deferred tax	(214)	–
	<hr/>	<hr/>
Total tax charge for the period	434	217
	<hr/> <hr/>	<hr/> <hr/>

9. DIVIDEND

	For the six months ended	
	30 June	
	2005	2004
	HK\$'000	HK\$'000
	(Audited)	(Unaudited)
Interim dividend – Nil (2004: HK1 cent) per ordinary share	–	4,480
	<hr/> <hr/>	<hr/> <hr/>

Notes to Condensed Consolidated Interim Financial Statements

30 June 2005

10. EARNINGS/(LOSS) PER SHARE

The calculation of the basic loss per share for the six months ended 30 June 2005 is based on the loss attributable to equity holders of the parent for the period of HK\$1,852,000 (six months ended 30 June 2004: profit of HK\$9,604,000) and the weighted average of 447,170,000 (six months ended 30 June 2004: 448,002,000) ordinary shares in issue during the period.

A diluted loss per share amount for the six months ended 30 June 2005 has not been disclosed, as the warrants outstanding during the period had an anti-dilutive effect on the basic loss per share for the period.

Since the exercise price of the Company's warrants was higher than the average market price of the Company's shares during the period ended 30 June 2004, there were no dilutive potential ordinary shares outstanding during the period and therefore no diluted earnings per share amount was presented for that period.

11. INTERESTS IN ASSOCIATES

	30 June 2005 HK\$'000 (Audited)	31 December 2004 HK\$'000 (Audited)
Share of net assets	–	368
Goodwill on acquisition	6,440	6,440
Less: Goodwill amortisation	(1,476)	(1,476)
Advance to an associate	380	1,959
	5,344	7,291

The advance made to an associate is unsecured, bears interest at the best lending rate quoted by The Hongkong and Shanghai Banking Corporation Limited plus 2% per annum and has no fixed terms of repayment.

Notes to Condensed Consolidated Interim Financial Statements

30 June 2005

12. INVENTORIES

	30 June 2005 HK\$'000 (Audited)	31 December 2004 HK\$'000 (Audited)
Raw materials	42,877	49,003
Work in progress	27,526	32,971
Finished goods	24,095	18,537
	94,498	100,511

The carrying amount of inventories carried at net realisable value included in the above balance was nil (2004: HK\$3,734,000).

13. TRADE RECEIVABLES

An aged analysis of the trade receivables from the sale of goods at the balance sheet date, based on invoice date, is as follows:

	30 June 2005 HK\$'000 (Audited)	31 December 2004 HK\$'000 (Audited)
Current to 30 days	65,068	44,282
31 to 90 days	18,405	15,789
	83,473	60,071

The Group normally allows credit terms for established customers ranging from 14 to 90 days.

Notes to Condensed Consolidated Interim Financial Statements

30 June 2005

14. CASH AND CASH EQUIVALENTS

	30 June 2005 HK\$'000 (Audited)	31 December 2004 HK\$'000 (Audited)
Cash and bank balances	5,931	11,406
Time deposits	17,612	8,056
	23,543	19,462

15. TRADE PAYABLES

An aged analysis of the trade payables as at the balance sheet date, based on invoice date, is as follows:

	30 June 2005 HK\$'000 (Audited)	31 December 2004 HK\$'000 (Audited)
Current to 30 days	44,002	48,443
31 to 90 days	35,565	28,370
Over 90 days	1,638	104
	81,205	76,917

Notes to Condensed Consolidated Interim Financial Statements

30 June 2005

16. INTEREST-BEARING BANK BORROWINGS

	30 June 2005 HK\$'000 (Audited)	31 December 2004 HK\$'000 (Audited)
Unsecured bank overdraft	2,272	–
Unsecured bank loans repayable:		
Within one year or on demand (Note)	22,550	5,960
In the second year	–	5,960
In the third to fifth years, inclusive	–	3,610
	22,550	15,530
Portion classified as current liabilities	(22,550)	(5,960)
Non-current portion	–	9,570

Note: At the balance sheet date, the Group had an unutilised banking facility amounting to HK\$1.7 million (31 December 2004: HK\$110 million). Subsequent to the balance sheet date, all unsecured bank loans were fully repaid.

