



Sewco International Holdings Limited

崇高國際控股有限公司\*

(Incorporated in Bermuda with limited liability)

Stock Code : 209

Interim Report **2007**

\* 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. Ha Jimmy N. T.

**Independent non-executive directors**

Mr. Lam Yu Lung (*Note*)  
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. 557-559 Nathan Road  
Yaumatei  
Kowloon  
Hong Kong

**COMPANY SECRETARY**

Mr. Chan Lee Tim, *CPA, FCCA*  
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 (Note)*  
Mr. Lam Chin Fung  
Mr. Tse Wei Kin

**REMUNERATION COMMITTEE MEMBERS**

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

**QUALIFIED ACCOUNTANT**

Mr. Chan Lee Tim, *CPA, FCCA*

**STOCK CODE**

209

**PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE**

Butterfield Fund Services (Bermuda) Limited  
Rosebank Centre  
11 Bermudiana Road  
Pembroke HM08  
Bermuda

**HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE**

Tricor 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

*Note:* Mr. Lam Yu Lung has resigned as an independent non-executive director of the Company with effect from 17 September 2007 (please refer to the Company's announcement dated 17 September 2007).

For the six months ended 30 June 2007 **CONDENSED CONSOLIDATED INCOME STATEMENT**

	Notes	For the six months ended 30 June	
		2007 HK\$'000 (Unaudited)	2006 HK\$'000 (Unaudited)
REVENUE	3	<b>303,011</b>	234,349
Cost of sales		<b>(281,066)</b>	(201,330)
Gross profit		<b>21,945</b>	33,019
Other income and gain	4	<b>5,590</b>	1,245
Selling and distribution costs		<b>(15,330)</b>	(8,959)
Administrative expenses		<b>(31,765)</b>	(23,798)
Finance costs	6	<b>(275)</b>	(1)
Share of (losses) and profits of associates		<b>(729)</b>	425
(LOSS)/PROFIT BEFORE TAX	5	<b>(20,564)</b>	1,931
Tax	7	<b>(496)</b>	(468)
(LOSS)/PROFIT FOR THE PERIOD ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT		<b>(21,060)</b>	1,463
(LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT – basic	8	<b>(HK4.73 cents)</b>	HK0.33 cent

**CONDENSED CONSOLIDATED BALANCE SHEET** 30 June 2007

		<b>30 June 2007</b>	31 December 2006
	<i>Notes</i>	<b>HK\$'000</b>	HK\$'000
		<b>(Unaudited)</b>	(Audited)
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment		<b>159,795</b>	161,392
Deposit for items of property, plant and equipment		–	1,085
Prepaid land premiums		<b>9,656</b>	9,779
Interests in associates	9	<b>7,812</b>	8,541
Other intangible asset		<b>600</b>	600
Loan receivable		<b>665</b>	755
		<hr/>	<hr/>
Total non-current assets		<b>178,528</b>	182,152
<b>CURRENT ASSETS</b>			
Prepaid land premiums		<b>247</b>	247
Dividend receivable from an associate		<b>800</b>	800
Inventories	10	<b>152,664</b>	115,871
Trade receivables	11	<b>88,575</b>	78,599
Prepayments, deposits and other receivables		<b>7,417</b>	19,874
Loan receivable		<b>180</b>	180
Tax recoverable		<b>21</b>	21
Cash and cash equivalents	12	<b>7,541</b>	26,623
		<hr/>	<hr/>
Total current assets		<b>257,445</b>	242,215
<b>CURRENT LIABILITIES</b>			
Trade payables	13	<b>121,993</b>	95,753
Other payables and accruals		<b>25,748</b>	25,002
Derivative financial instruments	14	<b>628</b>	3,169
Interest bearing bank loans		<b>17,245</b>	7,963
Tax payable		<b>8,439</b>	12,514
Dividend payable		<b>2,227</b>	–
		<hr/>	<hr/>
Total current liabilities		<b>176,280</b>	144,401
		<hr/>	<hr/>
NET CURRENT ASSETS		<b>81,165</b>	97,814
		<hr/>	<hr/>
TOTAL ASSETS LESS CURRENT LIABILITIES		<b>259,693</b>	279,966
<b>NON-CURRENT LIABILITIES</b>			
Deferred tax liabilities		<b>1,472</b>	1,481
		<hr/>	<hr/>
Total non-current liabilities		<b>1,472</b>	1,481
		<hr/>	<hr/>
Net assets		<b>258,221</b>	278,485
		<hr/>	<hr/>

