



Sewco International Holdings Limited

崇高國際控股有限公司*

(Incorporated in Bermuda with limited liability)

Stock Code : 209, Warrant Code : 134

Interim Report **2006**

* For identification purpose only

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CORPORATE INFORMATION**DIRECTORS****Executive directors**

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

Independent non-executive directors

Mr. Lam Yu Lung
Mr. Lam Chin Fung
Mr. Tse Wei Kin

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

Mr. Chiu Ka Wing, *FCPA, ACMA*
Mr. Ira Stuart Outerbridge III, Assistant
Secretary

AUTHORISED REPRESENTATIVES

Ms. Cheung Yan, Priscilla
Ms. Cheung Man, Catherine

AUDITORS

Ernst & Young, *Certified Public
Accountants*

AUDIT COMMITTEE MEMBERS

Mr. Lam Yu Lung, *Chairman*
Mr. Lam Chin Fung
Mr. Tse Wei Kin

**REMUNERATION COMMITTEE
MEMBERS**

Ms. Cheung Man, Catherine, *Chairman*
Mr. Lam Yu Lung
Mr. Lam Chin Fung
Mr. Tse Wei Kin

QUALIFIED ACCOUNTANT

Mr. Chiu Ka Wing, *FCPA, ACMA*

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
26th Floor, Tesbury Centre
28 Queen's Road East
Hong Kong

PRINCIPAL BANKERS

Fubon Bank (Hong Kong) Limited
Bank of Communications Hong Kong
Branch

For the six months ended 30 June 2006 **CONDENSED CONSOLIDATED INCOME STATEMENT**

		From 1 January 2006 to 30 June 2006 HK\$'000 (Unaudited)	From 1 January 2005 to 30 June 2005 HK\$'000 (Audited)
REVENUE	3	234,349	261,978
Cost of sales		(201,330)	(236,873)
Gross profit		33,019	25,105
Other income and gain	4	1,245	2,806
Selling and distribution costs		(8,959)	(8,709)
Administrative expenses		(23,798)	(20,099)
Other operating income		–	153
Finance costs	6	(1)	(306)
Share of profits and losses of associates		425	(368)
PROFIT/(LOSS) BEFORE TAX	5	1,931	(1,418)
Tax	7	(468)	(434)
PROFIT/(LOSS) FOR THE PERIOD ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT		1,463	(1,852)
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT – basic	8	HK0.33 cent	(HK0.41 cent)

CONDENSED CONSOLIDATED BALANCE SHEET 30 June 2006

		30 June 2006	31 December 2005
	<i>Notes</i>	HK\$'000	HK\$'000
		(Unaudited)	(Audited)
NON-CURRENT ASSETS			
Property, plant and equipment		161,560	165,797
Prepaid land premiums		9,767	9,891
Interests in associates	9	7,992	6,007
Other intangible asset		600	600
Loan receivable		845	935
Total non-current assets		180,764	183,230
CURRENT ASSETS			
Prepaid land premiums		247	247
Inventories	10	117,147	87,490
Trade receivables	11	73,484	33,299
Prepayments, deposits and other receivables		8,027	14,670
Loan receivable		180	180
Tax recoverable		–	30
Cash and cash equivalents	12	27,227	34,057
Total current assets		226,312	169,973
CURRENT LIABILITIES			
Trade payables	13	106,993	54,630
Other payables and accruals		19,838	18,357
Tax payable		2,963	4,754
Dividend payable		2,227	–
Total current liabilities		132,021	77,741
NET CURRENT ASSETS		94,291	92,232
TOTAL ASSETS LESS CURRENT LIABILITIES		275,055	275,462
NON-CURRENT LIABILITIES			
Deferred tax liabilities		7,916	7,919
Total non-current liabilities		7,916	7,919
Net assets		267,139	267,543

30 June 2006 **CONDENSED CONSOLIDATED BALANCE SHEET**

		30 June 2006	31 December 2005
	<i>Notes</i>	HK\$'000	HK\$'000
		(Unaudited)	(Audited)
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT			
Issued capital	14	44,543	44,543
Reserves		222,596	220,773
Proposed final dividend		–	2,227
Total equity		267,139	267,543