17. SHARE CAPITAL

	30 June 2005 HK\$'000 (Audited)	31 December 2004 HK\$'000 (Audited)
Shares		
Authorised:		
1,000,000,000 ordinary shares of HK\$0.10 each	100,000	100,000
Issued and fully paid:		
445,430,000 (2004: 448,002,000) ordinary shares of HK\$0.10 each	44,543	44,801

Notes to Condensed Consolidated Interim Financial Statements

30 June 2005

17. SHARE CAPITAL (continued)**Shares (continued)**

A summary of the movements of the Company's ordinary share capital is as follows:

	Number of shares	Issued share capital	Share premium account	Total
		HK\$'000	HK\$'000	HK\$'000
Balance at 1 January 2004 and 31 December 2004	448,002,000	44,801	21,440	66,241
Repurchase of shares	(2,572,000)	(258)	(528)	(786)
Balance at 30 June 2005	445,430,000	44,543	20,912	65,455

Details of the repurchase of the shares of the Company are as follows:

Month of repurchase	Number of shares	Price per share		Aggregate
		Lowest	Highest	consideration paid
		HK\$	HK\$	HK\$'000
April 2005	1,280,000	0.280	0.300	385
May 2005	1,140,000	0.300	0.310	354
June 2005	152,000	0.300	0.305	47
	<u>2,572,000</u>			<u>786</u>

The above shares were cancelled upon repurchase. An amount of approximately HK\$5,000, represented the brokerage expenses on the aforesaid repurchase, was charged against the share premium account.

Share options

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include any full-time employee or executive of the Company or any of its subsidiaries, including any executive or non-executive director, any discretionary object of a grantee which is a discretionary trust and any shareholder of any member of the Group or any holder of any securities issued by any member of the Group. The Scheme was adopted and approved by the shareholders of the Company on 5 February 2002 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

Notes to Condensed Consolidated Interim Financial Statements

30 June 2005

17. SHARE CAPITAL (continued)

Share options (continued)

The total number of ordinary shares which may be issued upon exercise of all options to be granted under the Scheme and any other share option schemes of the Company must not in aggregate exceed 40,000,000 shares, representing 10% of the ordinary shares of the Company in issue on 6 March 2002 (the commencement date of dealings of the Company's shares on the Stock Exchange) and approximately 8.98% of the issued share capital of the Company as at the date of the interim financial statements. The Company may seek approval of its shareholders in a general meeting to refresh the 10% limit provided that the total number of ordinary shares which may be issued upon exercise of all options to be granted under the Scheme and under any other share option schemes of the Company under the limit as "refreshed" must not exceed 10% of the ordinary shares in issue at the date of approval of the limit. The maximum number of ordinary shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme and any other schemes must not exceed 30% of the issued share capital of the Company from time to time. The maximum number of shares issued and to be issued upon exercise of the share options granted to each eligible participant in the Scheme (including both exercised and outstanding options) within any 12-month period, is limited to 1% of the shares of the Company in issue. Any further grant of share options in the 12-month period up to and including the date of such further grant in excess of this limit is subject to shareholders' approval in a general meeting.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors, other than an independent non-executive director who is proposed to be a grantee. In addition, any grant of share options to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue and with an aggregate value (based on the closing price of the Company's shares at the date of the grant) in excess of HK\$5 million, within any 12-month period up to and including the date of such grant, is subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 30 days from the date of the offer, upon payment of a nominal consideration of HK\$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors, and commences at any time on or after the date upon which the option is deemed to be granted and accepted and expires not later than the 10th anniversary of that date. There is no specific requirement that an option must be held for any minimum period before it can be exercised.

Notes to Condensed Consolidated Interim Financial Statements

30 June 2005

17. SHARE CAPITAL (continued)

Share options (continued)

The exercise price of the share options is determinable by the directors, but shall not be less than the higher of:

- (i) the closing price of the Company's shares as stated in the Stock Exchange's daily quotation sheet on the date of the offer of the share options which must be a trading day; and
- (ii) the average closing price of the Company's shares as stated in the Stock Exchange's daily quotation sheets for the five trading days immediately preceding the date of the offer.

No share options were granted and outstanding under the Scheme during the period and as at 30 June 2005.

Warrants

On 5 February 2002, warrants were authorised to be issued by the Company by way of a bonus issue to the successful subscribers and placees of the Company's shares in connection with the Company's initial public offering, resulting in 80,000,000 warrants being issued on 6 March 2002. Each warrant entitles the holder thereof to subscribe for one ordinary share of HK\$0.10 at a subscription price of HK\$0.70 per share, payable in cash and subject to adjustment, from the date of issue to 31 December 2006.

No warrants were exercised during the period. As at 30 June 2005, the Company had 79,998,000 (31 December 2004: 79,998,000) warrants outstanding. The exercise in full of such warrants would, under the present capital structure of the Company, result in the issue of 79,998,000 additional shares of HK\$0.10 each, for gross proceeds of approximately HK\$55,999,000.