30 June 2007 **CONDENSED CONSOLIDATED BALANCE SHEET**

		<b>30 June 2007</b>	31 December 2006
	<i>Notes</i>	<b>HK\$'000</b>	HK\$'000
		<b>(Unaudited)</b>	(Audited)
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT			
Issued capital	15	<b>44,543</b>	44,543
Reserves		<b>213,678</b>	231,715
Proposed final dividend		–	2,227
		<hr/>	<hr/>
Total equity		<b>258,221</b>	278,485
		<hr/>	<hr/>

**Cheung Yan, Priscilla**  
*Director*

**Cheung Man, Catherine**  
*Director*

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY** For the six months ended 30 June 2007

	Attributable to equity holders of the parent							Total
	Share capital	Share premium account	Asset revaluation reserve	Statutory reserve fund*	Exchange fluctuation reserve	Retained profits	Proposed final dividend	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
(Unaudited)								
At 1 January 2007	44,543	20,912	37,471	4,658	6,568	162,106	2,227	278,485
Exchange realignment	-	-	-	-	3,023	-	-	3,023
Revaluation reserve released	-	-	(477)	-	-	477	-	-
Loss for the period	-	-	-	-	-	(21,060)	-	(21,060)
Final 2006 dividend declared	-	-	-	-	-	-	(2,227)	(2,227)
At 30 June 2007	44,543	20,912	36,994	4,658	9,591	141,523	-	258,221
(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

\* 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 2007 **CONDENSED CONSOLIDATED CASH FLOW STATEMENT**

	<i>Notes</i>	<b>For the six months ended 30 June</b>	
		<b>2007</b>	2006
		<b>HK\$'000</b>	HK\$'000
		<b>(Unaudited)</b>	(Unaudited)
NET CASH OUTFLOW FROM OPERATING ACTIVITIES		<b>(26,342)</b>	(4,114)
NET CASH OUTFLOW FROM INVESTING ACTIVITIES		<b>(2,012)</b>	(2,723)
NET CASH INFLOW FROM FINANCING ACTIVITIES		<b>9,082</b>	1
NET DECREASE IN CASH AND CASH EQUIVALENTS		<b>(19,272)</b>	(6,836)
Exchange gain from re-translating cash and cash equivalents		<b>190</b>	6
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD		<b>26,623</b>	34,057
CASH AND CASH EQUIVALENTS AT END OF PERIOD		<b>7,541</b>	27,227
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	12	<b>7,541</b>	7,388
Time deposits with original maturity of less than three months when acquired	12	–	19,839
		<b>7,541</b>	27,227



**NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS** 30 June 2007**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") were involved in the manufacture and trading of hard toy products, stuffed toy products and non-toy private label products.

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 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 No. 34, "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants 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 2006.

The unaudited condensed consolidated interim financial statements should be read in conjunction with the annual financial statements for the year ended 31 December 2006.

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 manufactured and traded mainly hard toy products, stuffed toy products and non-toy private label products. Turnover, income, cost and expenses were grouped according to these business segments. Unallocated income, cost and expenses were grouped under the corporate segment.

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.

30 June 2007 **NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS****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 2007 and 2006.