Cheung Yan, Priscilla
Director

Cheung Man, Catherine
Director

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY For the six months ended 30 June 2006

	Attributable to equity holders of the parent							Total
	Share	Share	Asset	Statutory	Exchange	Retained	Proposed	
	capital	premium	revaluation	reserve	fluctuation	profits	final	
HK\$'000	account	reserve	fund*	reserve	profits	dividend	HK\$'000	
(Unaudited)								
At 1 January 2006	44,543	20,912	33,460	3,912	2,371	160,118	2,227	267,543
Exchange realignment	-	-	-	-	360	-	-	360
Revaluation reserve released	-	-	(231)	-	-	231	-	-
Profit for the period	-	-	-	-	-	1,463	-	1,463
Final 2005 dividend declared	-	-	-	-	-	-	(2,227)	(2,227)
At 30 June 2006	44,543	20,912	33,229	3,912	2,731	161,812	-	267,139
(Audited)								
At 1 January 2005	44,801	21,440	10,846	3,077	94	159,354	-	239,612
Exchange realignment	-	-	-	-	82	-	-	82
Repurchase of shares	(258)	(528)	-	-	-	-	-	(786)
Revaluation reserve released	-	-	(231)	-	-	231	-	-
Loss for the period	-	-	-	-	-	(1,852)	-	(1,852)
At 30 June 2005	44,543	20,912	10,615	3,077	176	157,733	-	237,056

* Pursuant to the relevant laws and 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.

For the six months ended 30 June 2006 **CONDENSED CONSOLIDATED CASH FLOW STATEMENT**

	<i>Note</i>	From 1 January 2006 to 30 June 2006 HK\$'000 (Unaudited)	From 1 January 2005 to 30 June 2005 HK\$'000 (Audited)
NET CASH OUTFLOW FROM OPERATING ACTIVITIES		(4,114)	(3,101)
NET CASH OUTFLOW FROM INVESTING ACTIVITIES		(2,723)	(4,830)
NET CASH INFLOW FROM FINANCING ACTIVITIES		1	9,734
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		(6,836)	1,803
Exchange gain from re-translating operating cash and bank balances		6	6
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD		34,057	19,462
CASH AND CASH EQUIVALENTS AT END OF PERIOD		27,227	21,271
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	12	7,388	5,931
Time deposits with original maturity of less than three months when acquired	12	19,839	17,612
Bank overdraft		-	(2,272)
		27,227	21,271

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS 30 June 2006**1. CORPORATE INFORMATION**

The registered office of Sewco International Holdings Limited (the "Company") is located at Clarendon House, 2 Church Street, Hamilton HM11, Bermuda.

During the period, the Company and its subsidiaries (hereinafter collectively referred to as 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. ACCOUNTING POLICIES

The unaudited condensed consolidated interim financial statements are prepared in accordance with Hong Kong Accounting Standard ("HKAS") No. 34, "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the disclosure requirements set out in Appendix 16 of the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange.

The basis of preparation and accounting policies adopted in the preparation of the unaudited condensed consolidated interim financial statements are consistent with those used in the preparation of the annual financial statements for the year ended 31 December 2005, except for the adoption of the following amendments mandatory for accounting periods beginning on or after 1 January 2006.

- HKAS 39 & HKFRS 4 Amendment – Financial Guarantee Contracts

In prior years, financial guarantee contracts are accounted for under HKAS 37 "Provisions, Contingent Liabilities and Contingent Assets" and disclosed as contingent liabilities. In accordance with the above amendments, financial guarantee contracts issued are recognised as financial liabilities on the balance sheet. Financial guarantee contracts are initially recognised at fair value and subsequently measured at the higher of (i) the amount as provisions determined in accordance with HKAS 37 and (ii) the amount initially recognised, less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 "Revenue". This change in accounting policy has had no material impact on the results of the Group for the current and prior periods. Accordingly, no prior period adjustment has been made.

The unaudited condensed consolidated interim financial statements should be read in conjunction with the annual financial statements for the year ended 31 December 2005.

The unaudited condensed consolidated interim financial statements have been reviewed by the audit committee of the Company.