Notes to Condensed Consolidated Interim Financial Statements

30 June 2005

18. RESERVES

			Fixed					
		Share	asset	Statutory	Exchange	Retained	Proposed	Total
		premium	revaluation	reserve	fluctuation	profits	dividend	
		account	reserve	fund*	reserve			
	Notes	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2005								
As previously reported		21,440	26,239	3,077	94	159,354	-	210,204
Prior period adjustment – HKAS 17	3	-	(15,393)	-	-	-	-	(15,393)
As restated (Audited)		21,440	10,846	3,077	94	159,354	-	194,811
Exchange realignment (Audited)		-	-	-	82	-	-	82
Repurchase of shares (Audited)	17	(528)	-	-	-	-	-	(528)
Revaluation reserve released (Audited)		-	(231)	-	-	231	-	-
Loss for the period (Audited)		-	-	-	-	(1,852)	-	(1,852)
At 30 June 2005 (Audited)		20,912	10,615	3,077	176	157,733	-	192,513
At 1 January 2004								
As previously reported		21,440	26,924	2,592	22	151,333	-	202,311
Prior period adjustment – HKAS 17	3	-	(15,635)	-	-	-	-	(15,635)
As restated (Audited)		21,440	11,289	2,592	22	151,333	-	186,676
Exchange realignment (Unaudited)		-	-	-	44	-	-	44
Revaluation reserve released (Unaudited)		-	(222)	-	-	222	-	-
Profit for the period (Unaudited)		-	-	-	-	9,604	-	9,604
Interim 2004 dividend (Unaudited)	9	-	-	-	-	(4,480)	4,480	-
At 30 June 2004 (Unaudited)		21,440	11,067	2,592	66	156,679	4,480	196,324

Notes to Condensed Consolidated Interim Financial Statements

30 June 2005

18. RESERVES (continued)

	Share premium account HK\$'000	Fixed asset revaluation reserve HK\$'000	Statutory reserve fund* HK\$'000	Exchange fluctuation reserve HK\$'000	Retained profits HK\$'000	Proposed dividend HK\$'000	Total HK\$'000
Reserves retained by:							
Company and subsidiaries	20,912	10,615	3,077	176	158,404	-	193,184
Associates	-	-	-	-	(671)	-	(671)
At 30 June 2005	20,912	10,615	3,077	176	157,733	-	192,513
Company and subsidiaries	21,440	11,067	2,592	66	157,172	4,480	196,817
Associates	-	-	-	-	(493)	-	(493)
At 30 June 2004	21,440	11,067	2,592	66	156,679	4,480	196,324

* In accordance with the relevant regulations applicable to wholly-foreign owned enterprises in Mainland China, the Company's subsidiary in Mainland China is required to appropriate an amount of not less than 10% of its profit after tax to the statutory reserve fund, which may be distributed to shareholders in the form of a bonus issue.

19. CONTINGENT LIABILITIES

- (a) The Group had a contingent liability in respect of possible future long service payments to employees under the Hong Kong Employment Ordinance, with a maximum possible amount of HK\$361,000 as at 30 June 2005 (31 December 2004: HK\$613,000). The contingent liability has arisen at the balance sheet date as a number of current employees have achieved the required number of years of service to the Group, and will be eligible for long service payments under the Employment Ordinance if their employment is terminated under certain circumstances. A provision has not been recognised in respect of such possible payments, as it is not considered probable that the situation will result in a material future outflow of resources from the Group.
- (b) At the balance sheet date, the Group had provided corporate guarantees of HK\$500,000 (31 December 2004: HK\$500,000) to a bank in respect of banking facilities granted to one of its associates. As at 30 June 2005, such banking facilities were utilised by the associate up to an amount of HK\$500,000 (31 December 2004: HK\$463,000).

Notes to Condensed Consolidated Interim Financial Statements

30 June 2005

20. RELATED PARTY TRANSACTIONS

(a) Transactions with related parties

In addition to the transactions and balances detailed elsewhere in these financial statements, the Group had the following material transactions with related parties during the period:

		For the six months ended 30 June	
		2005	2004
<i>Notes</i>		HK\$'000	HK\$'000
		(Audited)	(Unaudited)
Rental expenses paid to a director	<i>(i)</i>	102	102
Rental expenses paid to an ex-director's associate	<i>(ii)</i>	216	216
		318	318

Notes:

- (i) The rental expenses were paid to Ms. Cheung Man, Catherine, a director of the Company, for leasing a property as staff quarters by the Group. The rental was determined between both parties with reference to the then prevailing market conditions.
- (ii) The rental expenses were paid to Ms. Fung Wai Chi, Philomena, the wife of Mr. Cheung Po Lun ("Mr. Cheung"), an ex-director of the Company, for leasing a property as staff quarters by the Group. The rental was determined between both parties with reference to the then prevailing market conditions.

