



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 **2008**

* 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

Ms. Cynthia Law
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
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

Ms. Cynthia Law, *Chairman*
Mr. Lam Chin Fung
Mr. Tse Wei Kin

REMUNERATION COMMITTEE MEMBERS

Ms. Cheung Man, Catherine, *Chairman*
Ms. Cynthia Law
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 China Zhongshan Branch
Bank of Communication Zhongshan
Branch

WEBSITE

www.sewco.com.hk

For the six months ended 30 June 2008 **CONDENSED CONSOLIDATED INCOME STATEMENT**

	Notes	For the six months ended 30 June	
		2008 HK\$'000 (Unaudited)	2007 HK\$'000 (Unaudited & reclassified)
REVENUE	4	400,694	303,011
Cost of sales		(381,142)	(281,066)
Gross profit		19,552	21,945
Other income		3,641	1,385
Selling and distribution costs		(18,924)	(15,330)
Administrative expenses		(33,679)	(31,765)
Other operating income		3,812	4,205
Finance costs	6	(1,452)	(275)
Share of losses of associates		(3,997)	(729)
LOSS BEFORE TAX	5	(31,047)	(20,564)
Tax	7	31	(496)
LOSS FOR THE PERIOD			
ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT		(31,016)	(21,060)
LOSS PER SHARE			
ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT – basic	8	(HK6.96 cents)	(HK4.73 cents)

CONDENSED CONSOLIDATED BALANCE SHEET 30 June 2008

		30 June 2008	31 December 2007
	<i>Notes</i>	HK\$'000 (Unaudited)	HK\$'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment		174,540	175,084
Deposit for items of property, plant and equipment		2,015	2,015
Prepaid land premiums		9,951	9,819
Interests in associates	9	3,367	7,366
Other intangible asset		600	600
Loan receivable		485	575
Total non-current assets		190,958	195,459
CURRENT ASSETS			
Inventories	10	178,036	155,412
Prepaid land premiums		268	259
Trade receivables	11	125,150	154,292
Prepayments, deposits and other receivables		14,392	9,610
Loan receivable		180	180
Cash and cash equivalents	12	13,829	31,796
Total current assets		331,855	351,549
CURRENT LIABILITIES			
Trade payables	13	188,099	214,855
Other payables and accruals		47,147	39,260
Derivative financial instruments	14	2,123	2,195
Interest-bearing bank loans		59,938	34,281
Tax payable		901	5,278
Total current liabilities		298,208	295,869
NET CURRENT ASSETS		33,647	55,680
TOTAL ASSETS LESS CURRENT LIABILITIES		224,605	251,139
NON-CURRENT LIABILITIES			
Interest-bearing bank loans		4,017	5,485
Deferred tax liabilities		1,662	1,553
Total non-current liabilities		5,679	7,038
Net assets		218,926	244,101

30 June 2008 **CONDENSED CONSOLIDATED BALANCE SHEET**

		30 June 2008	31 December 2007
	<i>Notes</i>	HK\$'000	HK\$'000
		(Unaudited)	(Audited)
EQUITY ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Issued capital	15	44,543	44,543
Reserves		174,383	199,558
Total equity		218,926	244,101

Cheung Yan, Priscilla
Director

Cheung Man, Catherine
Director

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY For the six months ended 30 June 2008

	Attributable to equity holders of the parent								Total
	Share capital	Share premium account	Asset revaluation reserve	Statutory reserve fund*	Exchange fluctuation reserve	Hedging 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 2008	44,543	20,912	51,062	5,654	15,817	-	106,113	-	244,101
Exchange realignment	-	-	-	-	7,964	-	-	-	7,964
Revaluation reserve released	-	-	(388)	-	-	-	388	-	-
Cash flow hedge	-	-	-	-	-	(2,123)	-	-	(2,123)
Loss for the period	-	-	-	-	-	-	(31,016)	-	(31,016)
At 30 June 2008	44,543	20,912	50,674	5,654	23,781	(2,123)	75,485	-	218,926
(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

* 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 2008 **CONDENSED CONSOLIDATED CASH FLOW STATEMENT**

	<i>Notes</i>	For the six months ended 30 June	
		2008 HK\$'000 (Unaudited)	2007 HK\$'000 (Unaudited)
NET CASH OUTFLOW FROM OPERATING ACTIVITIES		(40,619)	(26,342)
NET CASH OUTFLOW FROM INVESTING ACTIVITIES		(2,778)	(2,012)
NET CASH INFLOW FROM FINANCING ACTIVITIES		24,190	9,082
NET DECREASE IN CASH AND CASH EQUIVALENTS		(19,207)	(19,272)
Exchange gain from re-translating cash and cash equivalents		1,240	190
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD		31,796	26,623
CASH AND CASH EQUIVALENTS AT END OF PERIOD		13,829	7,541
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	12	13,829	7,541
		13,829	7,541

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS 30 June 2008**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. BASIS OF PREPARATION AND 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 on the Stock Exchange (the "Listing Rules").