3. SEGMENT INFORMATION

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

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, and assets are attributed to the segments based on the location of the assets.

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 2006

3. SEGMENT INFORMATION (continued)

(a) Business segments

The following table presents the Group's revenue and profit/(loss) information regarding business segments for the six months ended 30 June 2006 and 2005.

	Hard toys		Stuffed toys		Corporate		Eliminations		Consolidated	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Audited)	(Unaudited)	(Audited)	(Unaudited)	(Audited)	(Unaudited)	(Audited)	(Unaudited)	(Audited)
Segment revenue:										
Sales to external customers	203,130	213,803	31,219	48,175	-	-	-	-	234,349	261,978
Other revenue from external sources	818	2,231	70	35	-	384	-	-	888	2,650
Intersegment other revenue	616	616	-	-	-	-	(616)	(616)	-	-
Total	204,564	216,650	31,289	48,210	-	384	(616)	(616)	235,237	264,628
Segment results	14,386	958	(12,057)	969	(1,179)	(3,011)	-	184	1,150	(900)
Interest income									357	156
Finance costs									(1)	(306)
Share of profits and losses of associates									425	(368)
Profit/(loss) before tax									1,931	(1,418)
Tax									(468)	(434)
Profit/(loss) for the period attributable to equity holders of the parent									1,463	(1,852)

30 June 2006 **NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS****3. SEGMENT INFORMATION (continued)****(b) Geographical segments**

The following table presents the Group's revenue information regarding geographical segments for the six months ended 30 June 2006 and 2005.

	USA and Canada		Japan and others		Hong Kong and Mainland China		Corporate and eliminations		Consolidated	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Audited)	(Unaudited)	(Audited)	(Unaudited)	(Audited)	(Unaudited)	(Audited)	(Unaudited)	(Audited)
Segment revenue:										
Sales to external customers	190,900	231,779	39,511	27,470	3,938	2,729	-	-	234,349	261,978
Other revenue	172	782	421	507	295	977	-	384	888	2,650
Total	191,072	232,561	39,932	27,977	4,233	3,706	-	384	235,237	264,628

4. OTHER INCOME AND GAIN

	For the six months ended 30 June	
	2006 HK\$'000 (Unaudited)	2005 HK\$'000 (Audited)
Other income and gain		
Mould income	527	777
Interest income	357	156
Sundry income	361	1,491
Dividend income from listed investments	-	17
Realised gain on equity investment at fair value through profit or loss	-	365
	1,245	2,806

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS 30 June 2006**5. PROFIT/(LOSS) BEFORE TAX**

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

	For the six months ended	
	30 June	
	2006	2005
	HK\$'000	HK\$'000
	(Unaudited)	(Audited)
Cost of inventories sold	196,360	234,928
Provision against obsolete inventories	4,970	1,945
Depreciation*	5,400	5,063
Gain on disposal of items of property, plant and equipment, net**	–	(153)
Recognition of prepaid land premiums	124	124

* Depreciation of HK\$2,373,000 (2005: HK\$2,718,000) was also included in "Cost of inventories sold".

** This item was included in "Other operating income" on the face of the condensed consolidated income statement.

6. FINANCE COSTS

	For the six months ended	
	30 June	
	2006	2005
	HK\$'000	HK\$'000
	(Unaudited)	(Audited)
Interest expense on bank overdraft and bank loans wholly repayable within five years	1	306

30 June 2006 **NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS****7. TAX**

Hong Kong profits tax has been provided at the rate of 17.5% (2005 : 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	
	2006	2005
	HK\$'000	HK\$'000
	(Unaudited)	(Audited)
Current – Hong Kong	27	24
Current – Mainland China	441	416
Underprovision in prior years – Hong Kong	–	208
Deferred	–	(214)
	<hr/>	<hr/>
Total tax charge for the period	468	434
	<hr/>	<hr/>

8. EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic earnings per share for the six months ended 30 June 2006 is based on the net profit attributable to equity holders of the parent for the period of HK\$1,463,000 (six months ended 30 June 2005: net loss of HK\$1,852,000) and the weighted average of 445,430,000 ordinary shares in issue during the period (six months ended 30 June 2005: 447,170,000).