The above transactions also constitute continuing connected transactions as defined in Chapter 14A of the Listing Rules.

(b) Compensation of key management personnel of the Group

		For the six months ended 30 June	
		2005	2004
		HK\$'000	HK\$'000
		(Audited)	(Unaudited)
Short term employee benefits		2,180	2,032
Post-employment benefits		62	55
Total compensation paid to key management personnel		2,242	2,087

Notes to Condensed Consolidated Interim Financial Statements

30 June 2005

20. RELATED PARTY TRANSACTIONS (continued)*(c) Outstanding balances with related parties*

	<i>Notes</i>	Due from related parties		Due to related parties	
		30 June 2005	31 December 2004	30 June 2005	31 December 2004
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
		(Audited)	(Audited)	(Audited)	(Audited)
An ex-director	(i)	-	-	3,500	-
A company in which an ex-director of the Company is a director	(ii)	4	-	-	-

Notes:

(i) Mr. Cheung is a substantial shareholder of the Company and is the father of Ms. Cheung Yan, Priscilla and Ms. Cheung Man, Catherine, executive directors of the Company. The amount due to Mr. Cheung is unsecured, bears interest at 1% below the Hong Kong dollar prime rate per annum and has no fixed terms of repayment.

(ii) Particulars of the amount due from a related company of the Group are as follows:

	30 June 2005	Maximum amount outstanding during the period	31 December 2004
	(Audited)		(Audited)
Evergain Development Limited	4	4	-

Mr. Cheung has a beneficial interest in the above company. The amount due from the related company is unsecured, interest-free and has no fixed terms of repayment.

Notes to Condensed Consolidated Interim Financial Statements

30 June 2005

21. COMPARATIVE AMOUNTS

As further explained in note 3 to the condensed consolidated interim financial statements, due to the adoption of HKFRSs during the current period, the accounting treatment and presentation of certain items and balances in the interim financial statements have been revised to comply with the new requirements. Accordingly, a prior year adjustment has been made and certain comparative amounts have been restated to conform with the current period's presentation.

22. APPROVAL OF THE INTERIM FINANCIAL STATEMENTS

The condensed consolidated interim financial statements were approved and authorised for issue by the board of directors on 21 September 2005.

Management Discussion and Analysis

Results

The Group's turnover for the six months ended 30 June 2005 was HK\$261,978,000, representing an increase of 54.6% as compared to HK\$169,491,000 recorded in the corresponding period in 2004. The gross profit margin for the six months ended 30 June 2005 was 9.6%, a decrease of 9.7% from 19.3% as compared with that of the corresponding period in 2004. Loss for the period attributable to equity holders of the parent for the six months ended 30 June 2005 was HK\$1,852,000 (2004: profit of HK\$9,604,000), approximately 119.3% less than that in the corresponding period in 2004.

As at 30 June 2005, total assets and net assets of the Group were HK\$368,678,000 (2004: HK\$354,431,000) and HK\$237,056,000 (2004: HK\$239,612,000) respectively, representing an increase of 4.0% and a decrease of 1.1%, respectively as compared with those of the corresponding period in 2004.

Interim Dividend

The board of directors (the "Board") does not recommend the payment of an interim dividend for the six months ended 30 June 2005 (2004: HK1 cent per share).

Business Review

Turnover and gross profit margin

Hurt by a 28% increase in the government-mandated minimum wage in Zhongshan Shi, Mainland China, and by exorbitant oil prices that kept material costs high, the Group recorded a decrease in gross profit margin in the first half of 2005 despite a jump in the Group's sales volume.

Turnover grew 54.6% during the period under review compared with that of the first half of 2004, lifted by a strong U.S. consumer market. Gross profit margin fell from 19.3% in the first half of 2004 to 9.6% during the same period in 2005 as a result of the increase in raw material costs, wages and other operating expenses in Mainland China. Although it is the practice of the Group to negotiate the price with the customers on a cost-plus basis, most of the Group's orders secured during the period under review were confirmed before the increase of 28% in the minimum wage in Zhongshan Shi, which was effective from 1 March 2005. The Board estimated that this increase in the minimum wage alone had a negative impact of approximately 4% on the Group's gross profit margin during the period under review. Operating costs also rose during the period because the Group has offered additional fringe benefits to its employees in order to maintain a steady, skilled labor force amid the current labor shortages in Guangdong Province.