	Hard toys		Stuffed toys		Non-toys		Corporate		Eliminations		Consolidated	
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Segment revenue:												
Sales to external customers	266,819	203,130	36,192	31,219	-	-	-	-	-	-	303,011	234,349
Other revenue from external sources	943	818	219	70	-	-	4,190	-	-	-	5,352	888
Intersegment revenue	300	616	-	-	-	-	-	-	(300)	(616)	-	-
Total	268,062	204,564	36,411	31,289	-	-	4,190	-	(300)	(616)	308,363	235,237
Segment results	(14,602)	14,386	(2,850)	(12,057)	(4,495)	-	2,149	(1,179)	-	-	(19,798)	1,150
Interest income											238	357
Finance costs											(275)	(1)
Share of (losses) and profits of associates											(729)	425
(Loss)/profit before tax											(20,564)	1,931
Tax											(496)	(468)
(Loss)/profit for the period attributable to equity holders of the parent											(21,060)	1,463

## NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS 30 June 2007

## 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 2007 and 2006.

	USA and Canada		Japan and others		Hong Kong and Mainland China		Corporate and eliminations		Consolidated	
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Segment revenue:										
Sales to external customers	234,303	190,900	60,875	39,511	7,833	3,938	-	-	303,011	234,349
Other revenue	60	172	250	421	852	295	4,190	-	5,352	888
Total	234,363	191,072	61,125	39,932	8,685	4,233	4,190	-	308,363	235,237

## 4. OTHER INCOME AND GAIN

	For the six months ended 30 June	
	2007	2006
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Other income and gain		
Mould income	264	527
Interest income	238	357
Fair value gain (net) on derivative financial instruments	2,541	-
Income arising from forward currency contracts	1,638	-
Sundry income	909	361
	5,590	1,245

30 June 2007 **NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS****5. (LOSS)/PROFIT BEFORE TAX**

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

	For the six months ended	
	30 June	
	2007	2006
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Cost of inventories sold	269,512	196,360
Provision for obsolete inventories	11,554	4,970
Depreciation*	5,504	5,400
Recognition of prepaid land premiums	124	124
Gain on disposal of quoted investment**	(11)	–
Gain on disposal of items of property, plant and equipment, net**	(25)	–
Fair value gain (net) on derivative financial instruments**	(2,541)	–
	<hr/>	<hr/>

\* Depreciation of HK\$2,324,000 (2006: HK\$2,373,000) was also included in "Cost of inventories sold".

\*\* These items were also included in "Other income and gain" on the face of the condensed consolidated income statement.

**6. FINANCE COSTS**

	For the six months ended	
	30 June	
	2007	2006
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Interest expense on bank overdraft and bank loans wholly repayable within five years	275	1
	<hr/>	<hr/>

**NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS** 30 June 2007**7. TAX**

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

	<b>For the six months ended</b>	
	<b>30 June</b>	
	<b>2007</b>	2006
	<b>HK\$'000</b>	HK\$'000
	<b>(Unaudited)</b>	(Unaudited)
Current – Hong Kong	<b>16</b>	27
Current – Mainland China	<b>460</b>	441
Underprovision in prior years – Hong Kong	<b>20</b>	–
	<hr/>	<hr/>
Total tax charge for the period	<b>496</b>	468
	<hr/>	<hr/>

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

The calculation of the basic loss per share for the six months ended 30 June 2007 is based on the loss attributable to equity holders of the parent for the period of HK\$21,060,000 (six months ended 30 June 2006: profit of HK\$1,463,000) and the weighted average of 445,430,000 ordinary shares in issue during the period (six months ended 30 June 2006: 445,430,000).

A diluted loss per share was not disclosed for the six months ended 30 June 2007 as there was no dilution factor since the expiry of the warrants on 31 December 2006. A diluted earnings per share was not disclosed for the six months ended 30 June 2006 as the warrants outstanding had no dilutive effect on the basic earnings per share.