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 2007 except as described in note 3 below.

The unaudited condensed consolidated interim financial statements should be read in conjunction with the annual financial statements for the year ended 31 December 2007.

3. IMPACT OF NEW HONG KONG FINANCIAL REPORTING STANDARDS

The Group has adopted the following new Hong Kong Financial Reporting Standards ("HKFRSs", which also include Hong Kong Accounting Standards ("HKASs") and Interpretations) that are effective for accounting periods beginning on or after 1 January 2008:

HK(IFRIC)-Int 11	HKFRS 2 – Group and Treasury Share Transactions
HK(IFRIC)-Int 12	Service Concession Arrangements
HK(IFRIC)-Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

The adoption of the new HKFRSs has no material impact on the condensed consolidated financial statements. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period. The Group has commenced an assessment of the impact of these new standards and interpretations but is not yet in a position to state whether they would significantly impact its results of operations and financial position.

30 June 2008 **NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS****4. 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. 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.

(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 2008 and 2007.

	Hard toys		Stuffed toys		Non-toys		Corporate		Eliminations		Consolidated	
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
	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	371,336	266,819	29,208	36,192	150	-	-	-	-	-	400,694	303,011
Other revenue from external sources [†]	2,427	943	92	219	-	-	-	-	-	-	2,519	1,162
Intersegment revenue	616	300	-	-	-	-	-	-	(616)	(300)	-	-
Total	374,379	268,062	29,300	36,411	150	-	-	-	(616)	(300)	403,213	304,173
Segment results	(20,612)	(14,602)	(2,004)	(2,850)	(5,457)	(4,495)	2,357	2,149	-	-	(25,716)	(19,798)
Interest income											118	238
Finance costs											(1,452)	(275)
Share of losses of associates											(3,997)	(729)
Loss before tax											(31,047)	(20,564)
Tax											31	(496)
Loss for the period attributable to ordinary equity holders of the parent											(31,016)	(21,060)

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS 30 June 2008

4. 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 2008 and 2007.

USA and Canada		Japan and others		Hong Kong and Mainland China		Consolidated	
2008	2007	2008	2007	2008	2007	2008	2007
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)

Segment revenue:

Sales to external customers	324,453	234,303	67,525	60,875	8,716	7,833	400,694	303,011
Other revenue [#]	234	60	427	250	1,858	852	2,519	1,162
Total	324,687	234,363	67,952	61,125	10,574	8,685	403,213	304,173

[#] Certain figures in the last period have been reclassified to conform with current period's presentation.

5. LOSS BEFORE TAX

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

	For the six months ended 30 June	
	2008	2007
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Cost of inventories sold	376,912	269,512
Provision for obsolete inventories	4,230	11,554
Depreciation ^{##}	5,853	5,504
Recognition of prepaid land premiums	134	124
Interest income	(118)	(238)
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	(2,195)	(2,541)

^{##} Depreciation of HK\$2,566,000 (2007: HK\$2,324,000) was also included in "Cost of inventories sold".

30 June 2008 **NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS****6. FINANCE COSTS**

	For the six months ended 30 June	
	2008 HK\$'000 (Unaudited)	2007 HK\$'000 (Unaudited)
Interest expense on bank overdraft and bank loans wholly repayable within five years	1,418	275
Other interest expenses	34	–
	1,452	275

7. TAX

Hong Kong profits tax has been provided at the rate of 16.5% (2007: 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	
	2008 HK\$'000 (Unaudited)	2007 HK\$'000 (Unaudited)
Current income tax		
– Hong Kong	17	16
– Mainland China	922	460
(Overprovision)/Underprovision in prior years – Hong Kong	(1,087)	20
	(148)	496
Deferred income tax		
– Mainland China	117	–
Total tax (credit)/charge for the period	(31)	496

8. LOSS 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 2008 is based on the loss attributable to ordinary equity holders of the parent for the period of HK\$31,016,000 (2007: HK\$21,060,000) and the weighted average of 445,430,000 ordinary shares in issue during the period (2007: 445,430,000 shares). A diluted loss per share was not disclosed as there was no diluting factor during the two periods.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS 30 June 2008

9. INTERESTS IN ASSOCIATES

	30 June 2008	31 December 2007
	HK\$'000	HK\$'000
	(Unaudited)	(Audited)
Share of net (liabilities)/assets	(1,597)	2,402
Goodwill on acquisition	4,964	4,964
	3,367	7,366