Management Discussion and Analysis

Business Review (continued)

Turnover and gross profit margin (continued)

With the change in market demand for hard toys and stuffed toys, sales of hard toys and stuffed toys for the six months ended 30 June 2005 contributed 81.6% (2004: 86.3%) and 18.4% (2004: 13.7%) respectively to the Group's turnover.

Geographically, USA and Canada remained the major market where 88.5% (2004: 80.3%) of the Group's turnover was generated. The balances of 10.5% (2004: 16.7%) and 1.0% (2004: 3.0%) were attributable to sales to Japan & others, and Hong Kong & Mainland China.

Expenses

During the period under review, selling and distribution costs amounted to HK\$8,709,000 (2004: HK\$5,469,000) and the increase was mainly attributable to the increase in the Group's turnover. In terms of the Group's turnover, the selling and distribution costs remained relatively stable for the six months ended 30 June 2005 (3.3%) and 2004 (3.2%).

Administrative expenses amounted to HK\$20,099,000 (2004: HK\$17,387,000) for the six months ended 30 June 2005. The increase was partially due to the professional fees incurred for the review on the Group's internal controls procedures and partially due to the general increase in operating expenses.

Other operating income of HK\$153,000 for the six months ended 30 June 2005 was attributable to the gain on disposal of fixed assets.

Independent Commission Against Corruption's Investigation (the "ICAC Investigation")

In June 2005, certain senior executives and directors of the Group, including the then Chairman of the Board of the Company and an executive director of the Company, were arrested by the Independent Commission Against Corruption and were alleged to have solicited illegal rebates from certain suppliers for placing purchase orders with them between the years 2002 and 2004. The ICAC Investigation is currently underway.

Management Discussion and Analysis

Independent Commission Against Corruption's Investigation (the "ICAC Investigation") (continued)

Despite the lack of further information relating to the ICAC Investigation, the Board has taken a series of measures to minimise uncertainties due to the ICAC Investigation and safeguard the interests of the Group, its shareholders and customers by:

1. Management Change:
 - a. On 28 June 2005, Mr. Cheung Po Lun ("Mr. Cheung") resigned as the Chairman of the Board and an executive director of the Company;
 - b. On 28 June 2005, Mr. Hui Kwok Chu's duties as an executive director and chief executive officer of the Company were suspended;
 - c. On 28 June 2005, Mr. Kung Ka Pang, an existing executive director of the Company, assumed the role of chief executive officer of the Company during Mr. Hui Kwok Chu's suspension;
 - d. On 28 June 2005, Ms Cheung Yan, Priscilla was appointed as the Chairman of the Board and an executive director of the Company; and
 - e. On 28 June 2005, Mr. Cheung Wang was appointed as an executive director of the Company.

2. Internal Controls Reviews:

To strengthen the Group's internal control procedures and to improve its checks and balances system, the Group appointed a financial advisor to assist the Company.

The Group commissioned Ernst & Young to perform certain agreed-upon-procedures on its materials purchase application in order to assist the Board to review the Group's internal control system over such application.

Management Discussion and Analysis

Independent Commission Against Corruption's Investigation (the "ICAC Investigation") (continued)

2. Internal Controls Reviews (continued):

The Audit Committee of the Company has reviewed the Group's subcontracting practice to assess the effectiveness of the system.

The Group's senior executives have completed an internal review of its operational systems.

Based on the above, the Board considers that there are no material internal control weaknesses identified.

Furthermore, Ernst & Young and the Audit Committee had given their respective views on the above to improve and strengthen internal controls of the Company and the Board has accepted the recommendations and will implement them shortly.

3. Audit of the Interim Results:

Despite that the Hong Kong Companies Ordinance or any other applicable rules and regulations do not require audit to be undertaken on interim results, the Company engaged its auditors to perform an audit on the interim results of the Group for the six months ended 30 June 2005.

4. Liaising with Customers and Suppliers:

To restore the confidence of its business partners in the Group despite the uncertainties and to safeguard the interests of shareholders, the Group has been in close contact with its customers and suppliers and updating its business partners on its operations periodically.

In fact, the Group noted a continual growth in its turnover and expanded its labor force in Zhongshan Shi, Mainland China in the second half of 2005 to cope with the growth. Its key customers also have pledged their continual support to the Group.