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 2006, there were no dilutive potential ordinary shares outstanding during the period and therefore no diluted earnings per share amount was presented for the period.

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

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS 30 June 2006**9. INTERESTS IN ASSOCIATES**

	30 June 2006 HK\$'000 (Unaudited)	31 December 2005 HK\$'000 (Audited)
Share of net assets	1,468	1,043
Goodwill on acquisition	6,524	4,964
	7,992	6,007

10. INVENTORIES

	30 June 2006 HK\$'000 (Unaudited)	31 December 2005 HK\$'000 (Audited)
Raw materials	40,585	35,007
Work in progress	39,361	28,609
Finished goods	37,201	23,874
	117,147	87,490

11. TRADE RECEIVABLES

The Group's trading terms with its customers are mainly on credit, and the credit periods generally range from 14 to 90 days. The Group seeks to maintain strict control over its outstanding receivables and overdue balances are reviewed regularly by senior management. Trade receivables are non-interest-bearing.

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

	30 June 2006 HK\$'000 (Unaudited)	31 December 2005 HK\$'000 (Audited)
Current to 30 days	55,505	28,830
31 to 90 days	17,979	4,469
	73,484	33,299

30 June 2006 **NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS****12. CASH AND CASH EQUIVALENTS**

	30 June 2006 HK\$'000 (Unaudited)	31 December 2005 HK\$'000 (Audited)
Cash and bank balances	7,388	26,243
Time deposits	19,839	7,814
	27,227	34,057

13. TRADE PAYABLES

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

	30 June 2006 HK\$'000 (Unaudited)	31 December 2005 HK\$'000 (Audited)
Current to 30 days	70,601	40,670
31 to 90 days	35,333	13,738
Over 90 days	1,059	222
	106,993	54,630

The trade payables are non-interest-bearing.

14. SHARE CAPITAL

	30 June 2006 HK\$'000 (Unaudited)	31 December 2005 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 (2005: 445,430,000) ordinary shares of HK\$0.10 each	44,543	44,543

14. SHARE CAPITAL (continued)

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 directors, 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.

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 these 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.

14. SHARE CAPITAL (continued)**Share options (continued)**

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.

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 offer.

No share options have been granted since the adoption of the Scheme.

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 2006, the Company had 79,998,000 (31 December 2005: 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 2006**15. 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\$1,480,000 as at 30 June 2006 (31 December 2005: HK\$1,386,000). 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 guarantee of HK\$25,000,000 (31 December 2005: HK\$35,500,000) to a bank in respect of banking facilities granted to its subsidiaries. As at 30 June 2006, such banking facilities were not utilised by the subsidiaries (31 December 2005: Nil).
- (c) At the balance sheet date, the Group had provided corporate guarantee of HK\$500,000 (31 December 2005: HK\$500,000) to a bank in respect of banking facilities granted to one of its associates. As at 30 June 2006, such banking facilities were not utilised by the associate (31 December 2005: utilised to the extent of HK\$500,000).

16. COMMITMENTS

The Group had the following capital commitment at the balance sheet date:

	30 June 2006 HK\$'000 (Unaudited)	31 December 2005 HK\$'000 (Audited)
Contracted for:		
Capital commitment on purchase of plant and equipment	3,100	–
Purchase commitment on additional interest in associates	–	1,560
Construction costs	–	148
	3,100	1,708

30 June 2006 **NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS****17. RELATED PARTY TRANSACTIONS**

(a) The Group had the following material transactions with related parties during the period:

	Notes	For the six months ended	
		30 June	
		2006	2005
		HK\$'000	HK\$'000
		(Unaudited)	(Audited)
Rental expenses paid to a director	(i)	102	102
Rental expenses paid to an ex-director's associate	(ii)	–	216
Sales to an associate	(iii)	3,829	2,729
		<hr/>	<hr/>

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, an ex-director of the Company, who is also a substantial shareholder of the Company and is the father of Ms. Cheung Yan, Priscilla and Ms. Cheung Man, Catherine, 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.
- (iii) Sales of goods to the Group's associate were made according to the published prices and conditions offered to major customers of the Group.