10. INVENTORIES

	30 June 2008	31 December 2007
	HK\$'000	HK\$'000
	(Unaudited)	(Audited)
Raw materials	67,632	70,553
Work in progress	83,506	55,829
Finished goods	26,898	29,030
	178,036	155,412

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 sale of goods as at the balance sheet date, based on invoice date, is as follows:

	30 June 2008	31 December 2007
	HK\$'000	HK\$'000
	(Unaudited)	(Audited)
Current to 30 days	91,455	78,724
31 to 90 days	30,284	60,799
Over 90 days	3,411	14,769
	125,150	154,292

30 June 2008 **NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS****12. CASH AND CASH EQUIVALENTS**

	30 June 2008 HK\$'000 (Unaudited)	31 December 2007 HK\$'000 (Audited)
Cash and bank balances	13,829	31,796

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 2008 HK\$'000 (Unaudited)	31 December 2007 HK\$'000 (Audited)
Current to 30 days	101,243	103,060
31 to 90 days	57,917	88,260
Over 90 days	28,939	23,535
	188,099	214,855

The trade payables are non-interest-bearing.

14. DERIVATIVE FINANCIAL INSTRUMENTS

	30 June 2008 HK\$'000 (Unaudited)	31 December 2007 HK\$'000 (Audited)
Forward currency contracts		
– held for trading	–	2,195
– cash flow hedges	2,123	–
	2,123	2,195

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS 30 June 2008

15. SHARE CAPITAL

	30 June 2008 HK\$'000 (Unaudited)	31 December 2007 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 (2007: 445,430,000) ordinary shares of HK\$0.10 each	44,543	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.

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\$754,000 as at 30 June 2008 (31 December 2007: HK\$706,000). 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\$115,100,000 (31 December 2007: HK\$115,100,000) to a bank in respect of banking facilities granted to its subsidiaries. As at 30 June 2008, banking facilities amounting to HK\$21,350,000 (31 December 2007: HK\$23,747,000) were utilized by the subsidiaries.

30 June 2008 **NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS****17. COMMITMENTS**

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

	30 June 2008 HK\$'000 (Unaudited)	31 December 2007 HK\$'000 (Audited)
Contracted for:		
Office equipment	349	1,085

18. RELATED PARTY TRANSACTIONS

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

		For the six months ended 30 June	
	<i>Notes</i>	2008 HK\$'000 (Unaudited)	2007 HK\$'000 (Unaudited)
Rental expenses paid to a director	<i>(i)</i>	102	102
Rental expenses paid to a related company	<i>(ii)</i>	30	30
Sales to an associate	<i>(iii)</i>	7,080	4,986

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 Mainland China. 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 2008

18. RELATED PARTY TRANSACTIONS (continued)

- (b) Compensation of key management personnel of the Group

	For the six months ended 30 June	
	2008 HK\$'000 (Unaudited)	2007 HK\$'000 (Unaudited)
Short-term employee benefits	1,855	1,640
Post-employment benefits	67	66
Total compensation paid to key management personnel	<u>1,922</u>	<u>1,706</u>

- (c) Outstanding balances with related parties

	Notes	Due from related parties		Due to related parties	
		30 June 2008 HK\$'000 (Unaudited)	31 December 2007 HK\$'000 (Audited)	30 June 2008 HK\$'000 (Unaudited)	31 December 2007 HK\$'000 (Audited)
Associate	(i)	10,386	6,279	–	–
A company in which an ex-director of the Company is a director	(ii)	–	–	(30)	(60)

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 25 September 2008.

MANAGEMENT DISCUSSION AND ANALYSIS**FINANCIAL REVIEW**

The Group's turnover for the six months ended 30 June 2008 increased by 32% to HK\$400,694,000. Gross profit for the same period dropped to HK\$19,552,000 (2007: HK\$21,945,000). The significant drop in gross profit was mainly a result of the new labour laws implemented in Mainland China in January 2008 and the minimum wages increase in Zhongshan beginning from April 2008. These changes increased our costs by approximately HK\$19,000,000 for the first half of 2008. The Group was able to recover only some of these cost increases through price increases during the period.

For the six months ended 30 June 2008, selling and distribution costs increased to HK\$18,924,000 (2007: HK\$15,330,000) and administrative expenses increased to HK\$33,679,000 (2007: HK\$31,765,000). These increases were mainly due to the growth in turnover.

Business of our associated companies is seasonal with more sales and better performance normally achieved in the second half of the year. Sales and margins of our associated companies were affected by the slowdown in the U.S. economy for the first half of 2008. The Group's share of losses from the associates increased to HK\$3,997,000 (2007: HK\$729,000) accordingly.

As a result, the Group incurred a loss attributable to ordinary equity holders of HK\$31,016,000 for the six months ended 30 June 2008 (2007: HK\$21,060,000).