Management Discussion and Analysis

Future Plans and Prospects

The Board believes that turnover in the coming year will continue to grow steadily in view of the received orders and purchasing plans provided by its existing customers. The orders now being negotiated have included the effect of the increase in wages and therefore the Board is reasonably optimistic that the gross profit margin will improve in the second half of 2005.

The challenge ahead for the Company is to improve its bottom line while maintaining a skilled labor force amid the tightening of labor supply in Southern China. The Group is happy to note a continuing expansion of its labor force in Zhongshan Shi, Mainland China and a low skilled staff turnover despite the current labor shortages in Guangdong Province, Mainland China, and credits the work of the Labor Union and the Code of Conduct unit for work done to improve the working environment and staff benefits. The Group's Zhongshan manufacturing arm was awarded the prestigious title of "National Model Home for the Worker" by the National Labor Bureau this year, and the Group believes this will help attract new workers to join the Company. The Group will continue to strengthen its employee training and benefit programs to attract and retain skilled workers to face the growing challenge.

Senior executives of the Group, through the recent internal review exercise, have identified ways to cut waste and improve efficiency. Details are being finalised and measures will be implemented in the second half of 2005.

The Group has begun drawing plans to renovate one of its production plants in Zhongshan Shi, Mainland China. The Company is expected to benefit from the centralisation of production lines upon the completion of renovation works, which in turn will improve the production efficiency and reduce the operation costs.

Liquidity and Financial Resources

The Group is financing its operations from internally generated cashflow. As at 30 June 2005, cash and bank deposits, mainly in Hong Kong dollars, US dollars and Renminbi, held by the Group amounted to approximately HK\$23,543,000 (31 December 2004: HK\$19,462,000) and bank overdraft was HK\$2,272,000 (31 December 2004: Nil). As at 30 June 2005, the Group had utilised its term loan facility of HK\$12,550,000 and revolving loan facility of HK\$10,000,000 which were fully repaid subsequent to the balance sheet date. The Group's current ratio (current assets/current liabilities) and gearing ratio (total bank borrowings/total shareholders' equity) were 1.6 (31 December 2004: 1.9) and 10.5% (31 December 2004: 6.5%), respectively.

The Group did not expect to incur material capital expenditure in the coming months. Therefore the Board believes that the existing financial resources will be sufficient to satisfy the Group's future operational needs and capital commitments.

Management Discussion and Analysis

Contingent Liabilities

The Group had a contingent liability in respect of possible future long service payments to employees under the Hong Kong Employment Ordinance, with a maximum possible amount of HK\$361,000 as at 30 June 2005 (31 December 2004: HK\$613,000). The contingent liability has arisen at the balance sheet date as a number of current employees have achieved the required number of years of service to the Group, and will be eligible for long service payments under the Employment Ordinance if their employment is terminated under certain circumstances. A provision has not been recognised in respect of such possible payments, as it is not considered probable that the situation will result in a material future outflow of resources from the Group.

At the balance sheet date, the Group had provided corporate guarantees of HK\$500,000 (31 December 2004: HK\$500,000) to a bank in respect of banking facilities granted to one of its associates. As at 30 June 2005, such banking facilities were utilised by the associate up to an amount of HK\$500,000 (31 December 2004: HK\$463,000).

Charge on Assets

The Group did not have any charge on assets as at 30 June 2005 and 31 December 2004.

Exchange Risk

During the period under review, most of the Group's transactions were conducted in Hong Kong dollars, US dollars and Renminbi. As the exchange rates of these currencies were relatively stable, the Group's exposure to fluctuations in exchange rates was minimal.

Employees

As at 30 June 2005, the Group had a total of approximately 8,020 (31 December 2004: 8,970) employees in Hong Kong and Mainland China. The Group provides remuneration packages to employees largely based on industry practice, individual performance, qualification and experience. In addition, discretionary bonuses and share options under the Company's share option scheme may be granted to eligible staff by reference to the Group's performance and individual performance. The Group also provides subsidies to staff for external training in order to enhance the Group's competitive edge.

Management Discussion and Analysis

Purchase, Sale or Redemption of Shares

During the six months ended 30 June 2005, the Company repurchased a total of 2,572,000 ordinary shares of the Company of HK\$0.10 each on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") as follows:

Month	Number of ordinary shares repurchased	Price per share		Total price paid
		Highest	Lowest	
		HK\$	HK\$	HK\$
April 2005	1,280,000	0.300	0.280	382,400
May 2005	1,140,000	0.310	0.300	352,000
June 2005	152,000	0.305	0.300	46,100

The repurchased shares were cancelled upon repurchase and the issued share capital of the Company was reduced by the par value thereof. The premium paid on the repurchase of the shares of HK\$523,300 has been debited to the share premium account.