**9. INTERESTS IN ASSOCIATES**

	<b>30 June</b>	31 December
	<b>2007</b>	2006
	<b>HK\$'000</b>	HK\$'000
	<b>(Unaudited)</b>	(Audited)
Share of net assets	<b>2,848</b>	3,577
Goodwill on acquisition	<b>4,964</b>	4,964
	<hr/>	<hr/>
	<b>7,812</b>	8,541
	<hr/>	<hr/>

30 June 2007 **NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS****10. INVENTORIES**

	<b>30 June 2007 HK\$'000 (Unaudited)</b>	31 December 2006 HK\$'000 (Audited)
Raw materials	<b>48,946</b>	51,338
Work in progress	<b>58,701</b>	42,970
Finished goods	<b>45,017</b>	21,563
	<b>152,664</b>	115,871

**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. 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:

	<b>30 June 2007 HK\$'000 (Unaudited)</b>	31 December 2006 HK\$'000 (Audited)
Current to 30 days	<b>64,159</b>	50,408
31 to 90 days	<b>23,966</b>	26,179
Over 90 days	<b>450</b>	2,012
	<b>88,575</b>	78,599

**12. CASH AND CASH EQUIVALENTS**

	<b>30 June 2007 HK\$'000 (Unaudited)</b>	31 December 2006 HK\$'000 (Audited)
Cash and bank balances	<b>7,541</b>	26,623

**NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS** 30 June 2007**13. TRADE PAYABLES**

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

	<b>30 June 2007 HK\$'000 (Unaudited)</b>	31 December 2006 HK\$'000 (Audited)
Current to 30 days	<b>73,907</b>	52,438
31 to 90 days	<b>41,993</b>	40,747
Over 90 days	<b>6,093</b>	2,568
	<b>121,993</b>	95,753

The trade payables are non-interest-bearing.

**14. DERIVATIVE FINANCIAL INSTRUMENTS**

	<b>30 June 2007 HK\$'000 (Unaudited)</b>	31 December 2006 HK\$'000 (Audited)
Forward currency contracts	<b>628</b>	3,169

The Group has entered into various forward currency contracts to manage its exchange rate exposures which did not meet the criteria for hedge accounting. Changes in the fair value of non-hedging currency derivatives amounting to HK\$2,541,000 (note 5) were credited to the consolidated income statement during the period (six months ended 30 June 2006: Nil).

30 June 2007 **NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS****15. SHARE CAPITAL**

	<b>30 June 2007 HK\$'000 (Unaudited)</b>	31 December 2006 HK\$'000 (Audited)
<b>Shares</b>		
Authorised:		
1,000,000,000 ordinary shares of HK\$0.10 each	<b>100,000</b>	100,000
Issued and fully paid:		
445,430,000 (2006: 445,430,000) ordinary shares of HK\$0.10 each	<b>44,543</b>	44,543

**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.

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



**NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS** 30 June 2007**16. 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\$797,000 as at 30 June 2007 (31 December 2006: HK\$1,054,000). 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 Company had provided corporate guarantee of HK\$95,100,000 (31 December 2006: HK\$95,100,000) to a bank in respect of banking facilities granted to its subsidiaries. As at 30 June 2007, banking facilities amounting to HK\$5,000,000 were utilized by the subsidiaries (31 December 2006: Nil).
- (c) At the balance sheet date, the Company had provided corporate guarantee of HK\$500,000 (31 December 2006: HK\$500,000) to a bank in respect of banking facilities granted to one of its associates. As at 30 June 2007, such banking facilities were fully utilized by the associate (31 December 2006: HK\$500,000).