The Group finances its operations through a combination of bank financing and shareholders' equity. As at 30 June 2008, cash and cash equivalents amounted to HK\$13,829,000 (31 December 2007: HK\$31,796,000), and bank borrowings amounted to HK\$63,955,000 (31 December 2007: HK\$39,766,000). Decrease in cash and cash equivalents and increase in bank borrowings were in line with the Group's business seasonality.

As at 30 June 2008, the Group's net current assets amounted to HK\$33,647,000 (31 December 2007: HK\$55,680,000), comprising current assets of HK\$331,855,000 (31 December 2007: HK\$351,549,000) and current liabilities of HK\$298,208,000 (31 December 2007: HK\$295,869,000), representing a current ratio of 1.11 (31 December 2007: 1.19).

MANAGEMENT DISCUSSION AND ANALYSIS

The Group strives to maintain its gearing ratio below 75% and its current ratio to approximately 1 so as to enhance its ability to meet its liquidity and operational risks. The gearing ratio (defined as net debt divided by capital and net debt) as at 30 June 2008 was calculated as follows:

	As at 30 June 2008 HK\$'000	As at 31 December 2007 HK\$'000
Interest-bearing bank loans	63,955	39,766
Trade payables	188,099	214,855
Other payables and accruals	47,147	39,260
Less: Cash and cash equivalents	(13,829)	(31,796)
Net Debt	285,372	262,085
Equity attributable to ordinary equity holders	218,926	244,101
Capital and net debt	504,298	506,186
Gearing ratio	57%	52%

The Group faces significant impact from exchange fluctuations of Renminbi ("RMB") and has started to hedge its exposure through forward exchange contracts since early 2008. The Group will also consider hedging its exposure to fluctuations in interest rates when the impact is expected to be significant.

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2008 (2007: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS**BUSINESS REVIEW AND PROSPECTS**

The operating environment for toy manufacturers in Mainland China continued to deteriorate in the first half of 2008. In the first quarter, appreciation of RMB continued at a faster clip than previously forecast, while material costs rose sharply due to hikes in global oil and commodity prices. The weakening U.S. dollar further eroded profitability. The implementation of new labour laws in Mainland China in January 2008 added overhead costs and operational risks. Meanwhile, testing costs and associated operating costs also rose tremendously after new safety requirements were put in place in Mainland China, the United States and Europe in the aftermath of global toy recalls by a major toy brand in 2007. The Group had to write off some inventories that no longer met the new standards.

The rest of 2008 will remain challenging for toy manufacturers as the global economy slows and exports to the United States shrink. Testing costs are expected to climb further as new laws are implemented in the United States. The Group expects its third-quarter sales to remain strong, but plans to scale down production aggressively in the fourth quarter as a way to control operating costs and margins. The Group will endeavor to trim overheads significantly, improve productivity and control production costs as the toy industry rides out the storm.

Globally, the toy industry is expecting a difficult year ahead as the global economy cools and demand for non-essential items like toys falls. In view of the current economic situation, the Group decided to put on hold a direct-to-market private label business that started in late 2006, but will continue to seek opportunity to leverage its strengths in product development and manufacturing and explore new markets.

CONTINGENT LIABILITIES

Details of the contingent liabilities of the Company and the Group as at 30 June 2008 are disclosed in note 16 to these interim financial statements.

MANAGEMENT DISCUSSION AND ANALYSIS**CHARGE ON ASSETS**

As at 30 June 2008, certain of the Group's leasehold land and buildings with a net book value of HK\$143,588,000 (31 December 2007: HK\$46,055,000) were pledged to secure general banking facilities granted to the Group. As at 30 June 2008, such facilities were utilized up to an amount of HK\$63,955,000 (31 December 2007: HK\$39,766,000).

EMPLOYEES

As at 30 June 2008, the Group had a total of approximately 13,200 (31 December 2007: 11,400) employees in Hong Kong and Mainland China. The Group provides remuneration packages to employees largely based on industry practice, individual performance, qualifications 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' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 30 June 2008, 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 Issuers set out in the Listing Rules (the "Model Code"); nor had there been any grant or exercise of rights of such interests during the six months ended 30 June 2008.

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

As at 30 June 2008, 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	Percentage of the Company's issued share capital	
				Notes	
Mr. Cheung Po Lun	Long	Interest held by 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 2008, no person had registered an interest or a short position in the shares or underlying shares of the Company according to the register that is 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 recognizes the importance of maintaining a high standard of corporate governance in 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 throughout the six months ended 30 June 2008.

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 2008.

On behalf of the Board

Cheung Yan, Priscilla

Chairman

Hong Kong, 25 September 2008