The above repurchases of the Company's shares were effected by the Board, pursuant to the mandate from shareholders, with a view to benefiting shareholders as a whole by enhancing the net asset value per share and earnings per share of the Company.

Save as disclosed above, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2005.

Other Information

Directors' Interests and Short Positions in Shares and Underlying Shares

At 30 June 2005, the interests and short positions of the directors of the Company in the securities of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), were as follows:

Long position in ordinary shares of the Company:

Name of director	Capacity	Number of ordinary shares interested	Percentage of the Company's issued share capital
Mr. Cheung Wang	Beneficial owner	8,000	0.002%

Long position in warrants of the Company:

Name of director	Capacity	Number of warrants interested	Percentage of the Company's issued share capital
Mr. Cheung Wang	Beneficial owner	2,800	0.0006%

Save as disclosed above, as at 30 June 2005, none of the directors or the chief executive of the Company had, under Divisions 7 and 8 of Part XV of the SFO, nor were they taken to or deemed to have under such provisions of the SFO, registered an interest or a short position in the shares or underlying shares or debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO) or any interest which was required to be entered into the register kept by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Other Information

Substantial Shareholders' Interests and Other Persons' Interests and Short Positions in Shares and Underlying Shares

At 30 June 2005, the following interests of 5% or more of the shares and underlying shares of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Name of substantial shareholder	Long/short position	Capacity	Type of securities	Number of securities interested	Notes	Percentage of the Company's issued share capital
Mr. Cheung	Long	Interest in corporation	Ordinary shares	300,000,000	1	67.35%
Mr. Cheung	Long	Interest in corporation	Warrants	30,000,000	1	6.73%
Great Victory International Inc. ("GVII")	Long	Beneficial owner	Ordinary shares	300,000,000	1	67.35%
GVII	Long	Beneficial owner	Warrants	30,000,000	1	6.73%
Ms. Fung Wai Chi, Philomena ("Ms. Fung")	Long	Interest of spouse	Ordinary shares	300,000,000	2	67.35%
Ms. Fung	Long	Interest of spouse	Warrants	30,000,000	2	6.73%
Prudential Asset Management (Hong Kong) Limited ("PAML")	Long	Investment manager	Ordinary shares	39,672,000	3	8.90%
Prudential Corporation Holdings Limited ("PCHL")	Long	Interest in corporation	Ordinary shares	39,672,000	3	8.90%
Prudential PLC ("PP")	Long	Interest in corporation	Ordinary shares	39,672,000	3	8.90%
The Prudential Assurance Company Limited (Hong Kong Branch)	Long	Beneficial owner	Ordinary shares	22,656,000		5.08%

Notes:

1. Mr. Cheung was deemed to be interested in 300,000,000 ordinary shares and 30,000,000 warrants of the Company which were held through GVII, a controlled corporation of Mr. Cheung pursuant to the SFO.
2. Ms. Fung was deemed to be interested in the 300,000,000 ordinary shares and 30,000,000 warrants of the Company through the interest of her spouse, Mr. Cheung.
3. PAML was wholly owned by PCHL which was a wholly-owned subsidiary of PP. Accordingly PCHL and PP were deemed to be interested in the 39,672,000 shares of the Company in which PAML was interested.

Other Information

Substantial Shareholders' Interests and Other Persons' Interests and Short Positions in Shares and Underlying Shares (continued)

Save as disclosed above, as at 30 June 2005, no person, other than the directors of the Company whose interests were set out in the section "Directors' interests and short positions in shares and underlying shares" above, had registered an interest or a short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

Share Option Scheme

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Details of the Scheme are set out in note 17 to these interim financial statements. Up to 30 June 2005, the interim period end, no share option has been granted since the adoption of the Scheme.

Disclosures Pursuant to Rules 13.20, 13.21 and 13.22 of the Listing Rules

In accordance with the disclosure requirements of Rule 13.20 of the Listing Rules, the following disclosures are included in respect of advances to entities. As at 30 June 2005, the Group had provided advances to two of its trade debtors, Mattel Asia Pacific Sourcing Limited and The Marketing Store Worldwide (Asia) Limited amounting to HK\$47,431,000 and HK\$26,834,000, respectively, which individually exceeded 8% of the market capitalisation of the Company. The balances represented trade receivables from the sale of goods to these two customers in the Group's ordinary course of business at the balance sheet date, which are interest-free and unsecured. The Group normally allows credit terms ranging from 14 to 30 days to these customers.