**17. COMMITMENTS**

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

	<b>30 June 2007 HK\$'000 (Unaudited)</b>	31 December 2006 HK\$'000 (Audited)
Contracted for:		
Office equipment	–	765
Construction costs	<b>88</b>	96
	<b>88</b>	861

30 June 2007 **NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS****18. 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	
		2007	2006
		HK\$'000	HK\$'000
		(Unaudited)	(Unaudited)
Rental expenses paid to a director	(i)	102	102
Rental expenses paid to a related company	(ii)	30	30
Sales to an associate	(iii)	4,986	3,829

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 a company owned by Mr. Cheung Po Lun, an ex-director and a substantial shareholder of the Company, and the father of Ms. Cheung Yan, Priscilla and Ms. Cheung Man, Catherine, directors of the Company. The rental expenses were for the leasing of quarters provided to company staff stationed in the PRC. 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 similar prices and conditions offered to major customers of the Group.

Except for item (iii), 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 2007

## 18. RELATED PARTY TRANSACTIONS (continued)

(b) Compensation of key management personnel of the Group

	For the six months ended	
	30 June	
	2007	2006
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Short-term employee benefits	1,640	1,747
Post-employment benefits	66	63
Total compensation paid to key management personnel	<b>1,706</b>	1,810

(c) Outstanding balances with related parties

	Notes	Due from related parties		Due to related parties	
		30 June 2007 HK\$'000 (Unaudited)	31 December 2006 HK\$'000 (Audited)	30 June 2007 HK\$'000 (Unaudited)	31 December 2006 HK\$'000 (Audited)
Associate	(i)	2,441	6,726	–	–
A company in which an ex-director of the Company is a director	(ii)	–	–	(30)	–

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.

## 19. APPROVAL OF THE INTERIM FINANCIAL STATEMENTS

The condensed consolidated interim financial statements were approved and authorised for issue by the board of directors of the Company (the "Board") on 14 September 2007.

**MANAGEMENT DISCUSSION AND ANALYSIS****FINANCIAL REVIEW**

The Group's turnover for the six months ended 30 June 2007 increased by 29% to HK\$303,011,000 (2006: HK\$234,349,000). Gross profit dropped significantly to HK\$21,945,000 or 7.2% of turnover for the six months ended 30 June 2007 (2006: HK\$33,019,000 or 14.1% of turnover). Such significant drop in gross profit was caused by inventory provision of HK\$11,554,000, minimum wage rate increase in late 2006, and gradual appreciation of Renminbi against US dollar.

Other income and gain for the six months ended 30 June 2007 increased to HK\$5,590,000. This was mainly a result of fair value gain on derivative financial instruments of HK\$2,541,000 (note 14).

For the six months ended 30 June 2007, selling and distribution expenses increased to HK\$15,330,000 (2006: HK\$8,959,000) and administrative expenses increased to HK\$31,765,000 (2006: HK\$23,798,000). These increases were mainly due to the growth in turnover and the investment in non-toy private label business, which is expected to contribute to turnover in late 2007.

As a result, the Group incurred a loss attributable to equity holders of HK\$21,060,000 for the six months ended 30 June 2007 compared with a profit attributable to equity holders of HK\$1,463,000 for the corresponding period in 2006.

**INTERIM DIVIDEND**

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

## MANAGEMENT DISCUSSION AND ANALYSIS

### LIQUIDITY AND FINANCIAL RESOURCES

The Group finances its operations through a combination of bank financing and shareholders' equity. As at 30 June 2007, cash and cash equivalents amounted to HK\$7,541,000 (31 December 2006: HK\$26,623,000), and banks borrowing amounted to HK\$17,245,000 (31 December 2006: HK\$7,963,000). The Group successfully negotiated additional banking facilities after 30 June 2007 to meet its seasonal cash flow requirements.

As at 30 June 2007, the Group's net current assets amounted to HK\$81,165,000 (31 December 2006: HK\$97,814,000), comprising current assets of HK\$257,445,000 (31 December 2006: HK\$242,215,000) and current liabilities of HK\$176,280,000 (31 December 2006: HK\$144,401,000), representing a current ratio of 1.46 (31 December 2006: 1.68).