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

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS 30 June 2006

17. RELATED PARTY TRANSACTIONS (continued)**(b) Compensation of key management personnel of the Group**

	For the six months ended	
	30 June	
	2006	2005
	HK\$'000	HK\$'000
	(Unaudited)	(Audited)
Short-term employee benefits	1,747	2,180
Post-employment benefits	63	62
Total compensation paid to key management personnel	1,810	2,242

(c) Outstanding balances with related parties

	Notes	Due from related parties		Due to related parties	
		30 June	31 December	30 June	31 December
		2006	2005	2006	2005
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
		(Unaudited)	(Audited)	(Unaudited)	(Audited)
Associate	(i)	2,710	836	-	-
A company in which an ex-director of the Company is a director	(ii)	-	-	(26)	-

Notes:

- (i) The amount due from the Group's associate, which is repayable on similar credit terms to those offered to major customers of the Group, is included in the Group's trade receivables.
- (ii) Mr. Cheung Po Lun, an ex-director of the Company, has beneficial interests in the above company. The amount due to the related company is unsecured, interest free and has no fixed terms of repayment.

18. APPROVAL OF THE INTERIM FINANCIAL STATEMENTS

The condensed consolidated interim financial statements were approved and authorised for issue by the board of directors on 12 September 2006.

MANAGEMENT DISCUSSION AND ANALYSIS**FINANCIAL REVIEW**

The Group's turnover for the six months ended 30 June 2006 decreased by 10.5% to HK\$234,349,000 from HK\$261,978,000 recorded in the corresponding period in 2005. However, the gross profit margin for the six months ended 30 June 2006 improved to 14%, compared with 9.6% recorded in the corresponding period in 2005. Profit for the period attributable to equity holders of the parent for the six months ended 30 June 2006 jumped to HK\$1,463,000, compared with a net loss of HK\$1,852,000 in the corresponding period in 2005.

As at 30 June 2006, total assets and net assets of the Group were HK\$407,076,000 (31 December 2005: HK\$353,203,000) and HK\$267,139,000 (31 December 2005: HK\$267,543,000) respectively, representing an increase of 15.3% and a decrease of 0.2% respectively as compared with 31 December 2005.

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2006 (30 June 2005: Nil).

LIQUIDITY AND FINANCIAL RESOURCES

The Group finances operations through a combination of internally generated cash flows and shareholders' equity. The Group is cash rich and debt free, holding cash and cash equivalents of HK\$35,254,000 (30 June 2005: HK\$32,082,000), and does not incur any bank borrowings as at 30 June 2006 (30 June 2005: HK\$24,822,000), indicating a more prudent cash management policy.

The Group's net current assets of HK\$94,291,000 (31 December 2005: HK\$92,232,000) consisted of current assets of HK\$226,312,000 (31 December 2005: HK\$169,973,000) and current liabilities of HK\$132,021,000 (31 December 2005: HK\$77,741,000), representing a current ratio of 1.71 (31 December 2005: 2.18).

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND PROSPECTS

Rising resin and commodity prices, power and water costs, labor shortages, an appreciating local currency and changing government policies have made it increasingly difficult for traditional labor-intensive manufacturing companies to operate in the Pearl River Delta region. Despite the challenges, the Group saw a 4.4%-increase in gross profit margin and a 79%-jump in net operating profit before tax and interest compared with the same period in 2005. The Group credits its effective product strategy and control of labor and material costs for the improvement.

The Group is also pleased to continue to enjoy adequate labor supply during the peak production season, which it sees as a distinct competitive edge at a time when acute labor shortages are suffocating labor-intensive light industries in the Pearl River Delta region. The Group, a past recipient of the "National Model Home for the Workers" award, credits this to its positive track record of providing fair pay and a pleasant working and living environment to its employees.

Although turnover for the third quarter was strong and the fourth-quarter forecast remains satisfactory, production costs and expenses are expected to go up due to a 20%-increase in the government-mandated minimum wage which became effective in September and costs associated with building an R&D center, upgrading IT infrastructure, and renovations of its production sites in Zhongshan.