In accordance with the disclosure requirements of Rule 13.21 of the Listing Rules, the following disclosures are included in respect of one of the Company's loan agreements, which contains covenants requiring performance obligations of the controlling shareholder of the Company. Pursuant to a loan agreement dated 28 October 2004 between the Company and BNP Paribas Hong Kong Branch relating to a four-year loan facility of HK\$35 million and a one-year loan facility of HK\$20 million, a termination event will arise if Mr. Cheung, the Company's controlling shareholder, ceases to own beneficially, directly or indirectly, at least 51% of the shares in the Company's issued capital.

As at 30 June 2005, the issued share capital of the Company comprised 445,430,000 shares in issue. Based on the average closing price of the Company's shares of HK\$0.3 per share by reference to the Stock Exchange's daily quotation sheets for the trading days from 23 June 2005 to 29 June 2005 (both dates inclusive), being the five business days immediately preceding 30 June 2005, the total market capitalisation of the Company was HK\$133,629,000 as at 30 June 2005.

Sufficiency of Public Float

Based on the information that is publicly available to the Company and within the knowledge of the directors, at least 25% of the Company's total issued share capital was held by the public as at the date of this report.

Corporate Governance

The Company is committed to maintaining 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 met the code provisions set out in the Code on Corporate Governance Practices (the "CG Code") contained in Appendix 14 of the Listing Rules, except for the code provision A.4.2 which requires that all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment and every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years. In order to comply with the said code provision A.4.2, the Board shall propose to amend the relevant provisions in the Bye-laws of the Company at the next following general meeting of the Company.

Code of Conduct for Securities Transactions by Directors of the Company

The Company had adopted its code of conduct regarding directors' dealings in the securities of the Company (the "Own Code") on terms no less exacting than the required standard set out in the Model Code. Having made specific enquiry of all directors of the Company, the directors of the Company have complied with the required standard set out in the Model Code and the Own Code throughout the accounting period covered by this report.

Audit Committee

The Listing Rules require every listed issuer to establish an audit committee comprising at least three members who must be non-executive directors only, and the majority thereof must be independent non-executive directors, at least one of whom must have appropriate professional qualifications, or accounting or related financial management expertise. The Company established an audit committee (the "Audit Committee") in 2002 with reference to "A Guide for the Formation of an Audit Committee" issued by the Hong Kong Institute of Certified Public Accountants (formerly known as Hong Kong Society of Accountants). In accordance with the requirements of the CG Code, the terms of reference of the Audit Committee were revised on 21 September 2005 in terms substantially the same as the provisions set out in the CG Code.

Other Information

Audit Committee (continued)

The principal duties of the Audit Committee include the review and supervision of the Group's financial reporting system and internal control procedures, review of the Group's financial information and review of the relationship with the auditors of the Company. The Audit Committee comprises three members, Mr. Wong Yam Fung (Chairman of the Audit Committee), Mr. Lam Yu Lung (who has appropriate professional qualifications and accounting or related financial management expertise) and Mr. Lam Chin Fung, who are the independent non-executive directors of the Company. The Audit Committee had reviewed with senior management of the Group and external auditors the accounting principles and practices adopted by the Group and reviewed the Company's interim report for the period ended 30 June 2005.

Remuneration Committee

According to the CG Code, the Company established a remuneration committee (the "Remuneration Committee") on 21 September 2005 with specific written terms of reference in accordance with the CG Code. The Remuneration Committee comprises Ms. Cheung Man, Catherine (Chairman of the Remuneration Committee), an executive director, and Mr. Wong Yam Fung, Mr. Lam Yu Lung and Mr. Lam Chin Fung, the three independent non-executive directors of the Company.

The principal responsibilities of the Remuneration Committee include making recommendations to the Board of the Company on the Company's policy and structure for all remuneration of directors and senior management of the Company and on the establishment of a formal and transparent procedure for developing such policy, and reviewing the specific remuneration packages of all executive directors and senior management of the Company by reference to corporate goals and objectives resolved by the Board of the Company from time to time.

Executive Committee

The Company established an executive committee (the "Executive Committee") on 21 September 2005 with specific written terms of reference. The Executive Committee comprises all the executive directors of the Company with Ms. Cheung Yan, Priscilla acting as the Chairman thereof. The principal responsibilities of the Executive Committee include monitoring the execution of the Company's strategic plans and operations of all business units of the Company and discussing and making decisions on matters relating to the management and operations of the Company.

On behalf of the Board
Cheung Yan, Priscilla
Chairman

Hong Kong, 21 September 2005