### BUSINESS REVIEW AND PROSPECTS

Year 2007 is turning out to be one of the most challenging years for the toy industry. Manufacturers continue to face rising material costs, appreciation of Renminbi against US dollar, and skyrocketing staff and other operating costs. Profitability is expected to be further eroded by a reduction in export tax refund rate that took effect in July 2007 and an expected increase in the minimum wage in China later this year. Testing expenditures are expected to soar due to new testing requirements imposed by the China government and overseas buyers in response to the recent toy recalls in North America.

Nevertheless, the Group sees unique opportunities to expand its market share and raise its profit margins by consolidating its position as a leading toy manufacturer offering customers unparalleled product development support, scale in production and most of all, product reliability. In the first half of 2007, the Group continued to expand its year-old R&D Center in China, which has helped the Group expand into specialty markets with higher profit margins.

## MANAGEMENT DISCUSSION AND ANALYSIS

The Group will set up a new chemical laboratory in China and step up testing to ensure its products meet China and international safety standards. In the meantime, more testing by third party labs will be carried out.

As part of its strategy to diversify the Group's business, a venture was set up late last year to develop non-toy private label business. The venture successfully secured a deal with a major retail chain in North America, and first shipment is expected in late 2007. More financial resources have been earmarked to acquire new licenses and develop new products ahead of the 2008 buying season.

Production capacity is becoming ever more valuable as more players exit the field and labor shortages persist in the Pearl River Delta region. Overseas buyers are also more willing to pay for quality products from reputable manufacturers. Despite the challenges ahead, the Group is confident in turning the business around in the year ahead.

### CONTINGENT LIABILITIES

Details of the contingent liabilities of the Company and the Group as at 30 June 2007 are disclosed in note 16 to these interim financial statements.

### CHARGE ON ASSETS

As at 30 June 2007, certain of the Group's buildings with a net book value of HK\$27,333,000 (31 December 2006: HK\$27,313,000) were pledged to secure general banking facilities granted to the Group. As at 30 June 2007, such facilities were utilized up to an amount of HK\$12,245,000 (31 December 2006: HK\$7,963,000).

### EXCHANGE RISK

During the period under review, most of the Group's transactions were conducted in Hong Kong dollars, US dollars and Renminbi. The Group will continuously monitor its currency exposures and take necessary actions to minimize the risk.

**MANAGEMENT DISCUSSION AND ANALYSIS****EMPLOYEES**

As at 30 June 2007, the Group had a total of approximately 11,800 (31 December 2006: 10,600) 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 2007, 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, 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 or short position 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' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES**

At 30 June 2007, the following interests in over 5% of the 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	Number of ordinary shares in the Company	Notes	Percentage of the Company's issued share capital
Mr. Cheung Po Lun	Long	Interest in a controlled corporation	300,000,000	1	67.35%
Great Victory International Inc.	Long	Beneficial owner	300,000,000	1	67.35%
Ms. Fung Wai Chi	Long	Interest of spouse	300,000,000	2	67.35%

*Notes:*

1. Mr. Cheung Po Lun was deemed to be interested in 300,000,000 ordinary shares of the Company which were held by Great Victory International Inc., a controlled corporation of Mr. Cheung pursuant to the SFO.
2. Ms. Fung Wai Chi was deemed to be interested in the 300,000,000 ordinary shares of the Company through the interest of her spouse, Mr. Cheung Po Lun.

Save as disclosed above, as at 30 June 2007, no person had registered an interest or a short position in the shares or underlying shares of the Company according to the register that was required to be kept by the Company pursuant to Section 336 of the SFO.



**OTHER INFORMATION****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 contained in Appendix 14 of the Listing Rules.

**MODEL CODE FOR SECURITIES TRANSACTIONS**

The Company has 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 Audit Committee of the Company has reviewed with senior management of the Group the accounting principles and practices adopted by the Group and discussed internal control and financial reporting matters including the review of the Company's interim report for the six months ended 30 June 2007.

On behalf of the Board  
**Cheung Yan, Priscilla**  
*Chairman*

Hong Kong, 14 September 2007