To maintain its position as a trusted contract toy manufacturer for top global brands and sharpen its competitive edge, the Group has taken a multi-pronged approach:

1. Improving services and support to long-time customers;
2. Investing in R&D and upgrading its product development and production capabilities with a view to diversifying into production of higher-end products;
3. Exploring new alliances with potential customers with the same focus on quality and reliability and commitment to social responsibility.

MANAGEMENT DISCUSSION AND ANALYSIS

4. Implementing effective cost control measures; and
5. Further unlocking values by improving the internal supply chains.

Seeking to improve customer service, the Group expanded its key departments, including engineering and customer service, in the first half of 2006.

The Group also decided this year to allocate substantial resources for an R&D center in Zhongshan and named a respected industry veteran as Director for R&D. The R&D center, which will be set up by the fourth quarter and will include prototype and software development studios, will further improve the Group's services to customers and help the Group achieve its longer-term goal of diversifying into production of higher-end and higher-value-added products, including non-toy consumer goods.

Internally, the Group will continue its effort to drive down production and administrative costs while improving its operational efficiencies. A process reengineering taskforce was set up earlier this year to identify ways to eliminate waste. Separately, a new package of internal cost control measures is under review and discussion and is expected to be implemented next year. Meanwhile, an integrated supply chain solution is being developed by a leading consultancy for the Group. The trial phase is expected to commence by January 2007, and full implementation is expected by the end of next year. The system is expected to help the Group better manage its internal and external supply chains.

To mitigate the risks of rising costs of manufacturing and changing demographics in the Pearl River Delta region, the Group has commissioned a study on the feasibility of manufacturing outside Guangdong. A report is due by the end of 2006.

MANAGEMENT DISCUSSION AND ANALYSIS**CONTINGENT LIABILITIES**

Details of the contingent liabilities of the Group as at 30 June 2006 are disclosed in note 15 to these interim financial statements.

CHARGE ON ASSETS

As at 30 June 2006, certain of the Group's buildings with a net book value of HK\$24,251,000 (30 June 2005: Nil) were pledged to secure general banking facilities granted to the Group. As at 30 June 2006, such facilities were not utilized.

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 2006, the Group had a total of approximately 8,260 (31 December 2005: 8,900) 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 competitiveness.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the period under review.

OTHER INFORMATION

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

At 30 June 2006, none of the directors or the chief executive of the Company had, under Divisions 7 and 8 of Part XV of the Securities and Futures Ordinance (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 for Securities Transactions by Directors of Listed Companies (the "Model Code") in the Listing Rules.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

At 30 June 2006, 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	Percentage of the Company's issued share capital	
					Notes	
Mr. Cheung Po Lun ("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 & 4	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 & 4	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 & 4	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%

OTHER INFORMATION*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 by 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 ordinary shares of the Company in which PAML was interested.
4. Each warrant entitles the holder thereof to exercise the subscription right represented thereby, to subscribe for one ordinary share of the Company at the subscription price of HK\$0.70 (subject to adjustment).

Save as disclosed above, as at 30 June 2006, no person 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 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 14 to these interim financial statements. Up to 30 June 2006, the interim period end, no share option has been granted since the adoption of the Scheme.

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.

OTHER INFORMATION**MODEL CODE FOR SECURITIES TRANSACTIONS**

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.

The Company has also established written guidelines on no less exacting terms than the Model Code (the "Employees Written Guidelines") in respect of the dealings in the Company's securities by employees who, because of such office or employment, are likely to be in possession of unpublished price-sensitive information of the Company or its securities.

No incident of non-compliance of the Employees Written Guidelines by the employees of the Group was noted by the Company.

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 HKICPA. 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.

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. Lam Yu Lung (Chairman of the Audit Committee), Mr. Lam Chin Fung and Mr. Tse Wei Kin, who are the independent non-executive directors of the Company. The Audit Committee had reviewed with senior management of the Group the accounting principles and practices adopted by the Group and reviewed the Company's interim report for the period ended 30 June 2006.

OTHER INFORMATION

REMUNERATION COMMITTEE

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. Lam Yu Lung, Mr. Lam Chin Fung and Mr. Tse Wei Kin, the three independent non-executive directors of the Company.

The principal responsibilities of the Remuneration Committee include making recommendations to the Board 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 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, 12 September 2006